

Corruption & Shareholder Value: *Why Should Investors Care?*

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Corruption & Shareholder Value

- Who is Friends Ivory & Sime?
- A 'Quiet Revolution' in the City
- Does Corruption Affect Shareholder Value?
- What Do Investors Want?
- Next Steps



Friends Ivory & Sime

- □ 60 billion under management*
- Socially Responsible Investment:
 - 1984: first SRI fund in Europe
 - 1984-2001: SRI goes global and institutional
 - 2000: Responsible Engagement Overlay®



* 12/31/00

Groupwide commitment to Engagement



The City: A Quiet Revolution

- *New Drivers of Change*
- Pensions Disclosure Regulation
- Turnbull Report
- ABI Guidelines



Pensions Disclosure Laws

- UK Pensions Act
- France: Loi sur l'épargne salariale
- Germany: Riester Renten
- EC: CSR Green Paper



79% of UK Pensions Funds say: I do

The Turnbull Committee

- Governance movement
- Risk Management
 - Environment
 - Health & Safety
 - Reputation
 - ***Business Probity***
- Materiality & Systems



CSR Issues Embedded in Risk Management

ABI Guidelines on CSR Issues

- Association of British Insurers:
 - £1.1 trillion assets under management
 - £600 billion global equities
- Risk Management Focus:
 - Assess, Mitigate, Monitor & Review
- Board Oversight and Accountability



Coming soon: Launch October 2001

What Are Investors Doing?





The FIS Approach

- From avoidance to *Engagement*
- *Financial materiality* of CSR issues
- Governance & Risk Management *Systems*
- *Collaboration*:
 - Academics, Industry groups, selected NGOs
 - Fellow investors



Understanding Best Practice

Corruption and Shareholder Value

- Are the risks posed by corruption *material* to shareholder value?
- What does corruption cost investors?
- What do investors expect of companies?



Corruption and Shareholder Value

- Will profits suffer if action is taken?
- Are investors policemen?
- How can investors measure effectiveness of anti-corruption systems?



Is Change Possible...?

Is Corruption a Material Risk?

- It's "just a cost of doing business"
- Poor governance = Risk premium
 - up to 20% discount
- Top down vs bottom up valuation
 - Not a deal-breaker...
 - but an indicator of management quality



All Companies are Not Equal

Is Corruption a Material Risk?

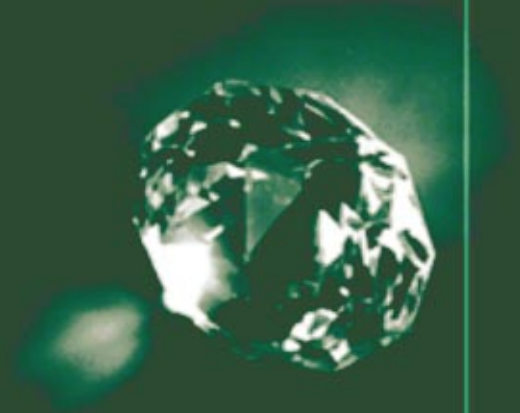
- *Risk calculus is changing*
- Risks are probably underestimated:
 - OECD Convention
 - Public opprobrium/reputation
 - Joint venture/subcontractor standards



Superior risk analysis = profit opportunity

What Does Corruption Cost?

- Bribes paid: Our dividends



- Bribes received: Bad business decisions

Obvious and hidden costs

What Does Corruption Cost?

- Raises costs of basic services
- Undermines ALL business activities
 - staff incentive systems
 - procurement standards
 - product quality
 - safety
 - reputation



Obvious and hidden costs

What Do We Expect of Companies?

- Systems for:
 - Training
 - Performance measurement
 - Audit
 - Whistleblower protection...
- Transparency and openness
- 'Values culture' vs Compliance



How Do We Measure Performance?

- Understand Best Practice
 - Dialogue
- Policy statements vs practical evidence
- Public commitment
- Better tools are needed



Taking action: Will profits suffer...?

- The hero in the un-level playing field
- Are investors policemen?
- Multilateral approach
- Investors play their part



What Next For Investors?

- Help develop effective management and reporting tools
- Promote their adoption
- Set high performance standards



FIS Approach

- FIS Benchmarking Study
- Support of specialist efforts
- Dialogue
- Collaboration with other shareholders

