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Business must counter corruption to foster economic sustainability

New report shows corrupt business costs billions, hurts commerce, development and consumers

New York/Berlin, 23 September 2009 – The massive scale of global corruption resulting from bribery, price-fixing cartels and undue influence on public policy is costing billions and obstructing the path towards sustainable economic growth, according to a new report released today by Transparency International (TI).

The *Global Corruption Report 2009: Corruption and the Private Sector* (GCR) shows how corrupt practices constitute a destructive force that undermines fair competition, stifles economic growth and ultimately undercuts a business's own existence. In the last two years alone, companies have had to pay billions in fines due to corrupt practices. The cost extends to low staff morale and a loss of trust among customers as well as prospective business partners.

"Fostering a culture of corporate integrity is essential to protect investment, increase commercial success and ensure the stability sought by poor and rich countries alike, particularly as we climb out of an historical crisis," said TI Chair Huguette Labelle.

The report documents many cases of managers, majority shareholders and other actors inside corporations who abuse their entrusted power for personal gain, to the detriment of owners, investors, employees and society at large. In developing and transition countries alone, companies colluding with corrupt politicians and government officials, have supplied bribes estimated at up to US \$40 billion annually, according to the GCR.

Research in the report also shows that half of international business executives polled estimated that corruption raised project costs by at least 10 per cent. Ultimately, it is citizens who pay: consumers around the world were overcharged approximately US \$300 billion through almost 300 private international cartels discovered from 1990 to 2005.

Another concern addressed in the report is how the sheer economic power of some companies and business sectors translates into disproportionate and undue leverage on political decision-making. Failure to regulate such influence lays the foundation for kleptocratic systems and stunted growth. Lobbying efforts often lack transparency and tend to fall outside the system of checks and balances that firms rely on for strategic decisions. For example, in 2008, roughly one-third of Standard & Poor's 100 companies required board oversight of political spending.

Revolving doors between public office and the private sector, another practice documented in the report, provide a smooth path to deceitful public procurement deals where non-competitive bidding and opaque processes lead to immense waste and unreliable services or goods.

The extent and multifaceted ways in which private sector corruption is manifested greatly surpasses the few companies that actually employ systems to stop this abuse

of power for illicit gain. Almost 90 per cent of the top 200 businesses worldwide have adopted business codes, but fewer than half report that they monitor compliance, according to the report.

Many of the countries found at the bottom of TI's yearly *Corruption Perceptions Index* – which measures perceived levels of public-sector corruption in over 170 countries – are not only victim to unscrupulous governments but to major firms that are more than willing to enter into corrupt deals with these governments. These intricate webs, involving more than simple bribes, are possible because companies believe that they can get away with such criminal practices.

“Basing a company or fund's future on personal relationships and unpredictable systems or simply operating in a dark space without oversight and accountability is a path to guaranteed failure,” said Labelle.

Corporate integrity pays. Companies with anti-corruption programmes and ethical guidelines are found to suffer up to 50 per cent fewer incidents of corruption and to be less likely to lose business opportunities than companies without such programmes. The tools for corporate anti-corruption action are broadly and readily available but companies must pick up the pace in applying them.

The dearth of confidence in corporate ethics highlighted by the present economic crisis makes the need to promote anti-corruption mechanisms, as an integral part of a company's operations, all the more urgent.

“Winning on anti-corruption means adding to the bottom line. It is time that corporations face up to the risk of paying millions in fines and the long-term loss of trust from their customers and shareholders,” added Labelle. Forward thinking CEOs are already acting forcefully against corruption and reducing risks in an effort to secure sustainable business growth with integrity at the core of their operations.

Corporate integrity is about more than sustainable earnings or returns on investment. When reckless companies engage in corruption, the consequences can be devastating. From water shortages, exploitative work conditions or illegal logging to unsafe medicines and poorly or illegally constructed buildings that collapse with deadly consequences, corruption can bring about unprecedented harm. The private sector has a crucial role to play in preventing these outcomes, by operating with transparency and accountability wherever there is a profit to be made.

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Transparency International is the global civil society organisation leading the fight against corruption.

About the Global Corruption Report:

Transparency International's *Global Corruption Report 2009: Corruption and the Private Sector* (GCR) features more than 75 experts examining the scale, scope and devastating consequences of corporate corruption. This is complemented by 45 in-depth country reports along with best practices and practical recommendations. The GCR is a flagship yearly publication from TI that compiles expert research and analysis from around the world with a thematic focus related to corruption.

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