

**Long WORKSHOP REPORT FORM**

**Number and title of workshop: Is there a role for investors in combating corruption?**

**Coordinator:** Robert Barrington, Director of External Affairs, Transparency International UK

**Date and time** of workshop: Friday November 12 2010 0900-1100

**Moderator** (Name and Institution): Robert Barrington, Director of External Affairs, Transparency International UK

**Rapporteur** (Name and Institution): Robert Barrington, Director of External Affairs, Transparency International UK

**Panellists** (Name, institution, title)

Charnchai Charuvastr, President & CEO, Thai Institute of Directors  
Jermyn Brooks, Chair, Business Advisory Board, Transparency International  
Georg Kell, Executive Director, UN Global Compact

**Summary (300 words)**

The workshop examined the potential role for institutional investors in increasing corporate accountability on anti-corruption issues and opportunities for multi-stakeholder collaboration in this area.

**Among the key questions addressed were:**

- Is the financial risk of corruption material now, is it likely to become more material in future, and should investors focus their attention on specific high-risk companies or sectors?
- How can investors realistically assess corruption-related risks? What information is needed from companies?
- How could investors use engagement and proxy voting to reduce corporate corruption and the corruption risks in their portfolios?
- Should investors seek to influence public policy in this area, and if so what policy objectives could they pursue? What regulation and/or legislation should be put in place that would help investors' managed corruption-related risks e.g. country by country reporting?
- How successful have multi-stakeholder initiatives been and what has been the role of investors? What lessons could be learnt?

**Key points that emerged were:**

- Listed companies are moving in the right direction in anti-corruption awareness, but investors are lagging.
- Investors need anti-corruption metrics for decision-making – but corporate culture, which is a vital component, cannot be measured.
- Anti-corruption approaches should be integrated into corporate governance, both to improve corporate performance and create greater transparency for investors.
- There is a disconnect in understanding and information flows between companies and investors on anti-corruption issues.
- Investors can be part of the solution, but are also part of the problem when they sanction or collude in corruption.
- The business case for companies to combat corruption should apply equally to investors, although it may be clouded by short-termism.
- The debate on 'Asian values' should not apply to investors in global markets, as

Asian companies are aspiring to global values.

- Collective action by companies can be a powerful tool in reducing corruption, and investors should recognise the business benefits this brings about.
- Investors are ignoring the corruption risks in their portfolios, which may be significant.



Summary of presentations (300 words per panellist)



## **Introduction**

Like many Environmental, Social & Governance (ESG) issues, a direct link between corporate failure and share price is difficult to demonstrate. Conversely, the rationale for an investor to be concerned about a company that has engaged in illegal and unethical behaviour is as valid for Bribery & Corruption as any other ESG issue, in terms of the downside risk and the indicators of management oversight and quality.

Some investors argue that corruption is as important to investors at macro level as at individual company level, particularly to universal investors, where corruption can be seen to:

- Impose cost on an economy through a hidden tax and inefficiencies
- Disadvantage non-corrupt companies
- Reduce transparency for investors seeking investment opportunities
- Distort and destabilise markets
- Fuel or prolong conflict with serious consequences for business operations
- Be a major contributor to country risk indicators
- Raise the cost of capital.

## **Investor initiatives on Bribery & Corruption**

Investors seem to be finding that collaborative action is an effective way to ensure that the companies in which they invest are aware of, and adequately managing, corruption risks. Recent collaborative activities by investors on Bribery & Corruption that were cited in the workshop include:

### *UN Principles for Responsible Investment (PRI)*

The most substantial anti-corruption initiative with investors to date has been carried out by the UN PRI. A group of companies was identified with potentially high corruption risks, but whose reporting on corruption risk management procedures is poor. The PRI coordinated a group of investors representing US\$1 trillion who sent a letter to the Chief Executives of the companies concerned with a series of questions about their anti-corruption systems, referencing the reporting guidance recently published by the UN Global Compact (UNGC).

### *International Corporate Governance Network (ICGN)*

The ICGN has published an exemplary statement and guidance on anti-corruption practices. This provides 26 questions for investors to ask companies in which they invest. Collectively, the questions outline a good practice standard for companies, and illustrate the case for incorporating anti-corruption approaches into corporate governance.

### *FTSE4Good*

The sustainable investment index FTSE4Good includes a criterion on countering bribery. This applies to high-risk companies, defined by sector, countries of operation, and exposure to public sector contracts. The other major sustainable investment index, the Dow Jones Sustainability Index, also references corruption within its assessment criteria.

### *Extractive Industries Transparency Initiative (EITI) and investors*

EITI is a multi-stakeholder initiative involving oil and mining companies, governments, civil society organizations and institutional investors. By mid-2009, 76 investors with some \$13 trillion of assets under management had backed the EITI by signing an 'investor statement', making this the most prominent initiative in the area of anti-corruption with active investor involvement.

## **The role for investors**

Two strong themes emerged as a role for investors:

- Investors need to **assess** exposure to corruption risk (for example, country-specific, sector-specific) in order to make well-informed investment decisions; assessment tools and understanding of the risks are important to allow this to happen.
- Greater **transparency** on companies' anti-corruption systems will permit more accurate risk assessment to be made by investors.

**Main Outputs (200 words, narrative form)**

**TI:** Transparency International UK intends to use the debate generated in this workshop to develop a paper that outlines the cases for investors to take into account corruption risk more actively in their portfolios. The paper will summarise investor initiatives to date and map out a series of actions based on the recommendations from this workshop.

**UNPRI:** efforts will be made to reinforce and enhance the existing UNPRI initiative in investors and corruption.

**UNGC:** companies will be encouraged, by mechanisms to be decided, to follow the United Nations Global Compact (UNGC) 10<sup>th</sup> Principle reporting guidelines.

**Recommendations, Follow-up Actions (200 words narrative form)**

**General observations**

- A mixture of company disclosure, investor awareness and regulatory action is required.
- Bribery & corruption needs to be fully integrated into corporate governance.
- Regulators may find mechanisms which investors are made to assume greater responsibility – an analogy may be those applied to charitable funds under prevention of terrorism regulations.
- Among the carrots and sticks are blacklisting, white-listing, sanctions against individual executives and putting a systemically-corrupt company out of business.
- There have already been some successful collective action and disclosure moves in the investment community, for example the UNPRI and ICGN Guidance.

Three areas in which investors can therefore take action are:

1. Encourage companies to put in place adequate anti-corruption management systems, and monitor implementation and compliance;
2. Encourage greater transparency from companies about what anti-corruption systems and risk management procedures they have in place, and how effectively they are implemented;
3. Support and participate in collaborative investor activities.

It was particularly emphasised that the United Nations Global Compact (UNGC) 10<sup>th</sup> Principle reporting guidelines can be used for guidance on transparency and reporting.

**Calls to action**

**Companies:** this IACC workshop calls on companies to disclose their management of anti-corruption risks using the UN Global Compact 10<sup>th</sup> Principle Guidance in order to allow investors to understand and analyse the corruption risks in their portfolios

**Investors:** this IACC workshop calls on the investment community to develop greater understanding of corruption risk in investment portfolios and actively engage investee companies to disclose anti-corruption risk management and performance.

**Regulators:** this IACC workshop calls on regulators in all markets to create a level playing field for business by ensuring that effective anti-corruption regulation is in place and matched by adequate penalties and effective enforcement.

**Highlights (200 words please include interesting quotes)**

‘There needs to be an equivalent of the CPI for companies’

‘Bribery & corruption is a gross misuse of shareholder funds’

‘Anti-corruption disclosure remains the most challenging’ of the UNGC principles in terms of reporting

‘Bribery & corruption needs a paradigm shift by companies as there has been in Corporate Governance’

'Asian companies are keen to be part of the global economy and that means adopting global values'

'Investors are not aware of their current risk exposure to corruption'

**Signed and date submitted**  
Robert Barrington  
20-12-10

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