



Collective Action on the Ground

THE BUSINESS CASE TO COUNTER CORRUPTION

A SURVEY AMONG SENIOR MANAGEMENT ON OPPORTUNITIES
AND CHALLENGES IN INDIA



Implemented by



In cooperation with



Confederation of
Indian Industry



BDI

The Voice of
German Industry

About Alliance for Integrity

Alliance for Integrity (Afin) is a business driven multi-stakeholder initiative between multinational companies, civil society, political organizations and international institutions. The aim of Afin is to promote integrity among companies, their business partners and other relevant actors in the economic system. In addition, it contributes to better framework conditions by fostering dialogue between the public and private sector.

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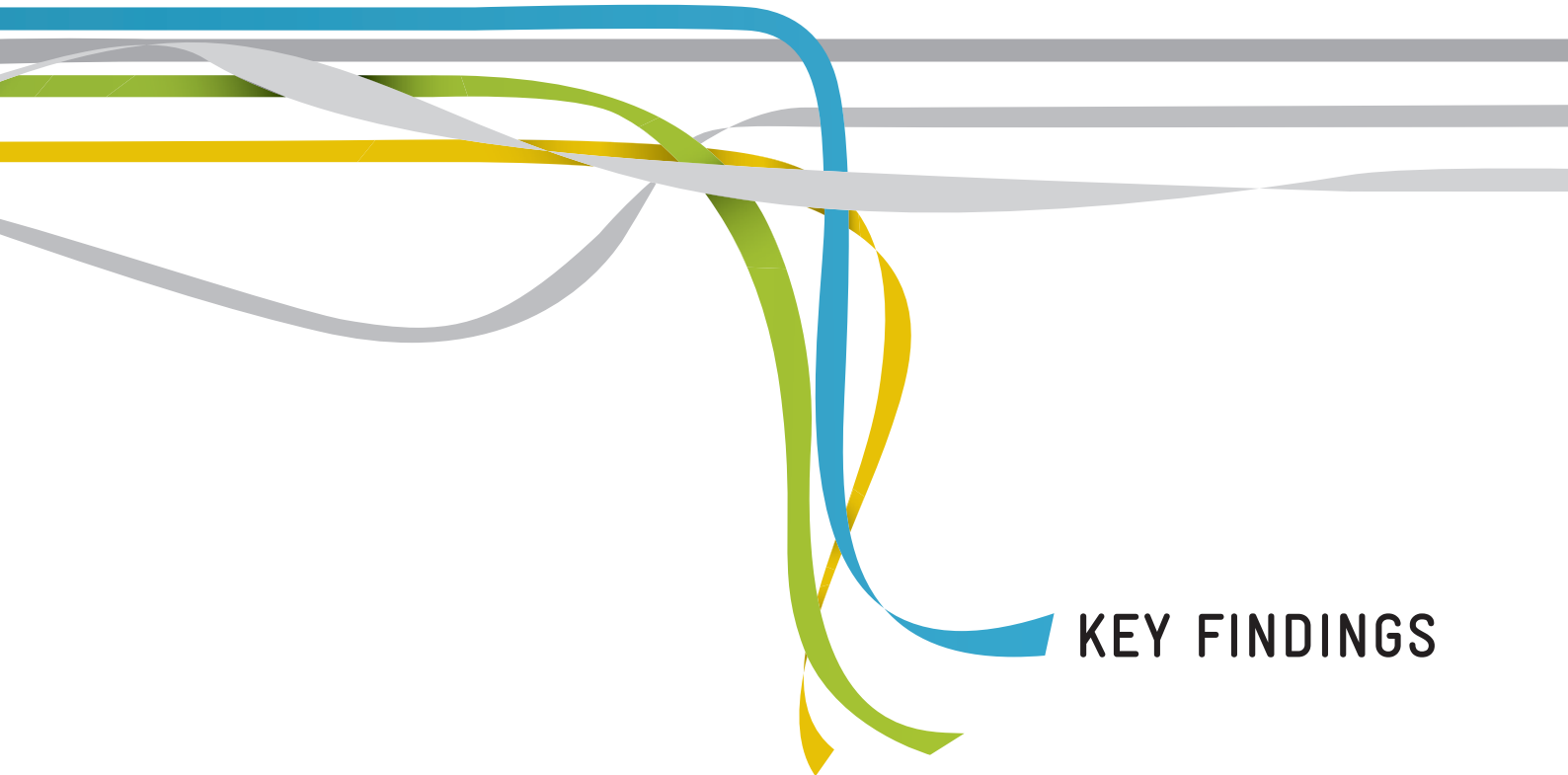
Every effort has been made to verify the accuracy of the information contained in this document. All information was believed to be correct as of November 2014. Nevertheless, Alliance for Integrity cannot accept responsibility for the consequences of its use for other purposes or in other contexts.

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A decorative graphic at the top of the page consists of three horizontal lines in teal, olive green, and yellow. To the right of these lines, there are several overlapping, curved, greyish-white shapes that resemble stylized leaves or abstract brushstrokes, extending towards the right edge of the page.

“TRAINING AND AWARENESS TO EMPLOYEES, SUPPLIERS AND OTHER STAKEHOLDERS WILL SIGNIFICANTLY REDUCE CORRUPTION RISKS. THE GOVERNMENT NEEDS TO SIMPLIFY CERTAIN PROCESSES; RULES AND REGULATIONS WILL NOT ONLY BRING IN MORE TRANSPARENCY BUT IMPROVE EFFECTIVENESS OF THE OVERALL SYSTEM.”
(Representative from Indian SME)



KEY FINDINGS



KEY OPPORTUNITIES*

77%

THINK THAT THE GOVERNMENT IS ONE OF THE MOST IMPORTANT STAKEHOLDERS

81%

CONSIDER AN ANTI-CORRUPTION PROGRAM A COMPETITIVE ADVANTAGE

84%

THINK COMPANIES SHOULD RECEIVE RECOGNITION FOR INVESTING IN ANTI-CORRUPTION PROGRAMS

96%

AGREE THAT THE TIME IS RIGHT TO PROMOTE COLLECTIVE ACTION AGAINST CORRUPTION

*Selection of key opportunities and challenges is based on discussions with key stakeholders in Delhi (12.11.2014) and Mumbai (14.11.2014).

KEY CHALLENGES*

THINK THAT LACK OF RELIABLE PROCESSES WHEN DEALING WITH THE GOVERNMENT IS ONE OF THE CHALLENGES OF REDUCING CORRUPTION

69%

DO NOT THINK THAT COMPANIES ARE SUFFICIENTLY AWARE OF ANTI-CORRUPTION REGULATIONS IN INDIA

69%

THINK THAT THE LACK OF SANCTIONS FOR CORRUPT SUPPLIERS IS ONE OF THE MAIN CHALLENGES OF REDUCING CORRUPTION IN THE SUPPLY CHAIN

68%

THINK THAT LACK OF LAW ENFORCEMENT IS ONE OF THE CHALLENGES OF REDUCING CORRUPTION IN INDIA

75%

Foreword by THE FEDERATION OF GERMAN INDUSTRIES (BDI)

by Heiko Willems, General Counsel



India is a key economic partner of Germany. German industry sees enormous potential in the growing Indian market and hopes to continue and to strengthen its economic ties with India. However, foreign companies engaged in India and their Indian business partners often face corruption problems. The German and Indian business community agrees that the threat of corruption must not jeopardize the common goal of a closer economic relationship. Corruption distorts competition, undermines the reputation of the company involved and causes substantial economic costs. In particular, corruption has huge negative effects on the economic development and leads to considerable economic welfare losses. Therefore, a main factor for economic growth is a fair and safe environment for investment, in which anti-corruption measures play a major role. Due to the rapid growth of the Indian economy and its international importance, Indian companies are also increasingly exposed to compliance risks regarding international anti-corruption measures. It is in the best interest of German and Indian businesses to effectively combat corruption.

The fight against corruption must have top priority. German industry has recognized the benefit of anti-corruption programs and made significant investments in compliance measures. For German companies, the integrity of business and administration is a major factor for economic success.

The goal of this survey is to identify the specific risks of corruption in the Indian economy and the steps already taken by Indian companies to prevent and tackle corruption. Furthermore, the survey intends to highlight fields where action is still needed. Based on the results of the survey the prevention of corruption can be improved and business relations between German and Indian companies enhanced. Indian as well as German industry will benefit from this cooperation and from the exchange of experience and information. Therefore, the Federation of German Industries (BDI) supports this survey.

Together with our partners CII and Afln, we will draw conclusions from the results and continue our efforts to enhance business integrity.

Foreword by THE CONFEDERATION OF INDIAN INDUSTRY (CII)

by Sushanta Sen, Principal Adviser



Corruption is a major issue affecting development and growth of a country. There is no doubt India can achieve a higher rate of growth if corruption is contained. Government, on its part, has ratified the UN Convention against Corruption in May 2011 and to align with its requirements, it is coming out with new anti-corruption legislations.

Additionally, the new government is coming out with various new policies and simple procedures to make life simple for business and the common man.

CII has been working in the area of transparency and integrity in governance for the last four years. Its focus has been primarily internal although it regularly interacts with the government.

To control corruption, CII has come out with a Code of Business Ethics for members to follow on a voluntary basis. Companies are expected to follow good ethical practices and also follow the laws of the land. Proper policies and procedures should be put in place to mitigate the risks. Each industry needs to set up their own standards, and there is evidence that high standards improve

margins by 5% to 6%.

While following the path of ethical behavior, it is pertinent to have employees at the same level of thought process, and this could be done by training them on good practices on a regular basis.

It is important that the CEO must give a clear message that all employees should follow ethical practices and no deviations would be tolerated.

In the international business scenario that Indian industry operates today – and Germany is a major partner – the importance of ethics and integrity can hardly be overemphasized. Foreign companies look to partner with Indian companies that have strong systems in place and do business in the right way. So it pays to be ethical. CII is privileged to partner with BDI and AfIn in this survey which would throw out new ideas for our future work.

Introduction by ALLIANCE FOR INTEGRITY

by Noor Naqschbandi, Project Manager Alliance for Integrity Global



The Alliance for Integrity (AfIn) is a business driven multi-stakeholder initiative. The aim of AfIn is to promote integrity among companies, their business partners and other relevant actors by fostering dialogue between the public and private sector. By promoting a mutual understanding of specific challenges in different contexts and countries, sharing lessons learned based on best practice examples as well as suggestions for anchoring integrity, AfIn seeks to reduce corruption risks in the business environment.

As the largest democracy, India is a piloting experience for us. India is a great business opportunity – both as a market and as a supply source. However, the investment and business climate suffers on account of the slow pace of reforms, the high transaction costs of doing business and the systemic problem of corruption. This constitutes not only a disadvantage to sustainable economic development of India but also a risk for companies and

investors operating in India or for those who plan to establish close business relationships with the latter.

What does senior management of companies operating in India consider the most feasible and successful measures to reduce corruption risks in companies and their business transactions?

With this question in mind, the Alliance for Integrity, in cooperation with the Confederation of Indian Industry (CII) and the Federation of German Industries (BDI), invited senior management of companies in India to participate in an anonymized survey to identify good practice solutions to mitigate corruption risks.

Seventy-five senior managers provided their views on the business case to counter corruption as well as on challenges and opportunities of internal and external company measures to reduce corruption risks. The questions are clustered into three groups:

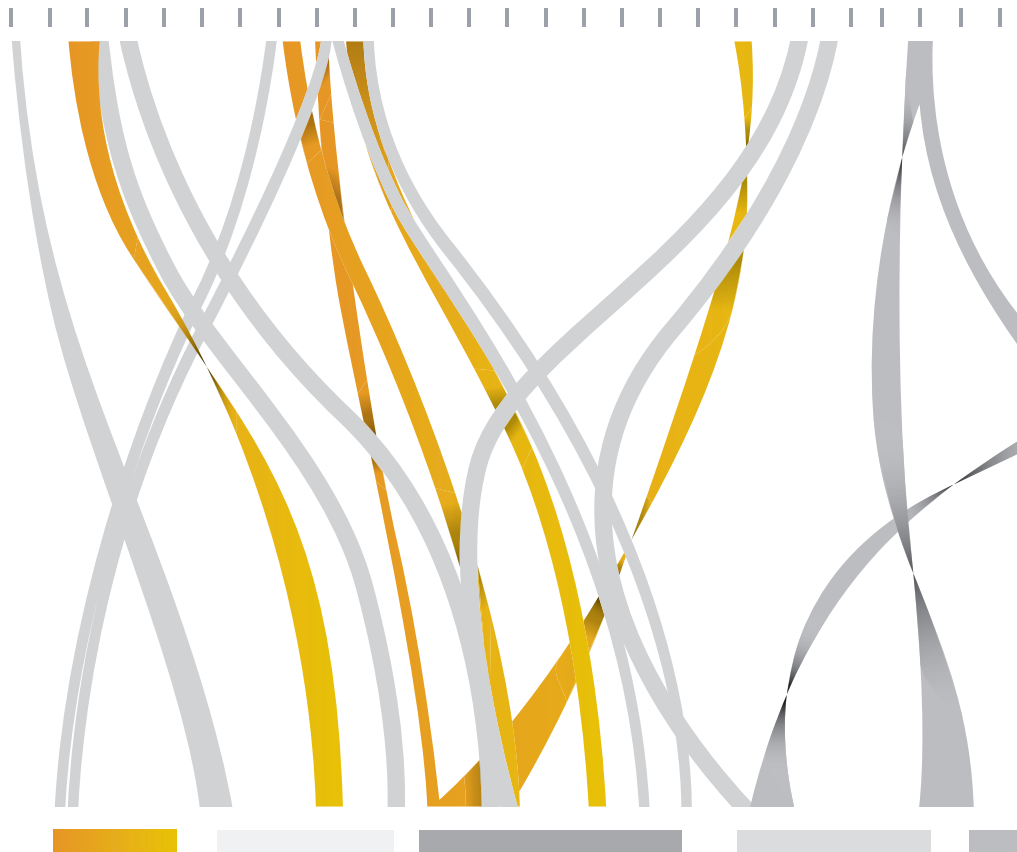
1 - The Business Case to Counter Corruption assesses whether senior managers think that countering corruption actually makes business sense;

2 - Internal Measures assesses what senior managers think are the company-internal challenges and opportunities of countering corruption; and

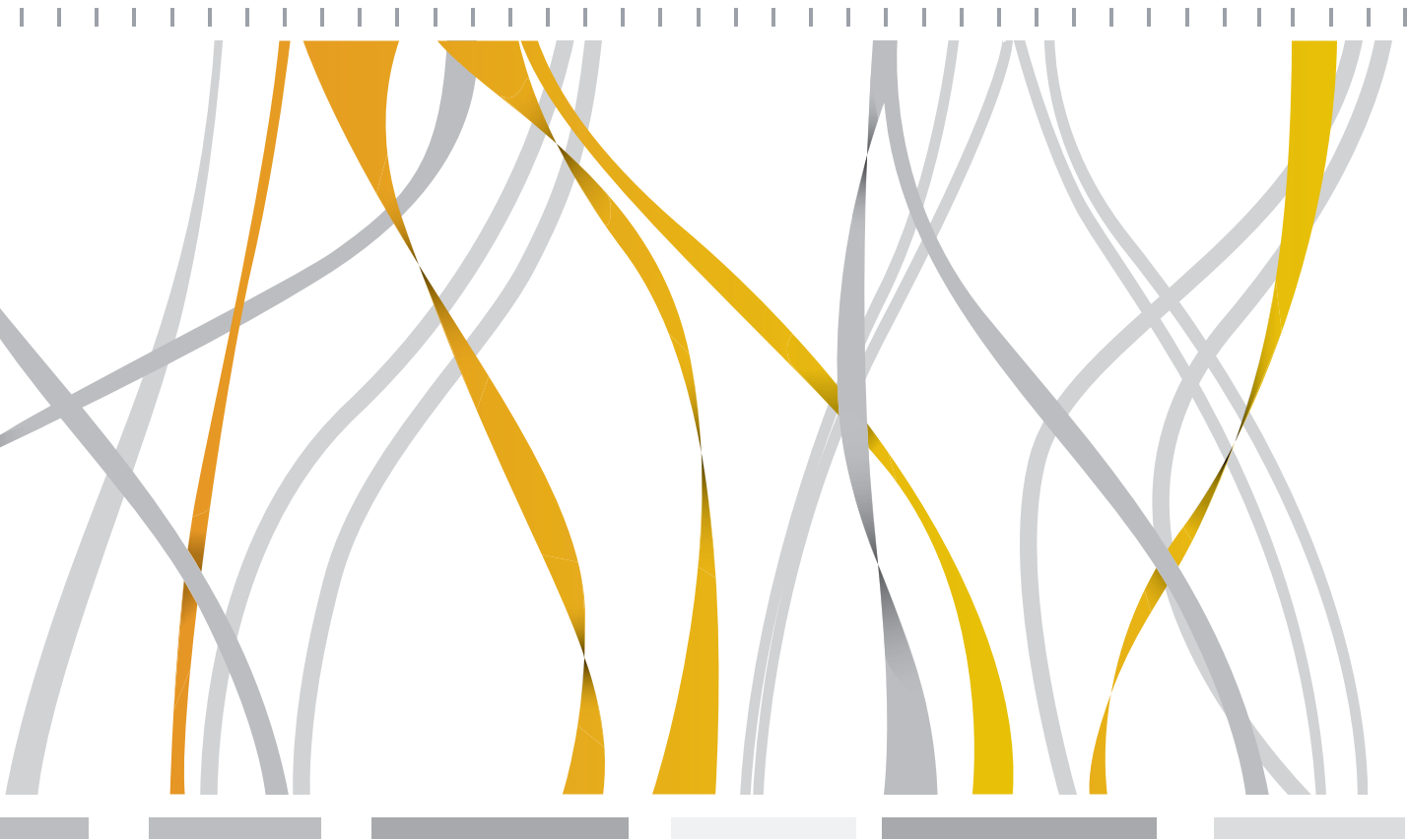
3 - External and Collective Measures assesses what senior managers think are the company-external challenges and opportunities of countering corruption in India.

This high-level survey identifies key areas for in-depth discussions, engagement and cooperations in the future. We hope that this exercise raises awareness among key stakeholders from all stakeholder groups including not only the business sector but also government and organized civil society.

I would like to express gratitude to the Confederation of Indian Industry (CII) – especially to Sushanta Sen – and to the Confederation of German Industries (BDI) – especially to Heiko Willems – for their enormous support in realizing this survey. I want to further thank Angela Albert, Amresh Deshpande, Jürgen Janssen, Alexander Jüngling, Philip Matthey and Meinhard Remberg for their valuable input. The survey would not exist if Sebastian Wegner did not spend endless hours on the concept, the methodology and the consultations. Thank you for the tremendous dedication.



THE BUSINESS CASE TO COUNTER CORRUPTION



Lack of corruption controls comes with considerable risks for companies.

1. THE BUSINESS CASE TO COUNTER CORRUPTION

Countering corruption makes business sense. Business related arguments against corruption are well known and accepted. Lack of corruption controls (i.e. anti-corruption compliance programs) can come with considerable risks of extra costs and uncertainties due to unfavorable dependencies to corrupt business partners, company-internal process inefficiencies and low employee morale.

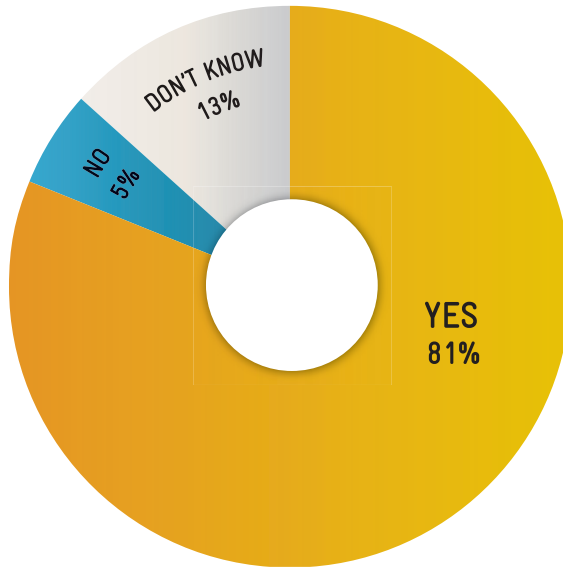
With the increasing enforcement of anti-corruption laws, companies and their representatives face significant risks of sanctions such as fines, imprisonment of company representatives, confiscation of proceeds of corruption but also the exclusion from public contracts (i.e. debarment).

Increasingly, effective anti-corruption programs are mandatory to successfully participate in public tenders and for receiving other public advantages. Also, companies with visible anti-corruption commitment have a better public profile, which is increasingly

supporting long term sustainable business relationships and therewith sustainable success.

In summary, if the moral case to counter corruption is supported by a strong business case, companies are much more likely to integrate anti-corruption principles and rules into their daily business procedures.

DO YOU THINK THAT AN ANTI-CORRUPTION PROGRAM CONSTITUTES A COMPETITIVE ADVANTAGE FOR A COMPANY?



81% OF RESPONDENTS THINK THAT AN ANTI-CORRUPTION PROGRAM CONSTITUTES A COMPETITIVE ADVANTAGE.

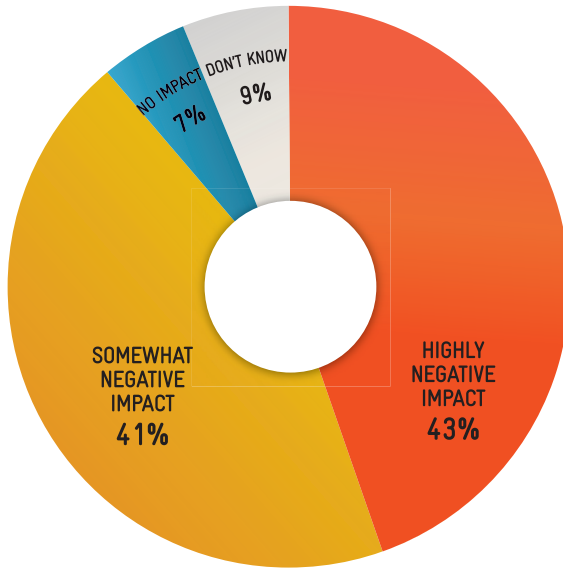
SMEs vs. Large Enterprises*

Whereas 76% of respondents from small-and-medium-sized enterprises think that an anti-corruption program constitutes a competitive advantage, it's 88% of respondents from large corporations, who answered with yes.

"Senior management should not stop to talk about it and to be a role model." (representative from foreign MNC)

*Small-and-medium-sized enterprises (SMEs) are in this context companies with an annual turnover less than 5.000 INR (in Crores). For a detailed breakdown of characteristics of responses, see section 'About the Survey' at the end of the report. If details are not shown in subsequent questions, no significant difference in answers of respondents from small and large companies could be identified.

IN YOUR OPINION, HOW MUCH DOES A LACK OF AN ANTI-CORRUPTION PROGRAM IMPACT COSTS OF DOING BUSINESS?



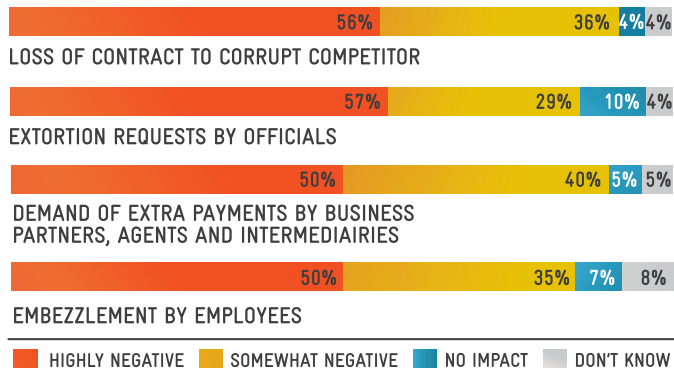
84% OF RESPONDENTS THINK THAT A LACK OF AN ANTI-CORRUPTION PROGRAM HAS A NEGATIVE IMPACT ON COSTS OF DOING BUSINESS.

Indian vs. Foreign Companies*

Whereas 75% of companies with headquarters in India think that a lack of an anti-corruption program has a negative impact on the costs of doing business, 89% of foreign companies think so.

*Indian companies are multinational companies with headquarters in India and companies only operating in India. Foreign companies are companies operating in India with headquarters not in India. For detailed breakdown of characteristics of responses, see section 'About the Survey' at the end of the report. If details are not shown in subsequent questions, no significant difference in answers of respondents from small and large companies could be identified.

BASED ON YOUR EXPERIENCE, WHAT IS THE IMPACT OF EACH OF THE FOLLOWING CASES ON COSTS OF DOING BUSINESS?



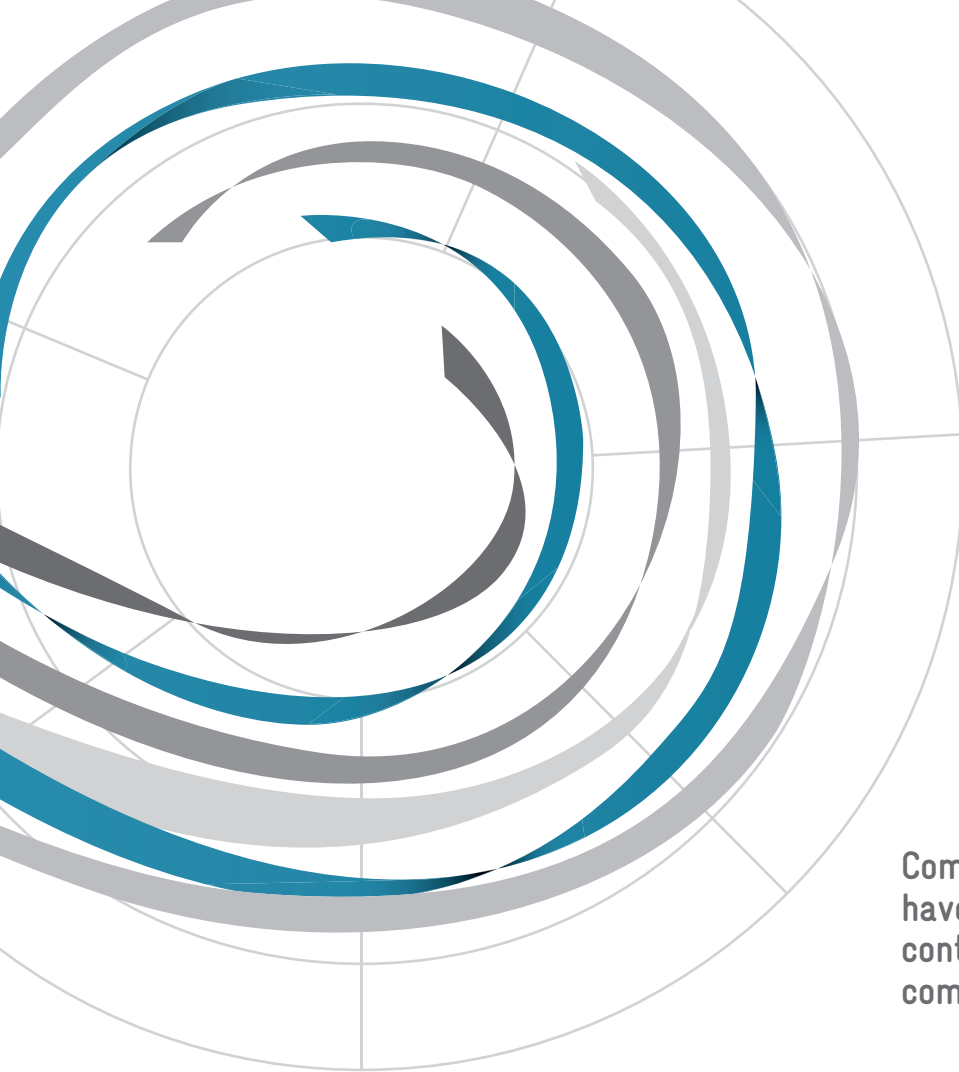
BASED ON THE EXPERIENCE OF **92%** OF THE RESPONDENTS, A LOSS OF A CONTRACT TO A CORRUPT COMPETITOR IMPACTS THE COSTS OF DOING BUSINESS.

*"Our employees have been instructed to stand up and walk out of negotiations for orders if anyone asks for money."** (representative from Indian SME)

*All quotes are comments which respondents shared on an anonymous basis, replying to an open question in the questionnaire.



INTERNAL MEASURES



Companies have to make sure that they have sufficient internal anti-corruption controls in place to reduce legal, commercial and reputational risks.

2. INTERNAL MEASURES

Companies have to make sure that they have sufficient internal anti-corruption controls in place to reduce legal, commercial and reputational risks. A clear commitment by the company leadership is essential when implementing an anti-corruption compliance program and strengthening awareness and commitment at all management levels and of other employees.

As a starting point, a comprehensive, easy-to-understand and accessible anti-corruption policy comprising also grey areas needs to be established. However, policies need to be transferred into action, i.e. the anti-corruption commitment by the senior management must be translated into every-day business practices. Employees should be offered training, advise and help on how to implement the policy into their daily operations.

Implementing the anti-corruption commitment into the daily business routine should be based on a risk-based approach. High-risk areas such as dealing with public officials (e.g. customs) should deserve more attention than minor procurement contracts with a long term business partner.

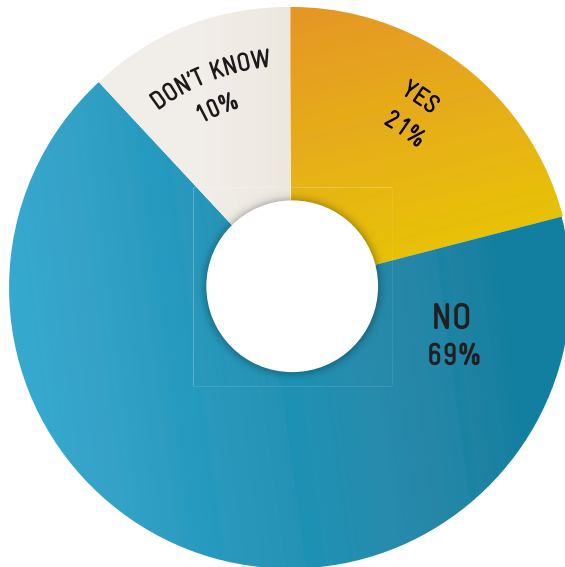
Of course, not all companies need to invest the same amount

of resources to strengthen their internal anti-corruption controls. Even though anti-corruption programs should always comprise of the same key elements, the extent should be tight to size and characteristics of the company.

In summary, company-internal measures are the necessary starting point for a company to reduce its corruption risks. Translating commitments into actual practice is a process of continuous learning which will eventually pay off.

*See United Nations Office on Drugs and Crime (2013): An Anti-Corruption Ethics and Compliance Programme for Business – A Practical Guide – giving an introduction into the key elements of an anti-corruption program.

DO YOU THINK THAT COMPANIES ARE SUFFICIENTLY AWARE OF ANTI-CORRUPTION REGULATION IN INDIA?



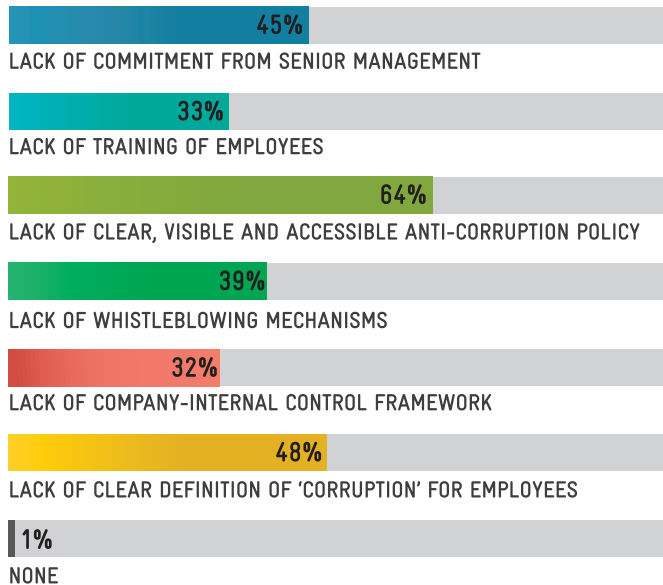
69% OF RESPONDENTS THINK THAT COMPANIES ARE NOT SUFFICIENTLY AWARE OF ANTI-CORRUPTION REGULATION IN INDIA.

Indian vs. Foreign Companies

Whereas 63% of respondents of companies with headquarters in India think that companies are not sufficiently aware of anti-corruption regulation in India, 78% of respondents from foreign companies think so.

"Try and follow legal and moral standards in each individual dealing to reduce the risk." (representative from Indian SME)

WHICH ARE THE MAIN COMPANY-INTERNAL CHALLENGES OF REDUCING CORRUPTION IN INDIA? (PLEASE SELECT MAXIMUM 3)



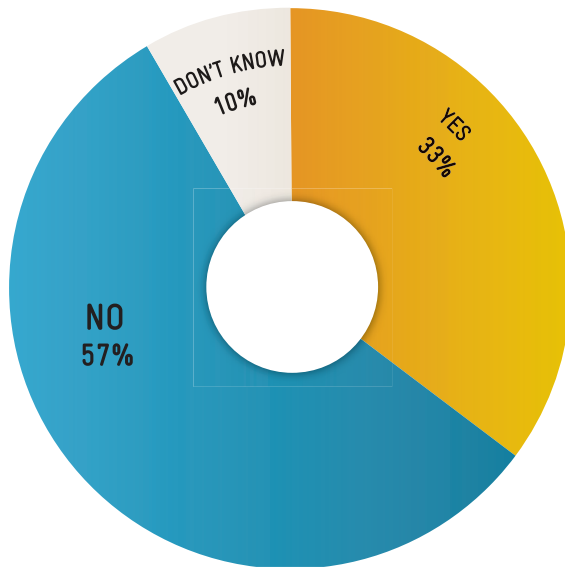
64% OF RESPONDENTS THINK THAT THE LACK OF A CLEAR, VISIBLE AND ACCESSIBLE ANTI-CORRUPTION POLICY IS ONE OF THE MAIN CHALLENGES OF REDUCING CORRUPTION.

Indian vs. Foreign Companies

While 50% of respondents of foreign companies think that the lack of a whistleblowing mechanism is one of the main challenges of reducing corruption in India, only 31% of representatives of Indian companies think so.

"This can be done through a strong code of conduct policy and non-tolerant approach. Senior Management commitment is required which can become an inspiration to others" (representative from foreign SME)

SHOULD THERE BE REWARDS FOR EMPLOYEES TO REFRAIN FROM CORRUPT PRACTICES?



57% OF RESPONDENTS THINK THAT EMPLOYEES SHOULD NOT BE REWARDED FOR NOT ENGAGING IN CORRUPTION.

SMEs vs. Large Enterprises

Whereas 44% of respondents from small-and-medium-sized companies think that employees should be rewarded for refraining from corrupt practices, 27% of respondents of large corporations think so.

Indian vs. Foreign Companies

While 40% of respondents from Indian companies think that employees should be rewarded for refraining from corrupt practices, 25% of respondents from foreign companies think so.

"Demonstrate that no retribution or revenge is allowed for the person raising the concern." (representative from foreign SME)



EXTERNAL AND COLLECTIVE MEASURES



Having company-internal measures in place is a first step. However, companies should go one step further to reduce their corruption risks.

3. EXTERNAL AND COLLECTIVE MEASURES

Having company-internal measures in place is a first step. However, companies should go one step further to reduce their corruption risks. Reporting on anti-corruption efforts is an important starting point. This not only sends a clear signal to business partners, competitors, government officials and other stakeholders but also to company employees. By sharing good practices and consulting other stakeholders, companies take the opportunity to support and even strengthen their own internal anti-corruption program.

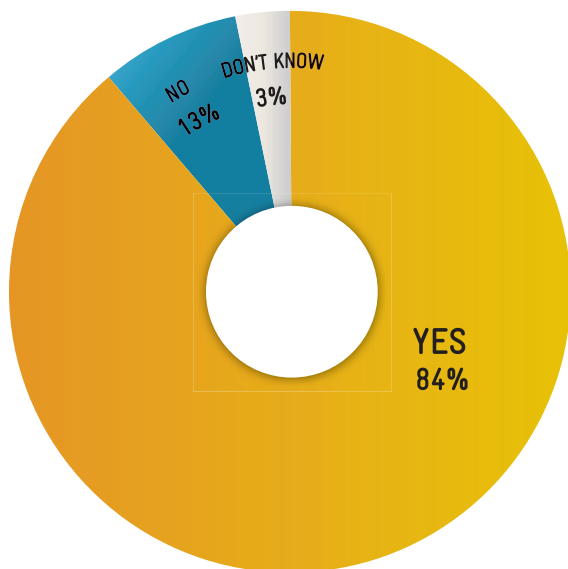
Reporting also invites other stakeholders to recognize investments and efforts which have been made by the company, its management and other employees towards strengthening integrity.

However, one company can only do little to change the rules how things are done. Actively engaging with other stakeholders is even more important and can significantly decrease corruption risks. This could for example be in the form of demanding anti-corruption commitment and practice from suppliers and other business

partners. This can also comprise developing a common ground based on national and international anti-corruption good practice with other industry peers in collective action endeavors. This can not only enhance the learnings on effective management practice but can also be a chance to address corruption risks which can be mitigated collectively much better than by one company alone.

In summary, by sharing own anti-corruption experience and good practice as well as building anti-corruption coalitions with peers and other external stakeholders, companies can strive to change their business environment in the long term to reduce their corruption risks.

DO YOU THINK THAT COMPANIES WHICH INVEST IN ANTI-CORRUPTION COMPLIANCE PROGRAMS SHOULD RECEIVE RECOGNITION FOR THEIR EFFORTS?



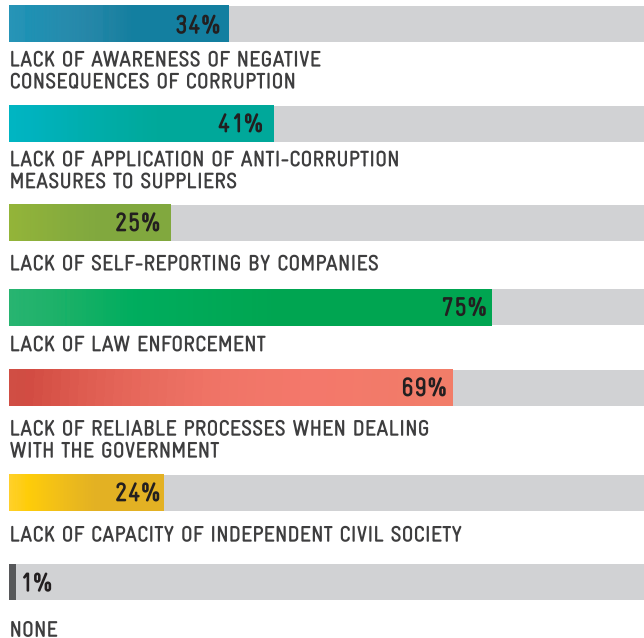
84% OF RESPONDENTS THINK THAT A COMPANY'S INVESTMENT IN ANTI-CORRUPTION PROGRAMS SHOULD RECEIVE RECOGNITION.

Indian vs. Foreign Companies

Whereas 78% of respondents from companies headquartered in India think that a company should receive recognition for its investment into an anti-corruption program, 89% of respondents from foreign companies think so.

"First need is properly defining the Codes of Conduct internally & externally followed by proper monitoring of actions and outcomes. Strong support from Govt. in denouncing corrupt practices and practicing it would surely go a long way in controlling Corruption. Having a strong Internal Compliance framework to check, report and action corrective measures, if detected." (representative from foreign SME)

WHAT ARE THE EXTERNAL CHALLENGES FACED BY COMPANIES TOWARDS REDUCING CORRUPTION? (PLEASE SELECT MAXIMUM 3)

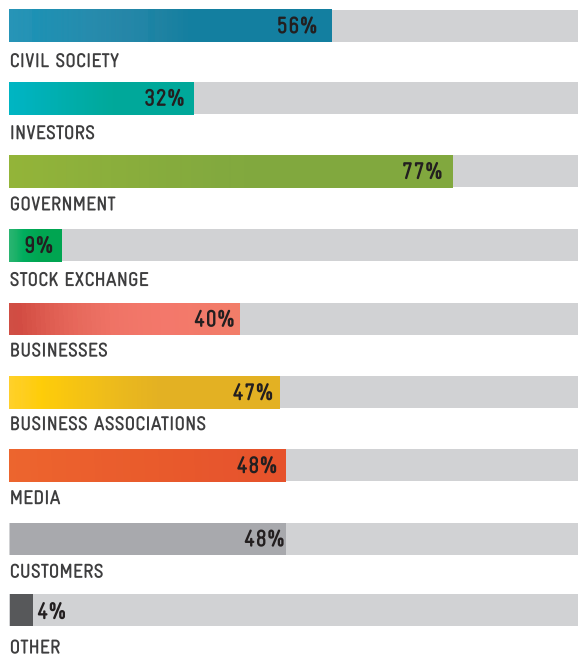


LACK OF LAW ENFORCEMENT (75%) AND LACK OF RELIABLE PROCESSES WHEN DEALING WITH THE GOVERNMENT (69%) ARE IDENTIFIED AS THE MAIN EXTERNAL CHALLENGES FACED BY COMPANIES TO REDUCE CORRUPTION.

Indian vs. Foreign Companies

Whereas 38% of respondents from Indian companies think that a lack of application of anti-corruption measures to suppliers is an external challenge faced by companies to reduce corruption, 50% of respondents from foreign companies think so.

IN YOUR OPINION, WHO ARE THE MOST IMPORTANT EXTERNAL STAKEHOLDERS THAT CAN PROMOTE ANTI-CORRUPTION COMPLIANCE IN INDIA? (PLEASE SELECT MAXIMUM 3)



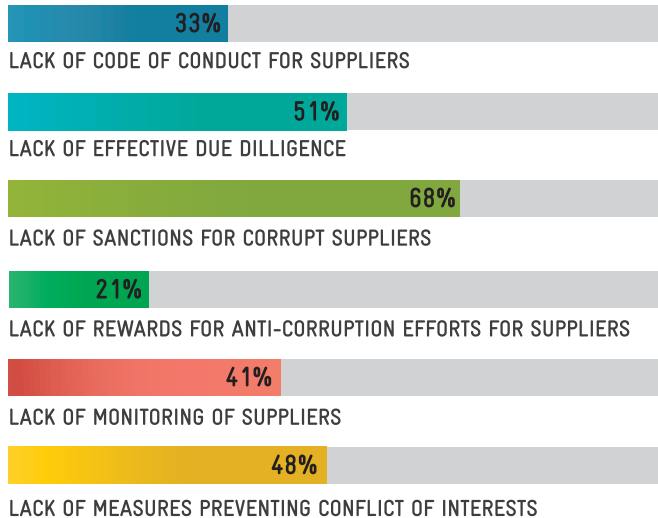
77% OF RESPONDENTS THINK THAT GOVERNMENT IS AMONG THE MOST IMPORTANT STAKEHOLDERS THAT CAN PROMOTE ANTI-CORRUPTION COMPLIANCE IN INDIA.

SMEs vs. Large Enterprises

Whereas 45% of respondents from small-and-medium-sized companies think that other companies are among the most important stakeholders that can promote anti-corruption compliance in India, only 23% of respondents from large enterprises think so.

"Deal with direct decision-makers rather than intermediaries."
(representative from Indian SME)

WHAT ARE THE MAIN CHALLENGES OF REDUCING CORRUPTION IN THE SUPPLY CHAIN? (PLEASE SELECT MAXIMUM 3)



68% OF RESPONDENTS THINK THAT LACK OF SANCTIONS FOR CORRUPT SUPPLIERS IS AMONG THE MAIN CHALLENGES OF REDUCING CORRUPTION IN THE SUPPLY CHAIN.

Indian vs. Foreign Companies

Whereas 53% of respondents of companies headquartered in India think that lack of sanctions for corrupt suppliers is among the main challenges of reducing corruption in the supply chain, 83% of respondents from foreign companies operating in India think so.

“Implementing a code of conduct and leading from the top creates awareness of a zero tolerance policy – as well as extensive training at all levels of employees and associates.” (representative from Indian MNC)

WOULD YOU AGREE TO THE FOLLOWING STATEMENTS?



■ FULLY AGREE
 ■ SOMEWHAT AGREE
 ■ DON'T AGREE
 ■ DON'T KNOW

96% OF RESPONDENTS THINK THAT THE TIME IS RIGHT TO PROMOTE COLLECTIVE ACTION.

"With industrial partners - just ban it and abstain from critical projects." (representative from foreign SME)

ABOUT THE SURVEY

This anonymized survey was conducted between September 2014 and October 2014 among senior management with experience in anti-corruption compliance of companies operating in India. Senior management included chief compliance officers and compliance officers, company secretaries and head of government relations and heads of procurement. The survey was sent by AfIn, CII and BDI to their networks. Respondents were asked to participate in the survey in their professional role.

All results are assessed on whether there are differences in opinions between respondents from I) companies headquartered in India and companies operating in India with headquarters outside the country; and II) small-and-medium-sized and large enterprises. If no significant difference could be identified from the answers, the assessment is not shown below the respective question.

Some percentages in the charts total more than 100%, since respondents were allowed to make multiple selections.

To enhance access to the reader, percentages are shown in full numbers. Values equal or larger than .5 are adjusted upwards to the next full percentage, values smaller than .5 percentages are

adjusted downwards. In some cases this may lead to an overall percentage not equal to 100%.

Further, the results have been discussed with key stakeholders in Delhi (12.11.2014) and Mumbai (14.11.2014) to get insights on possible reasons for results. However, we herewith want to encourage all stakeholders to participate in discussions on the results of this survey and regard this high-level benchmarking survey as a starting point for discussions and actions of stakeholders in order to increase integrity by reducing corruption in India.

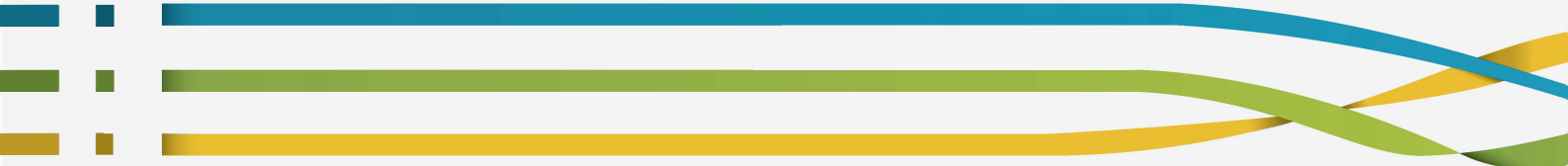
For questions about the survey, please contact afin@giz.de.

TOTAL NUMBER OF RESPONSES: 75

The characteristics of companies of respondents are as follows*:

COMPANY HEADQUARTER	
• Companies with headquarter in India:	43% (32 of 74)
• Foreign companies operating in India:	49% (36 of 74)
• Other:	8% (6 of 74)
COMPANY-SIZE	
• SMEs (0-5.000 INR in Crores):	64% (46 of 72)
• Large Enterprises (more than 5000 INR Crores):	36% (26 of 72)
HAVE ANTI-CORRUPTION PROGRAM IN PLACE	
• Yes:	73% (50 of 69)
• No:	28% (19 of 69)
HAVE FOREIGN BUSINESS PARTNERS	
• Yes:	78% (64 of 73)
• No:	12% (9 of 73)

*Numbers vary and are smaller than the absolute number of responses as questions regarding demographical information were voluntary. Therefore, percentages in breakdown of small vs. large companies are based on 72 out of 75 responses; and Indian vs. Foreign companies are based on 68 out of 75 responses.



About **Alliance for Integrity**

Alliance for Integrity (Afln) is a business driven multi-stakeholder initiative between multinational companies, civil society, political organizations and international institutions. The aim of Afln is to promote integrity among companies, their business partners and other relevant actors in the economic system. In addition, it contributes to better framework conditions by fostering dialogue between the public and private sector.

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