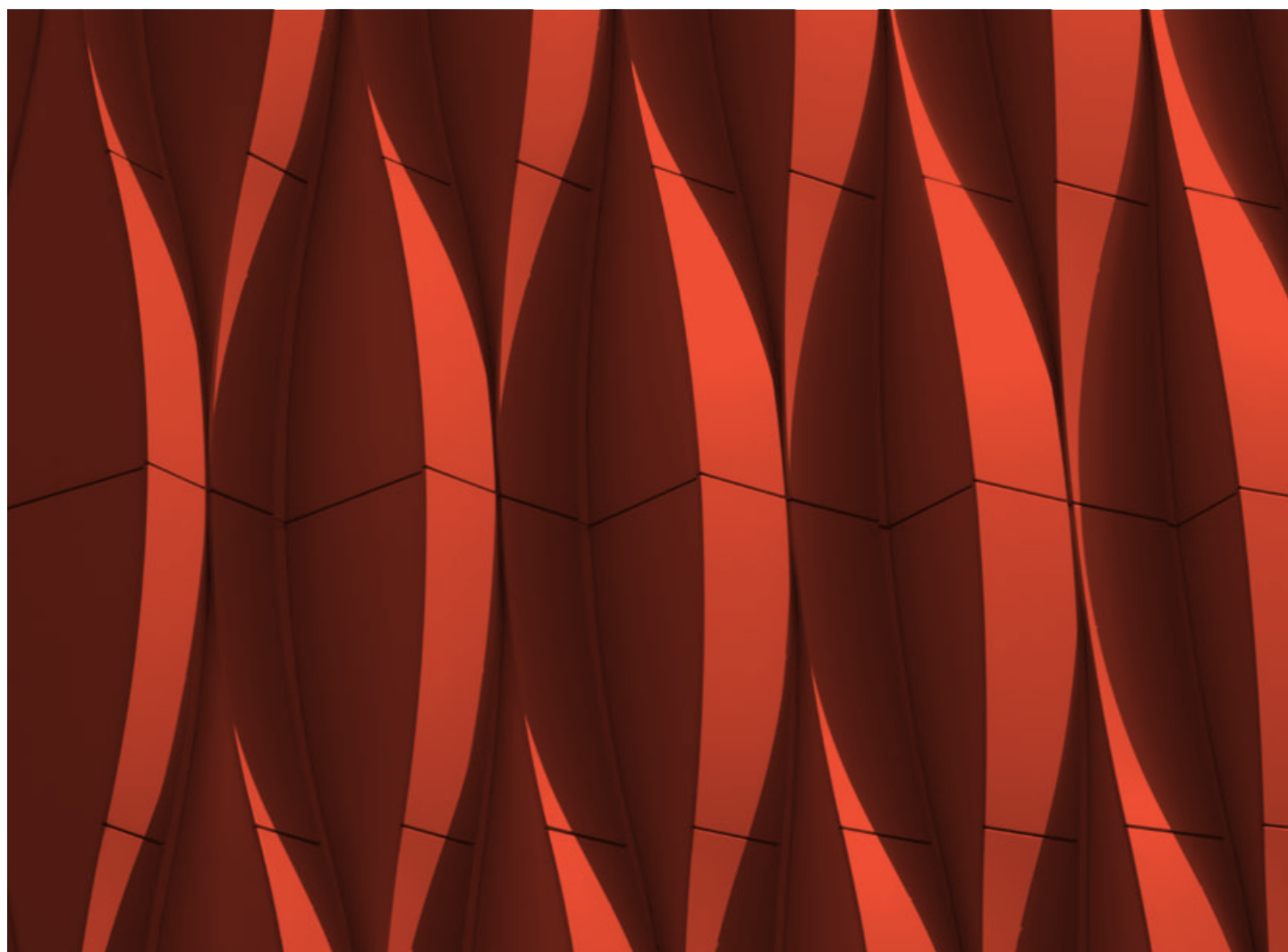


# Combating bribery in the SME sector

Executive summary



# About ACCA

ACCA (the Association of Chartered Certified Accountants) is the world's largest international accountancy body and our 162,000 members live and work in countries all over the world.

## ACCA AND PUBLIC VALUE

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Central to ACCA's work is the belief that the accountancy profession must demonstrate how it creates public value, which for ACCA means acting in the public interest, promoting ethical business and supporting economic growth. It also means training accountants who not only satisfy the needs of individual clients and employers through the quality of their work and technical expertise but also consider the wider impact of their activities on society as a whole, in line with ACCA's ethical code. A concern for public value underpins everything that we do, including the pursuit of our strategic objectives. We campaign for responsible business behaviour in all respects and have signed up to the UN's Global Compact. By virtue of this we undertake to make the Compact's ten principles, which include a commitment to working against corruption in all its forms, an integral part of our business strategy, day-to-day operations and organisational culture.

## ABOUT ACCA'S GLOBAL FORUMS

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To further its work, ACCA developed an innovative programme of global forums which brings together respected thinkers from the wider profession and academia around the world.

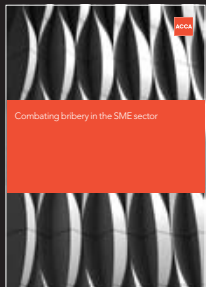
### The ACCA Global Forum for Business Law

The Forum brings together experts from the corporate sector, public practice and academia from around the world to debate trends and developments in business law. One of its areas of special focus is on how legal systems can achieve the right balance between encouraging entrepreneurial initiative and providing necessary protection for stakeholders and the public interest.

### The ACCA Global Forum for SMEs

The Forum provides a unique platform for promoting the role of SMEs in the global economy. Representing over 15 countries and a wide range of professional backgrounds – from finance institutions, academics and professional advisers to entrepreneurs themselves – the Forum represents the sector's needs at a global level and facilitates the sharing of best practice.

[www.accaglobal.com/globalforums](http://www.accaglobal.com/globalforums)



## THE REPORT

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The full report, *Combating Bribery in the SME Sector*, is available from the ACCA website:

[www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/tech-tp-cbiss.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/tech-tp-cbiss.pdf)

For further information contact [john.davies@accaglobal.com](mailto:john.davies@accaglobal.com)



## UK FINDINGS REPORT

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A UK-focused report of this survey, *Combating Bribery in the SME Sector: the UK Findings*, is available from the ACCA website:

[www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/tech-tp-cbissuk.pdf](http://www.accaglobal.com/content/dam/acca/global/PDF-technical/small-business/tech-tp-cbissuk.pdf)

For further information contact [rosana.mirkovic@accaglobal.com](mailto:rosana.mirkovic@accaglobal.com)

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Bribery is a very long-standing feature of human society that occurs in all countries, business sectors and walks of life. It is, however, almost everywhere a crime and not, as some would argue, a victimless crime, especially since it affects disproportionately the poor.

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## BACKGROUND

Research by the anti-corruption think tank Transparency International has found that, in seven countries in sub-Saharan Africa, 44% of parents surveyed had paid illegal fees for schools that were legally free to their children. In several developing countries, the urban poor pay were found to pay between five and ten times more for their water supplies than the rich pay for piped water; and in Pakistan, 43% of respondents had faced demands for bribes when dealing with local government, 69% with the judiciary and 84% when dealing with the police.

Bribery and corruption world-wide are therefore deeply-rooted and substantial in scale. And in common with other forms of financial crime, bribery is widely considered to have increased in prevalence in recent years because of the harsh economic conditions that much of the world is seeing.

Companies and individuals that are experiencing very challenging business conditions may be motivated to engage in practices that they know to be wrong in order to stay in business or stay in their jobs. According to a survey by EY published in 2013, nearly half of workers surveyed across Europe, the Middle East, India and Africa said that they think that bribery and corruption are acceptable ways to survive an economic downturn.

The significance of bribery in the business world is that it

- distorts fair competition (thereby penalising honest businesses and perpetuating inefficient business practices)
- unfairly diverts funds that should rightly belong to shareholders or citizens into private hands
- risks jeopardising economic growth by deterring businesses from investing in or trading with particular markets and sectors (a survey of 350 businesses worldwide by Control Risks found that 35% of companies had been deterred from an otherwise attractive business investment opportunity because of the host country's reputation for corruption).

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The issue has a special resonance for the accountancy profession, which stands for transparency in the financial management of enterprises.

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The financial statements that businesses prepare for shareholders, regulators, banks and others, and which are invariably prepared by accountants, are expected to reflect fairly and accurately a business' assets, liabilities and transactions over the period under review. The function of auditors, in reporting on a set of financial statements, is to provide an expert independent opinion on whether they have been properly prepared on that basis: they also have obligations under technical standards and the law to take remedial action when they come across signs of criminal behaviour. Not only this, but accountants have a professional obligation to comply with ethical

standards in the course of their work and to work in the public interest.

Governments in several countries, including the UK, have reacted in the recent past to pressure to do more to deter and prosecute acts of bribery by introducing stricter legislation. The new UK law, in the form of the Bribery Act 2010, makes companies of all types and sizes liable for prosecution if they don't introduce effective internal procedures and controls to prevent individual acts of bribery being committed by any employee, subsidiary company or agent, wherever in the world they commit those acts. This means that companies that do business in the UK, and UK businesses that trade internationally, are obliged to ensure that their group structures and their supply chains are equipped to resist pressures to pay or— receive bribes.

The introduction of tighter legislation has been accompanied by a greater commitment on the part of regulatory authorities to impose heavy sanctions against those individuals and companies found guilty of bribery. In the biggest case of its kind so far the German engineering company Siemens was fined \$800 million by the authorities in the US. To the financial cost of being found guilty in such cases can be added the likely cost of long-term damage to the company's reputation in the marketplace.

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While a significant amount of attention has been devoted to the problem of bribery and corruption in the public sector and large private company sector, ACCA has identified a lack of focus on the SME sector, a sector which nevertheless makes up the major part of the economy in all countries.

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## GLOBAL SURVEY OF ACCA MEMBERS

### In the summer of 2013 ACCA conducted a global survey of its members to gauge their thoughts about how the issue of bribery affects the SME sector.

This initiative was motivated by a concern that the focus of regulatory attention on the bribery issue has been almost exclusively aimed at the large firm and public sectors, and relatively little attention has been paid to how the issue affects the great majority of businesses in all countries that are SMEs. We received nearly 1,000 responses from all regions of the world, 63% of which came from accountants working in SMEs and 29% from those working as providers of professional services to SMEs. The headline feedback was as follows.

The clear majority of respondents (62%) agreed that bribery was likely to be encountered by SMEs in the course of their work; only 17% thought that they were not. Despite this, only 45% believed that SMEs routinely consider the risk of bribery when contemplating doing business in certain sectors and

38% thought they did so when considering cross-border activity.

Most respondents agreed that bribery and corruption has a negative impact on their domestic business environment. 75% of respondents from central and eastern Europe, and 70% of those from Singapore, supported this view.

When asked whether anti-bribery regulation should incorporate a more lenient regime for SMEs, half of all respondents overall said it should not (32% were in favour while 18% were unsure). The feedback on this question was especially interesting since many have argued that the strictness of new laws such as the Bribery Act 2010 is having the undesirable effect of discouraging SMEs from trading with other countries, especially those which are considered to carry a higher risk. We encountered a significant disparity in regional responses too – 55% of respondents from south Asia were in favour of a modified regime for SMEs but, in other regions, larger majorities were against the idea – 61% in sub-Saharan Africa, 59% in central and eastern Europe and 57% in the

Caribbean. The argument against having a more lenient regime for SMEs is partly one of principle – why should SMEs be allowed to adopt lower ethical practices than other types of business? – and partly one of pragmatism – if SMEs allow themselves to be seen as less ethical than other businesses that could have the effect of lowering their standing in the eyes of consumers and making it more difficult for them to do business with public bodies and large companies.

The business case for adopting effective anti-bribery credentials was accepted by the clear majority of respondents. 77% said that doing so would enhance their reputation for high standards of business conduct, 76% believed that it would help them comply with legislation, and 69% believed they would profit from enhanced consumer confidence in their business.

Despite recognising that there was a strong case for protecting themselves against bribery risk, SMEs considered that they needed more dedicated advice and support. Only 21% were confident that they had enough of this at present; 61% thought there was not.

## Conclusions

- Despite recognising that bribery poses great challenges to them, many businesses in the SME sector feel vulnerable and in need of good advice as to how to protect their interests. As in other aspects of business life, SMEs will rarely if ever have the in-house resources to produce their own customised solutions to issues such as this. There is a role here for accountants in public practice to advise their clients on how to manage bribery risk effectively. The report offers some broad guidance to SMEs (and practising accountants) on how they can put in place compliance programmes at minimal cost.
- The clear majority of accountants working in the SME sector appear to accept that there is a sound business case for adopting policies and practices that aim to combat bribery. A business that is committed to the adoption and implementation of anti-bribery policies and practices, and is able to demonstrate that it has done so, will be in a better position to do business with those large companies and public sector bodies that are obliged to follow such policies and practices throughout their supply chains.
- While there were some regional differences in the responses on this particular issue, respondents overall feel that SMEs should not be subjected to more lenient expectations on this issue than larger businesses. That being said, the report makes the point that the controls adopted by smaller businesses to combat bribery need not be as all-encompassing and expensive as those adopted by larger businesses and should aim to be proportionate to the risks that the business actually faces.
- National governments need to take a strong lead in demonstrating to businesses that a culture of bribery damages the commercial reputation of a country, deters investment and allows inefficient business practices to continue. Where laws exist to criminalise and prosecute bribery these should be enforced rigorously; where they do not, serious consideration should be given to introducing them. The survey suggested significant support too for the introduction of whistle-blowing arrangements to provide channels for those with information about wrongdoing to be able to pass that information on.
- The full restoration of trust and confidence in the business sector can only be achieved when stakeholders believe that business is being conducted fairly and transparently. By adopting a values-based approach, businesses can help themselves and, indirectly, help to achieve the wider goal of enhancing confidence in the business sector as a whole. Accountants, who have twin responsibilities to give best advice to their employers or clients and an obligation to act in the public interest, have a major part to play in this process.

## TECH-TP-CBISS-SUMMARY