

# Anti-Corruption and Integrity in State Owned Enterprises

## Background note

Prepared for the seminar:  
*Promoting integrity in SOEs: contributing to the development  
of new international guidance*

-  
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## *Table of Contents*

Introduction.....	4
<b>Part A: Summary of findings: “Anti-corruption and integrity in state-owned enterprises: challenges and solutions” (OECD, 2018).....</b>	<b>5</b>
1. SOE experiences with corruption and other irregular practices.....	5
1.1. Who perceived corruption, and who did they say was involved? .....	5
1.2. Who was involved in corrupt activities or irregular practices? .....	6
1.3. Where are corrupt activities or irregular practices occurring? .....	6
2. SOE perceptions of future corruption risks.....	8
3. What can SOEs do? Promoting integrity and preventing corruption in state-owned enterprises ..	11
3.1. Obstacles to integrity.....	11
3.2. What can the state do? The state as an active, informed, professional and accountable owner	15
Notes .....	19
References.....	19
<b>Part B: Proposed building blocks of future Anti-corruption and integrity guidelines for the state .....</b>	<b>20</b>
I. Integrity of the state .....	20
<b>Building block 1: Apply high standards of integrity to those exercising ownership of state-owned enterprises on behalf of the general public.....</b>	<b>20</b>
<b>Building block 2: Establish ownership arrangements that are conducive to integrity.....</b>	<b>20</b>
II. Ownership and governance .....	20
<b>Building block 3: Ensure clarity in the legal and regulatory framework and in the State’s expectations .....</b>	<b>20</b>
<b>Building block 4: Act as an informed and active owner with regards to integrity in state-owned enterprises.....</b>	<b>21</b>
III. Corruption prevention and detection at the SOE level.....	21
<b>Building block 5: Require adequate risk management systems within state-owned enterprises</b>	<b>21</b>
<b>Building block 6: Require adoption of high quality integrity mechanisms within state-owned enterprises.....</b>	<b>21</b>
<b>Building block 7: Safeguard the autonomy of state-owned enterprises and their decision-making bodies.....</b>	<b>22</b>
IV. Accountability of SOEs and of the state .....	22
<b>Building Block 8: Require objective external review of state-owned enterprises and the ownership function.....</b>	<b>22</b>
<b>Building block 9: Take action and respect due process for investigations and prosecutions ...</b>	<b>22</b>
<b>Building block 10: Invite the inputs of civil society, the public and the press.....</b>	<b>22</b>
<b>Part C: relevant resources .....</b>	<b>23</b>

## Introduction

This background document was prepared for the event, *“Promoting integrity in SOEs: contributing to the development of new international guidance”*, in Moscow on 8 June, funded by the Siemens Integrity Initiative and supported by Deloitte CIS and the Federal Antimonopoly Service of the Russian Federation.

It sheds light on an ongoing initiative of the OECD and the OECD’s Working Party on State Ownership and Privatisation Practices (“Working Party”) on integrity and anti-corruption in state owned enterprises.

The work builds from the [OECD Guidelines on Corporate Governance of State-Owned Enterprises](#) (the “SOE Guidelines”) – the sole internationally agreed standard for the governance of state-owned companies (OECD, 2015a). The SOE Guidelines supplement and complement the [G20/OECD Principles of Corporate Governance](#) (2015).

**This document prepared for the event on 8 June, 2018, is broken into three parts:**

→ **Part A**

Presents the key findings from OECD’s 2018 report “Anti-Corruption and Integrity in State-Owned Enterprises: challenges and solutions” (available in full in English). The full report summarises the perspectives of 347 SOE representatives, including board members, executive management and heads of compliance, legal, audit or similar. The report covers 213 state-owned enterprises in 34 countries, including 5 state-owned companies from Russia. The report also integrates state-level responses from 28 countries.

→ **Part B**

Presents the 10 draft recommendations that could form the basis of future OECD Guidelines on Anti-Corruption and Integrity in SOEs. They are informed by the findings of the report presented in part A. **These 10 draft recommendations are under consultation and comments received will inform the discussion of the Working Party going forward.**

→ **Part C:**

Lists international instruments relevant to promoting integrity in state-owned enterprises

## Part A: Summary of findings: “Anti-corruption and integrity in state-owned enterprises: challenges and solutions” (OECD, 2018)

This document presents findings from the OECD’s 2018 report “*Anti-corruption and integrity in state-owned enterprises: challenges and solutions*”. The 2018 report assesses challenges and good practices in promoting integrity and preventing corruption in state-owned enterprises<sup>i</sup> (SOEs) in a large number of OECD and partner countries. It analyses the responses to a 2017 survey of almost 350 SOE board members and executive management in 213 SOEs, including 5 SOEs in Russia, and a second survey of 28 state ownership entities in OECD member and non-member countries.

### 1. SOE experiences with corruption and other irregular practices

SOEs have been in the spotlight in recent years in view of their increasing international presence and market share. They have also been under scrutiny for corruption and other irregular practices in and around SOEs, with a swelling literature on the potential for undue influence, bribery and other infractions to interfere with the daily operations of an SOE. The OECD’s 2014 Foreign Bribery Report found that SOE officials were more often promised or given foreign bribes, and of a higher financial value, than any other public official in all concluded cases of foreign bribery of public officials between 1999 and 2014 (OECD, 2014). A study conducted by the IMF found that 30% of its mission chief respondents viewed corruption to be widespread in the real sector - 71% percent of whom attributed it to malpractices in the state owned enterprise sector (IMF, 2017).

**Of the 347 SOE respondents in the OECD’s 2017 survey, 42% report to have seen corruption risks and risks of other irregular practices materialise into activity/action in their company in the previous three years.** From another view: in 49% of surveyed companies, at least one respondent reported to have witnessed corrupt or other irregular practices in their company in the last three years. “Irregular practices” are considered activities or behaviours that range from explicit corruption to other offenses, such as stealing, that may be representative of systematic issues that inhibit a culture of integrity.

The proportion of those witnessing corruption or other irregular practices in SOEs, as reported by participants of this OECD 2017 survey, appears higher than other international studies that also attempt to measure incidence of corruption and misconduct in both SOEs and other non-state firms, though the results cannot be directly compared as they followed different methodologies. The 2015 Global Business Ethics Survey found that 33% of surveyed private, state and non-profit entities observed misconduct, of which 16% was bribery and corruption related. Twenty-eight percent was talent-related misconduct, 31% was fraud, lying and stealing, 31% was regulatory-type violations, and 21% contracts-related misconduct (ECI, 2015)<sup>ii</sup>.

#### 1.1. Who perceived corruption, and who did they say was involved?

As mentioned, corrupt and other irregular practices reportedly materialised in almost half of the respondents’ SOEs in the last three years, perceived most often by board members, and heads of the corporate audit, compliance or legal functions (table 1.1). Almost half of “other” respondents, predominantly Corporate Secretaries, also reported witnessing it in the last three years.

A comparatively limited 36% of executive management respondents reported seeing corruption risks and other irregular practices materialise in their company in the last three years. This is not insignificant, given that executive management are responsible for overseeing employees and mid-level management that are most commonly involved in corrupt or other irregular practices (see also, table 1.2).

**Table 1.1. Those who reported witnessing corruption and other irregular practices, by position of respondent**

Responses to: “in your assessment, did any of the [listed] risks materialise into activities/actions in the last three years in (or involving) your company?”

Respondent	% of group that responded affirmatively
Board members	43%
Executive management	36%
Heads of the corporate audit, compliance or legal functions	45%
Other	46%
Average	42%

*Note:* Board members includes Chairs and other board members other than Executive Management; Executive management includes Chief Executive Officers/Presidents/Managing Directors, Chief Financial Officer or similar or other “C-suite” executives; the group of heads of the corporate audit, compliance or legal functions also included Chief Risk and Chief Sustainability Officers. “Other” refers predominantly to Corporate Secretaries.

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs.

Some of the SOE respondents came from the same company. In fact, about half of the 213 companies in the sample had multiple respondents. Many of these respondents did not report the same experience with corruption as their colleagues did. These different experiences between colleagues suggest either (i) an asymmetry of information within the company, which may be appropriate depending on the respondent’s position, (ii) over-reporting or (ii) under-reporting.

### *1.2. Who was involved in corrupt activities or irregular practices?*

The study found, similar to other international studies on corruption in companies, that management and employees are top culprits. Table 1.2 shows that of 146 respondents that reportedly witnessed corruption and other irregular practices in the last three years, 69% reported that (non-management) employees were involved, followed by 42% who saw mid-level management involved. Around one quarter of respondents said senior management and business partners were involved. It cannot be ignored that 16% of respondents report that corruption risk materialisation involved a board member, 14% report a public official and 8% report shareholders.

### *1.3. Where are corrupt activities or irregular practices occurring?*

The sector in which a respondent’s company operates influenced whether a respondent thought that corrupt or other irregular practices transpired in the last three years. The highest proportion of respondents who reported this, were found in oil and gas, mining, postal services, energy and transportation and logistics (figure 1.1).

**Table 1.2. Those reportedly involved in corrupt activities and other irregular practices**

Responses for those that said “yes” to “in your assessment, did any of the [listed] risks materialise into activities/actions in the last three years in (or involving) your company?” responding to: “Which actors(s) was (were) involved in the corrupt activities/actions / irregular practices that materialised? Please check all that apply.”

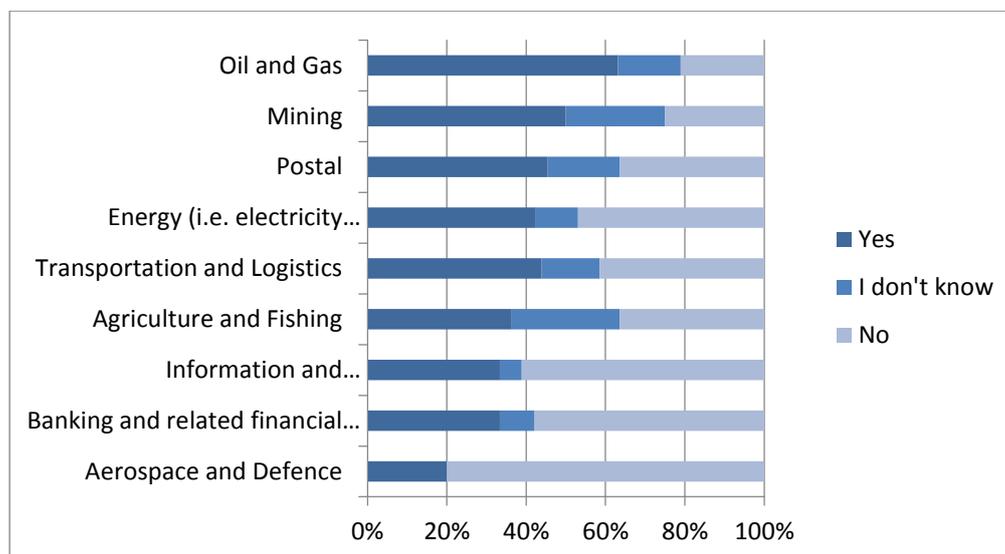
Which actors(s) was (were) involved?	% of witnesses that have seen these actors involved in corruption and integrity-related offenses
Employee	69%
Mid-level management	42%
Business partner	27%
Senior management (executive management)	25%
Board	16%
Public official	14%
Other	10%
Shareholder	8%
Civil society representative	3%

*Note:* Based on 146 respondents that both reported to have witnessed one of more of the corruption-related activities or integrity offenses put forth, and reported which actors they saw involved.

*Source:* OECD 2017 Survey of anti-corruption and integrity in SOEs

**Figure 1.1. Those who reported witnessing corruption and other irregular practices, by sector of respondent**

Responses for those that had said “yes” to “in your assessment, did any of the [listed] risks materialise into activities/actions in the last three years in (or involving) your company?”



*Note:* Based on 289 responses falling into the retained 9 categories with more than 10 respondents.

*Source:* OECD 2017 Survey of anti-corruption and integrity in SOEs

## 2. SOE perceptions of future corruption risks

SOE respondents were asked to assess a range of corruption risks, or risks of integrity offenses, for their likelihood of occurrence and for the impact that the occurrence would have on the company if they were to materialise.<sup>iii</sup> Likelihood is taken as the possibility or probability that a corruption-related risk event may occur in, or involving, an SOE. Impact is taken as the affect that the risk event would have on achievement of the SOEs' desired results or objectives.

Generally, respondents' rank the likelihood of corruption risks materialising as "low", and the impact that their materialisation could have as "medium". Whether a respondent reported witnessing corrupt or other irregular practices in their company in the past did not influence their assessment of risk likelihood or impact. However, respondents that "did not know" whether such corrupt or irregular practices materialised in their company rated the likelihood of future occurrence as higher than those that were able to provide a definitive response. In other words, those that lack awareness about whether or not corruption has occurred in their company, or those that were unwilling to report them, are more likely to believe that corruption risks could materialise in the future.

Table 2.1 provides an overview of risk assessments by respondents according to their position in the company, their sector of operation, the type of company objectives and the respondent's (self-declared) status as a public official. Respondents differ with respect to which corrupt or other irregular practices they consider of higher likelihood of occurrence.

**Table 2.1. Corruption-risk assessments by SOE respondent characteristics**

Category of respondent	In last three years	Perceptions of current risks
	% reported corrupt or other irregular practices	Top rated risks in terms of their likelihood of materialising
<b>All respondents</b>	<b>42%</b>	1. Violations of data protection and privacy 2. Favouritism (nepotism, cronyism and patronage) 3. Non-declaration of conflict of interest
Respondent's position / role in the company		
Board member	43%	1. Illegal information brokering 2. Violations of data protection and privacy 3. Favouritism (nepotism, cronyism and patronage)
Executive Management	36%	1. Interference in decision-making 2. Procurement/contract violations 3. Violations of data protection and privacy
Heads of the corporate audit, compliance or legal functions	45%	1. Violations of data protection and privacy 2. Non-declaration of conflict of interest 3. Procurement/contract violations
Other	46%	1. Interference in decision-making 2. Favouritism (nepotism, cronyism and patronage) 3. Violations of data protection and privacy
Respondent's company: sector		
Aerospace and Defence	20%	1. Receiving kickbacks and/or inappropriate gifts 1. Favouritism (nepotism, cronyism and patronage) 2. Violations of data protection and privacy 2. Violations of regulations (health and safety, environmental) 2. Non-declaration of conflict of interest 2. Offering kickbacks and/or inappropriate gifts 2. Offering bribes 2. Procurement/contract violations

Agriculture and Fishing	36%	1. Interference in decision-making 2. Favouritism (nepotism, cronyism and patronage) 3. Interference in appointments of board members or CEO
Banking and related financial services	33%	1. Non-declaration of conflict of interest 2. Falsification and/or misrepresentation of company documents, or false accounting 3. Receiving bribes 3. Fraud 3. illegal information brokering
Energy (i.e. electricity generation and supply)	42%	1. Non-declaration of conflict of interest 2. Procurement/contract violations 3. Receiving kickbacks
Information and Communication Technology (ICT)	33%	1. Non-declaration of conflict of interest 2. Violations of data protection and privacy 2. Influence peddling 2. Favouritism (nepotism, cronyism and patronage) 2. Fraud 3. Stealing or theft of goods from the company 3. Receiving kickbacks and/or inappropriate gifts
Mining	50%	1. Favouritism (nepotism, cronyism and patronage) 2. Stealing or theft of goods from the company 2. Fraud
Oil and Gas	63%	1. Violations of regulations (health and safety, environmental) 2. Interference in decision-making 2. Fraud 3. Receiving bribes 3. Favouritism
Postal	45%	1. Violations of data protection and privacy 1. Stealing or theft of goods from the company 2. Procurement/contract violations 3. Fraud
Transportation and Logistics	42%	1. Stealing or theft of goods from the company 2. Procurement/contract violations 3. Violations of data protection and privacy
Respondent's company objectives		
Entirely commercial	49%	1. Violations of data protection and privacy 2. Violations of regulations (health and safety, environmental) 3. Stealing or theft of goods from the company
Mixed objectives (commercial with public policy)	36%	1. Interference in decision-making 2. Favouritism (nepotism, cronyism and patronage) 3. Non-declaration of conflict of interest
Respondent's status as a public official		
Respondent considered a public official	42%	1. Interference in decision-making 2. Favouritism (nepotism, cronyism and patronage) 3. Non-declaration of conflict of interest
Respondent not considered a public official	42%	1. Violations of data protection and privacy 2. Procurement/contract violations 3. Non-declaration of conflict of interest

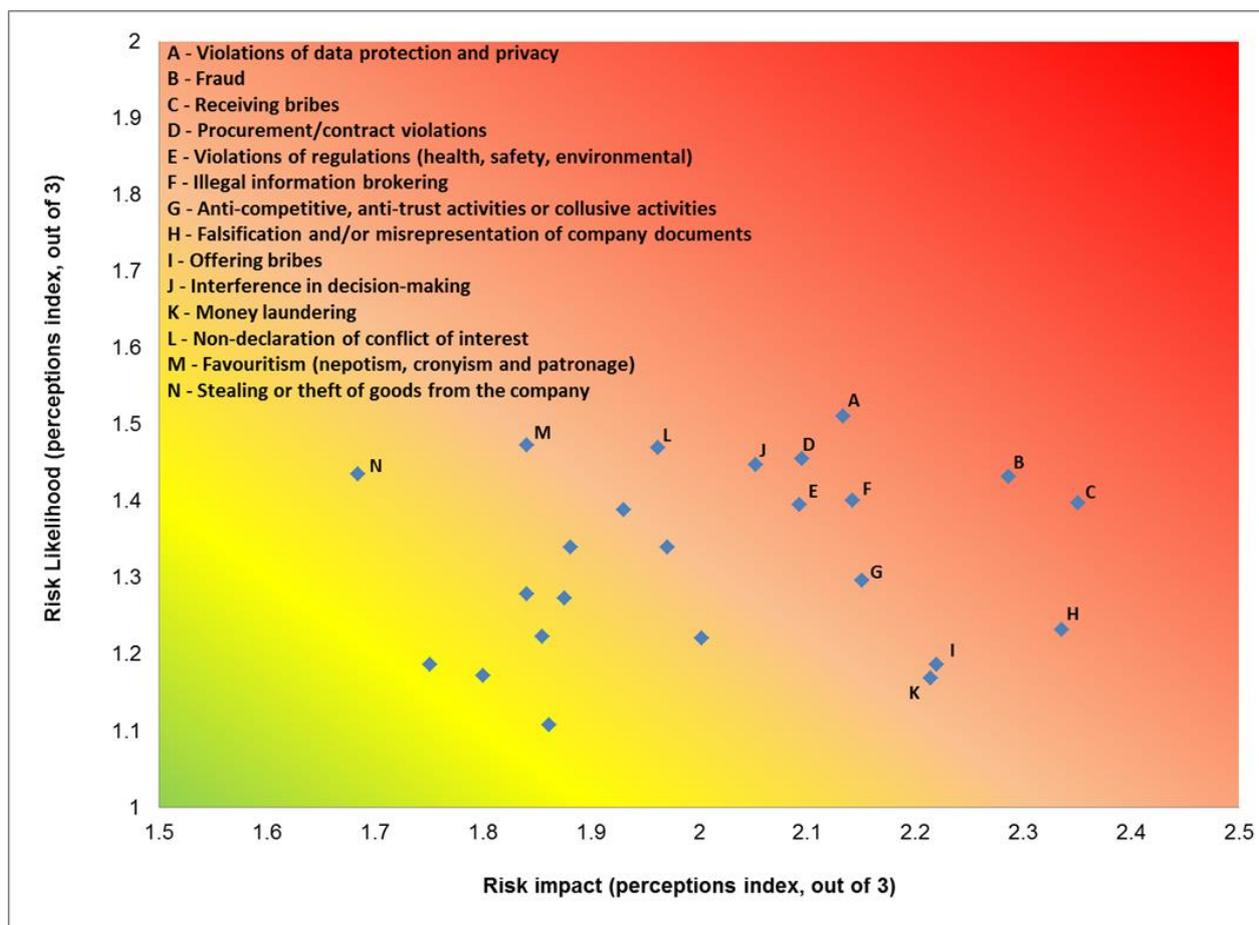
Note: Column 2 based on responses to: “in your assessment, did any of the [listed] risks materialise into activities/actions in the last three years in (or involving) your company?”. Column 3 and 4 based on a constructed index of respondent’s ranking of select risks to their company as “low”, “medium” or “high”. Indexes based on a scale of 1-3. For Likelihood and impact it represents 1 = low, 2 = medium and 3 = high. The risks listed in column 5 are ranked in terms of their likelihood of occurrence, noting that in select sectors many risks were equally considered as likely to occur.

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs.

To understand the interplay between risk likelihood and impact, a heat risk mapping of likelihood and impact of risks is presented in Figure 2.1. Similar heat-risk maps can be replicated at the company level, using a risk tolerance line to determine which risks fall beyond the risk tolerance or risk appetite of the company and thus which are allotted further attention and eventual control.

According to SOE respondents (Figure 2.1), the corruption risks that are rated as more likely and more impactful can stem from within the company or come from external forces. For instance, these high risks can refer to demand (e.g. receiving bribes) and supply (e.g. offering bribes) of corruption.

**Figure 2.1. Heat map of risks of corruption and other irregular practices in SOEs: likelihood and impact of occurrence**



*Note:* Based on 347 individual assessments of the likelihood of occurrence, and the impact, 24 corruption risks or risks of irregular practices put forth. Both axes represent a perceptions index out of a total of 3, where 1 denotes assignment of “low” impact or likelihood, 2 to “medium” impact or likelihood, and 3 to “high” impact or likelihood. Overall, risk likelihood and risk impact are considered low. The axes of the graph are adjusted to narrow in on key risks.

*Source:* OECD 2017 Survey of anti-corruption and integrity in SOEs.

### 3. What can SOEs do? Promoting integrity and preventing corruption in state-owned enterprises

International instruments, such as those provided in Part C of this document, establish good practices related to compliance, anti-corruption and integrity for companies that can be applied to SOEs. Recommended mechanisms commonly include, inter alia, an integrated risk management and internal control systems, internal audit, complaints and advice channels and disclosure.

The 2017 OECD survey showed that most participating SOEs have adopted some of these key elements of internationally-accepted integrity and compliance mechanisms. The majority of SOEs have internal audit, a degree of public disclosure, assessments of anti-corruption and integrity risks as part of risk management and complaints and advice channels for reporting wrongdoing. Four out of five SOEs allocated operational budget to detecting and addressing corruption and breaches of integrity in the last 12 months. On average, these companies allocated 1.5% of operational budget.

So where are the breakdowns? The above findings show that corruption can still affect companies that have integrity mechanisms, and that there is more work to be done in ensuring the performance of compliance, integrity or anti-corruption mechanisms.

#### 3.1. Obstacles to integrity

The OECD survey of SOEs tracked challenges to improving integrity in respondents' companies, including those that inhibit the effectiveness of existing anti-corruption efforts. These 'obstacles to integrity', when aggregated at the country level, are moderately and negatively associated with country scores on the World Justice Project's Rule of Law Index<sup>iv</sup>. It logically follows that, respondents in countries scoring higher on the rule of law index (with constraints on government powers, an absence of corruption, regulatory enforcement and criminal and civil justice) believe that their company faces fewer obstacles to integrity. This suggests that respondents' assessments of the obstacles to integrity are somewhat influenced by their external operating environment. Overcoming obstacles to integrity requires efforts from both SOEs and shareholders.

According to SOE respondents, their greatest obstacles to integrity relate to behavioural issues and relations with the state. These obstacles are more pronounced for respondents that report having witnessed corrupt or other irregular practices in the last three years.

Table 3.1 shows how SOE respondents assess obstacles to integrity in their company. Overall, respondents do not report facing serious obstacles – with respondents rating most obstacles presented to them “does not exist”, exists but “not at all an obstacle” or “somewhat an obstacle”. While respondents do not differ in how they rate the severity of obstacles to their company, they do differ in terms of the types of obstacles they consider their company faces.

**Table 3.1. Assessments of obstacles to integrity by respondent characteristics**

Aggregated responses to: “In your opinion, to what degree does each factor pose as an obstacle to effectively promoting integrity and preventing corruption in, or involving, your company?”

	% that witnessed corruption and other irregular practices	Type of obstacles to integrity respondent company faces
<b>Overall sample average</b>	<b>42%</b>	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Respondent's position / role in the company		
Board member	43%	1. A lack of a culture of integrity in the political and public sector 2. Opportunistic behaviour of individuals 3. A lack of awareness among employees of the need for, or priority placed on, integrity
Executive Management	36%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Heads of the corporate audit, compliance or legal functions	45%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Other	46%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Respondent's company: sector		
Aerospace and Defence	20%	1. A lack of a culture of integrity in the political and public sector <b>2. Overly complex or burdensome legal requirements</b> 3. A lack of awareness among employees of the need for, or priority placed on, integrity
Agriculture and Fishing	36%	1. A lack of a culture of integrity in the political and public sector 2. Opportunistic behaviour of individuals <b>3. Inadequate remuneration/compensation</b>
Banking and related financial services	33%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity <b>3. Inadequate financial or human resources to invest in integrity and prevent corruption</b>
Energy (i.e. electricity generation and supply)	42%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Information and Communication Technology (ICT)	33%	1. A lack of awareness among employees of the need for, or priority placed on, integrity <b>2. Perceived likelihood of getting caught is low</b> 3. Opportunistic behaviour of individuals
Mining	50%	<b>1. Ineffective channels for whistle-blowing / reporting misconduct</b> 2. A lack of a culture of integrity in the political and public sector 3. Inadequate resources
Oil and Gas	63%	<b>1. Overly complex or burdensome legal requirements</b> 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Postal	45%	1. A lack of a culture of integrity in the political and public sector <b>2. Loyalty to company</b> 3. A lack of awareness among employees of the need for, or priority placed on, integrity

Transportation and Logistics	42%	1. A lack of awareness among employees of the need for, or priority placed on, integrity 2. Opportunistic behaviour of individuals <b>3. Perceived likelihood of getting caught is low</b>
Respondent's company objectives		
Entirely commercial	49%	1. A lack of awareness among employees of the need for, or priority placed on, integrity <b>2. A lack of awareness of legal requirements</b> <b>3. Inadequate financial or human resources to invest in integrity and prevent corruption</b>
Mixed objectives (commercial with public policy)	36%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Respondent's status as a public official		
Public official	42%	1. A lack of a culture of integrity in the political and public sector 2. A lack of awareness among employees of the need for, or priority placed on, integrity 3. Opportunistic behaviour of individuals
Not a public official	42%	1. A lack of awareness among employees of the need for, or priority placed on, integrity 2. A lack of a culture of integrity in the political and public sector 3. Opportunistic behaviour of individuals

*Note:* Ranking of individuals' responses to "In your opinion, to what degree does each factor pose as an obstacle to effectively promoting integrity and preventing corruption in, or involving, your company?", ranging from NA/Does not exist in my company to "very much an obstacle". The risks listed in column 3 are ranked in terms of their rating, and in some cases were equally rated.

Source: OECD 2017 Survey of anti-corruption and integrity in SOEs.

On the whole, all 347 SOE respondents considered the top 10 obstacles to integrity to be:

1. A lack of a culture of integrity in the political and public sector
2. A lack of awareness among employees of the need for, or priority placed on, integrity
3. Opportunistic behaviour of individuals
4. A lack of awareness of legal requirements
5. Perceived likelihood of getting caught is low
6. A lack of a culture of integrity in the company
7. Overly complex or burdensome legal requirements
8. Inadequate financial or human resources to invest in integrity and prevent corruption
9. Ineffective internal control or risk management
10. Ineffective channels for whistle-blowing / reporting misconduct

These obstacles may represent weaknesses in the SOE that could leave them exposed to corruption or other irregular practices by corporate insiders or outsiders. They require efforts by SOEs as well as shareholders to overcome. The role of the state is discussed below. The report found the following mechanisms to be useful in overcoming obstacles to integrity at the company level:

- **Making a clearer argument for investing in preventing, detecting and addressing integrity and anti-corruption, changing the perception that it is a burden or cost.** SOEs see budget allocation to operational budget to preventing, detecting and addressing integrity and anti-corruption as more of a burden than do private companies (OECD, 2015b). Despite an average 1.5% allocation of operational budget, some respondents still see inadequate resourcing as at least “somewhat of an obstacle” to company integrity.
- **Promoting a culture of integrity within the SOE and at the government level.** Respondents ranked “a lack of integrity in the public and political sector” as the primary obstacle for their company. A close second was a “lack of awareness among employees of the need for, or priority placed on, integrity”.
- **Ensuring professional and transparent SOE interactions with the ownership entity and broader public sector.** In addition to reporting the risk of non-declaration of conflict of interest, 27% of SOE respondents voiced concerns about relations between the SOE and political officials.
- **Tackling opportunistic behaviour and risk-taking in SOEs versus private companies.** SOE respondents reported that some of the greatest obstacles to integrity in their company include opportunistic behaviour of individuals, a pressure to rule-break or to perform and perceptions that (i) the cost of corruption is low, (ii) the return is high or (iii) they are unlikely to be caught. Another OECD study on business integrity showed that private sector companies were more likely to have behaved in a risk-averse manner when faced with corruption risks in operations compared to SOEs (OECD, 2015b).
- **Strengthening internal controls and equipping internal audit.** Nearly all companies have some arrangement of integrity mechanisms – controls, detection and reporting systems – but there are common challenges in their effectiveness. Board members and executive management pointed to a lack of effectiveness in internal controls, audit or risk management as an issue for integrity.
- **Explicitly and regularly treating corruption risks.** Almost one in ten companies does not explicitly treat anti-corruption risks as part of risk management. SOEs that conduct risk assessments every two to three years were more likely to witness corruption in their company and to report greater obstacles to effective prevention and detection than companies conducting risk assessments annually.
- **Ensuring due process for enforcement and, where necessary, sanctioning non-compliance, breaches of integrity and corruption.** Demonstrating an SOE’s or a state’s willingness to enforce high standards of integrity should increase the opportunity cost of engaging in corrupt or other irregular practices, and may reduce any perception that SOEs are less likely to be caught. It may also facilitate repatriation of funds in cases of cross-border corruption.

Investing in prevention, detection and enforcement helps to safeguard SOEs from self-serving behaviour that may stem from within an SOE, or from undue influence and exploitation by any third parties. The trifecta of corruption prevention, detection and response should remove blind spots to corruption, and reduce the likelihood of financial losses, risk of non-compliance, loss of trust by clients and citizens and reputational damage. Compliance, integrity or anti-corruption programmes can also help an SOE in defence of corporate liability<sup>v</sup>.

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### ***3.2. What can the state do? The state as an active, informed, professional and accountable owner***

The OECD's SOE Guidelines imply that the state, on a whole-of-government basis, should implement an ownership policy, and that a designated "ownership entity" within the state should be responsible for defining objectives of individual SOEs and monitoring their performance (OECD, 2015a).

But what exactly can and should the state do to counter corruption and promote integrity as the owner?

The answer comes from an analysis of state ownership entities' practices in 28 OECD member and non-member countries across 4 continents. These state ownership entities take a variety of approaches in support of integrity and anti-corruption in SOEs – ranging from active engagement in trainings on the topic or developing implementation guidance, to leaving integrity and anti-corruption to the devices of the board under the guise of providing SOEs with functional independence. Some ownership entities have relevant skills on hand, such as audit, compliance or risk management expertise to provide a degree of assurance in their oversight and monitoring.

Table 3.2 provides an overview of the participating state ownership entities' approaches to communicating their expectations about anti-corruption and integrity. Generally, this is done through reliance on familiarity with existing laws, by providing supporting documentation (e.g. guidance or memorandums) or through in-person interactions (e.g. annual general meetings, investor, quarterly or ad-hoc meetings, seminars).

**Table 3.2. Communicating state expectations on SOE integrity and anti-corruption**

Country	Ownership Structure	Ownership entity or co-ordination agency	Applied methods for communicating expectations on anti-corruption and integrity		
			Through laws, Regulations and Policies pertaining to SOEs (see Table 4.1)	Through supporting documentation	Through in person interaction: Meetings (M), Trainings and Seminars (T+S),
Argentina	Co-ordinating agency	Chief of the Cabinet of Ministers' Office (JGM)	x	x**	M, T+S
Brazil	Decentralised	SEST			M
Canada	Hybrid	Crown Corporations Centre of Expertise (COE) in TBS (Priorities and planning sector)	x	x	M, T+S
Chile	Hybrid	Sistema de Empresas – SEP	x	x	M, T+S
Colombia	Co-ordinating agency	Ministry of Finance		x	
Czech Republic	Dual	Ministry of Finance	x	x	M
Denmark	Hybrid	Ministry of Finance	x		M
Finland	Decentralised	Ownership Steering Department of the Prime Minister's Office of Finland	x		M
France	Centralised	The Government Shareholding Agency (APE: L'Agence des participations de l'État) under the Ministry of Economy			M
Greece	Dual	Ministry of Finance/Privatization & Equity Management Unit	x		
Hungary	Centralised	Hungarian National Asset Management Inc. (HNAM )	x	x	M
Iceland	Centralised	Ministry of Finance and Economic Affairs.	x		
Italy	Dual	Ministry of Economics and Finance, Department of Treasury, institution in charge for SOE shareholder's rights	x	x	
Japan	Decentralised	Split between various ministries	x		
Kazakhstan	Hybrid	Similar to a dual model, split between the Ministry of National Economy, the Committee of State Property and Privatization of the Ministry of Finance, and the authorised body of relevant sector		x***	
Korea	Centralised	Ministry of Strategy and Finance of Korea	x	x	x
Latvia	Co-ordinating agency	Cross-sectoral Coordination Centre			M, T+S
Mexico	Decentralised	Ministry of Finance (SGCP: Secretaría de Hacienda y Crédito Público)	x	x	M
Netherlands	Centralised	MOF	x		
Norway	Centralised (with exceptions)	Ownership Department of Ministry of Trade, Industry and Fisheries - role for coordinating interministerial cooperation on ownership	x	x	x
Paraguay	Centralised	The National Council of Public Enterprises (CNEP)	x	x	
Peru	Centralised	Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado (FONAFE)	x	x	T+S
Philippines	Dual	Governance Commission for Government-Owned or Government Controlled Corporations (GCG)		x	
Poland	Centralised (with exceptions)	Treasury of the chancellery	x		

Slovenia		Centralised	x	M
Sweden	Centralised	Ministry of Enterprise and Innovation	x	x
Switzerland	Dual	Line Ministries and Federal Finance Administration - FFA	x	M
Turkey	Twin Track model	The Privatisation Administration (PA) is an executive body that directs the restructuring and privatisation process of SOEs. <sup>7</sup> Most SOEs are still solely under Treasury, Directorate General of State-Owned Enterprises.	x	x
<b>TOTALS</b>			<b>23</b>	<b>11</b>

Note: o = no data; \*Sweden's ownership is coordinated by prime minister with treasury of chancellery, and ministries have to exercise ownership for certain SOEs; \*\*Argentina is currently preparing *Guidelines on the Good Governance of SOEs*; \*\*\* in Kazakhstan, approving their development strategies and development plans;

Source: OECD (2017), *Questionnaire on integrity and anti-corruption by SOEs and their ownership*, unpublished; more information about ownership structures is found in the forthcoming OECD Compendium on SOE Governance.

The study's findings show that corruption remains a concern in the SOE sector, and that there are risks and obstacles to overcoming them that should be considered by both SOEs and also the state as owner. States may consider undertaking or strengthening the following approaches to improving integrity in the SOE sector, keeping in mind the need for a strict separation of roles between the owner and the management of the SOE (the state avoiding hands-on intervention in individual SOEs) (OECD, 2015a). The following suggestions are based on countries' existing good practices:

- **Leading by example with regards to integrity and accountability.** SOEs perceive that a lack of integrity in the public sector is one of the main obstacles to promoting integrity and preventing and detecting corruption in their SOE. Measures must be established to counter any existing incentives for the state or state actors to hide corruption or other irregular practices in the interest of corporate insiders or policy makers.
- **Ensuring a level playing field by making SOE objectives, and any subsidies or preferential treatment, transparent.** Companies with mixed objectives (public policy and commercial) report less corruption than companies with entirely commercial objectives, but face influence in decision-making and higher risks than entirely commercial companies. A high-level of disclosure should be required for SOEs with public policy objectives, yet SOEs with entirely commercial objectives report to disclose financial assistance slightly more often than SOEs with policy objectives, suggesting a greater need for transparency in the ownership and financial assistance to SOEs pursuing policy objectives. There is potential that SOEs with mixed objectives underreported the degree to which they have witnessed corrupt or other irregular practices in recent years.
- **Making expectations about anti-corruption and integrity explicit as part of their broader expectations for SOEs, and actively communicating them.** Four out of five survey respondents felt state expectations around anti-corruption and integrity were clearly communicated by the state – the rest were more likely to have seen corruption risks materialise in their companies in recent years. Good practices in communicating state expectations include specific references in ownership policies, ownership initiatives on the subject, exposure and awareness of government-wide anti-corruption initiatives, dissemination through regular meetings and trainings, at least at board level, and issuing supporting guidance on implementation.

- **Contributing to well-informed, objective and autonomous boards.** Evidence shows that companies with a higher proportion of independents (non-executive and non-state) on the board, and a lower proportion of state representatives, is associated with a lower risk of corruption and other irregular practices.
- **Encouraging more inclusive and annual assessments of corruption risks within the SOE that are regularly presented to and deliberated by the board.** The state should define and communicate a broad classification of corruption risks that are considered important and should thus be shared with the state ownership entity. The difference in risk perceptions, by role or status of the respondent, puts emphasis on the need for more inclusive risk assessments and for more systematic communication between integrity functions and the board. Boards are not always provided with relevant integrity and risk findings and, when they are, some SOEs pointed to a lack of their deliberation by the board. Finally, only 34% of companies publicly disclose material foreseeable risk factors and measures taken to manage such risks. The state ownership entity may also consider channels to be regularly informed about corruption risks, and to develop a capacity to better understand them.
- **Developing consistent procedures when notified of cases of actual or suspected corruption.** In most countries there is no systematic approach by the ownership entity to deal with corruption suspicions. It is done in an ad-hoc manner that suggests states could benefit from a clearer plan of action, including requiring adequate follow-up from the SOE that takes into account the potential roles of the ownership entity, regulatory authorities, enforcement agencies and the Supreme Audit Institution. Meeting opportunistic behaviour or undue influence in SOEs with strict enforcement will demonstrate that the SOEs do not unfairly benefit from its state ownership, market position or role in pursuing policy objectives.

The above findings act as a basis for future guidance for the state as SOE owners on the topic of integrity and anti-corruption. **Part B of this document** offers potential recommendations that could form this OECD Guidance. **Part C of this document** also provides a list of existing international instruments that the OECD will draw on in the process of elaborating new Guidance.

## Notes

<sup>i</sup> As per the *OECD Guidelines on Corporate Governance of State-Owned Enterprise (2015)*, a state-owned enterprise (SOE) is considered any corporate entity recognised by national law as an enterprise, and in which the state exercises ownership. This includes joint stock companies, limited liability companies and partnerships limited by shares.

<sup>ii</sup> A PwC survey of economic crime in 2016 showed that 24% of private companies suffered from bribery and corruption, registering as the third largest form of economic crime behind asset misappropriation (64%) and cybercrime (32%) (PwC, 2016). PwC's 2016 survey of Global Economic Crime includes 6,337 completed surveys across 115 countries in industrial, consumer sectors, technology and other sectors, and financial and professional services.

<sup>iii</sup> Likelihood is the possibility/probability that a risk event may occur in, or involving, your company. Impact is the affect that the risk event would have on achievement of your company's desired results or objectives. For instance, high impact would have a severe impact on achieving desired results, such that one or more of its critical outcome objectives will not be achieved. Low impact would have little or no impact on achieving outcome objectives (Georgetown University, 2017)

<sup>iv</sup> The correlation included 27 of the countries participating in the SOE survey. Data was not available for Iceland, Israel, Latvia, Lithuania, Pakistan, Slovakia or Switzerland.

<sup>v</sup> For more information, please see page 90 of OECD (2015a), *Corporate Governance and Business Integrity: A stocktaking of Corporate Practices*, OECD Publishing, Paris, <http://www.oecd.org/daf/ca/Corporate-Governance-Business-Integrity-2015.pdf>

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## Part B: Proposed building blocks of future Anti-corruption and integrity guidelines for the state

### I. Integrity of the state

#### **Building block 1: Apply high standards of integrity to those exercising ownership of state-owned enterprises on behalf of the general public**

The state should set high standards of conduct for public officials responsible for the ownership of SOEs. It should be mindful of the fact that it is exercising its ownership rights on behalf of the general public who are the ultimate owners. It should set an example for integrity and conduct of SOEs. SOEs should not be operated as conduits for political finance, patronage, or personal or related-party enrichment.

#### **Building block 2: Establish ownership arrangements that are conducive to integrity**

The State should design its ownership practices in a way which is supportive of high standards of integrity, including by separating ownership from other government functions and minimising opportunities for political intervention and other undue influence by the state, serving politicians or politically-connected third parties in SOEs. The ownership structure should be transparent. So too should be the methods of communication between the ownership function and other parts of government or third-party advisers, and between the ownership function and SOEs. At the same time, the state should encourage professional co-ordination between the relevant state authorities responsible for the avoidance of corruption.

### II. Ownership and governance

#### **Building block 3: Ensure clarity in the legal and regulatory framework and in the State's expectations**

The State should ensure that the legal and regulatory framework facilitates a level playing field in the marketplace, and that SOE objectives are transparent and that state expectations on anti-corruption and integrity are explicit and clearly communicated. The State should thereby communicate a consistent message that promotes high standards of integrity and low tolerance to corruption and related irregular practice. Expectations should be clear particularly in high risk areas such as public procurement, conflict of interest, privatisation, political party financing, bribery, patronage and favouritism. The State can make compliance easier by aggregating expectations into one document, such as the ownership document. The ownership function should seek confirmation from SOEs that such expectations are understood and integrated throughout the corporate hierarchy.

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**Building block 4: Act as an informed and active owner with regards to integrity in state-owned enterprises**

The state should ensure that relevant agencies, including but not limited to the ownership function, monitor SOEs' corruption risks and integrity and anti-corruption efforts. Information-sharing should occur when state ownership is decentralised, or when other government functions are involved in monitoring SOEs, such as Supreme Audit Institutions or State Comptrollers. The state ownership function itself should be duly informed about corruption risk when setting and monitoring objectives and risk tolerance, reporting on SOE performance, developing a disclosure policy and establishing clear remuneration policies for boards. Corruption risk and mitigation efforts should thus be an integral part of the ownership's dialogue with SOEs' boards of directors or top management. Moreover, ownership entities may develop capacity in the area of risk and control, in order to understand and assess red flags and vulnerabilities of its SOEs. Failure in this regard would imply State responsibility in the case where corruption in SOEs does occur.

**III. Corruption prevention and detection at the SOE level****Building block 5: Require adequate risk management systems within state-owned enterprises**

The State should ensure that SOEs understand, manage and, when appropriate, communicate risks, including corruption-related and compliance risks. The State should expect its enterprises to develop risk management systems consistent with private sector best practices. States should encourage risk analysis to be inclusive and conducted on an annual basis, and require that they incorporate corruption-related risks. Risk analysis should allow for consideration of high-risk areas, such as engagement in public procurement or sub-contracting, as well as for integration of new and emerging risks. Risk management should be monitored by SOEs' decision-making bodies.

**Building block 6: Require adoption of high quality integrity mechanisms within state-owned enterprises**

The State should, without intervening in the management of individual SOEs, take all appropriate steps to strengthen internal SOE governance and promote integrity, including by instructing SOEs to adopt internal control mechanisms that are integrated into the risk management system, internal and external audit and transparency and disclosure mechanisms amongst other ethics and compliance measures in line with internationally accepted best practices. States should promote board professionalisation and capacity development. States should encourage Boards and Executive management to take all necessary measures to instil a company culture in which SOE and professional values are known and upheld, compliance is made easy, opportunities for corruption are minimised and digressions are sanctioned.

### **Building block 7: Safeguard the autonomy of state-owned enterprises and their decision-making bodies**

The State should ensure that SOEs are overseen by effective and competent boards of directors who are empowered to oversee the companies' management and act autonomously from the State. This includes ensuring that serving politicians do not sit on SOE boards; board members are selected on the basis of merits and subject to transparent procedures; conflicts of interest are declared and managed at the time of appointment and during the tenure; and an appropriate number of independent directors unrelated to the State serve on each board of directors. States should ensure that board appointment criteria are clear, consistent and take into account the integrity of candidates. The state should express an expectation that the board be apply similar standards for hiring of CEOs and other members of the executive management.

## **IV. Accountability of SOEs and of the state**

### **Building Block 8: Require objective external review of state-owned enterprises and the ownership function**

States should ensure that SOEs are subject to adequate external audit that provides assurance on their financial and non-financial performance. This includes assuring that SOEs' financial statements are subject to external audit based on high-quality internationally accepted standards. The work of relevant authorities at the state level – such as Supreme Audit Institutions and State Comptrollers in reviewing SOE performance – can be a useful complement to, but cannot replace, regularised external audit. Ownership entities should, as part of the public administration, be audited by the Supreme Audit Institution and the findings should be made public.

### **Building block 9: Take action and respect due process for investigations and prosecutions**

Keeping in mind that cases of corruption in SOEs could be liable to trigger political costs, states should develop transparent procedures to ensure that all potential cases are investigated and prosecuted as needed. States should encourage self-reporting by SOEs that have detected irregular practices. Enforcement of provisions in the legal framework should be rigorous and systematic, to demystify a perception that SOEs may be given unfair advantage or protected by their ownership. The State should establish mechanisms to ensure that the SOEs as well as all relevant government agencies, without interference from the State, co-operate fully with the authorities. The state should have processes for follow-up with SOEs on mitigating recurrence, for instance the elaboration of an action plan to remedy the lack of, or weaknesses in, internal controls and the communication of lessons learned throughout the SOE hierarchy. The state should also assess need for reforms within SOEs or in the exercise of its duties following a case of corruption or related misconduct.

### **Building block 10: Invite the inputs of civil society, the public and the press**

The State should co-operate with stakeholders such as civil society, trade unions, private sector representatives and the public and press in highlighting and addressing problems of corruption in SOEs. This includes providing accessible channels for stakeholders to raise concerns. Special care should be taken to ensure that state or SOE representatives, who may themselves be party to irregular practices, are not empowered to silence criticism or stifle investigations.

## Part C: relevant resources

- G20-OECD (2015), OECD-G20 Principles of Corporate Governance, <http://www.oecd.org/g20/meetings/antalya/Corporate-Governance-Principles-ENG.pdf>
- G20 High-Level Principles on Private Sector Transparency and Integrity <http://g20.org.tr/wp-content/uploads/2015/11/G20-High-Level-Principles-on-Private-Sector-Transparency-and-Integrity.pdf>
- OECD (2017), OECD Recommendation of the Council on Public Integrity, <http://www.oecd.org/gov/ethics/Recommendation-Public-Integrity.pdf>.
- OECD (2015), OECD Guidelines on Corporate Governance of State-Owned Enterprises, <http://www.oecd-ilibrary.org/docserver/download/2615061e.pdf>.
- OECD (2003), OECD Recommendation of the Council on Managing Conflict of Interest in the Public Service, <http://www.oecd.org/governance/ethics/2957360.pdf>
- OECD (1997), OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions [http://www.oecd.org/daf/anti-bribery/ConvCombatBribery\\_ENG.pdf](http://www.oecd.org/daf/anti-bribery/ConvCombatBribery_ENG.pdf).
- Transparency International (TI) (2017), 10 Anti-Corruption Principles for State-Owned Enterprises [http://files.transparency.org/content/download/2162/13663/file/2017\\_SOE\\_Principles\\_Report\\_EN.pdf](http://files.transparency.org/content/download/2162/13663/file/2017_SOE_Principles_Report_EN.pdf).
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