



Eliminating Bribery and Corruption in Supply Chains



In 2014, Brazilian authorities initiated Operation Lavo Jato (Car Wash), a covert investigation into corruption at the state-owned oil company Petrobras. But it soon unearthed what was deemed “perhaps the farthest-reaching, most efficient corruption machine in modern business.”¹ The Petrobras scandal implicated government and business officials across political spectrums and borders. It pulled corporates and conglomerates into its gravitational pull, including Brazil’s foremost construction giant. Over time it was revealed that up to USD 788 million² had been paid out in bribes between 2001 and 2016, often through shell companies to conceal the source of the funds.

Situations like this clearly illustrate that organizations across the globe are exposed to corruption in supply chains and end up spending a lot of time and money on identifying associated costs and risks. Larger corporations often implement modern risk management strategies to curb corruption. However, poor coordination and a vast network of third-party intermediaries spanning across numerous jurisdictions contribute largely to the failure of these models.

More recently, the IMF estimated that the total of hidden illicit gains deposited by individuals in opaque offshore finance centers totalled approximately **\$7 trillion, equal to 10% of the global GDP**.³

Inadequate supply chain risk management (SCRM) is part of the problem.

Greasing the Wheels of Business

Attitudes to procurement-related bribery vary greatly. Many are of the opinion that bribery is just the “cost of doing business” in a multicultural world.⁴ Greasing the palms of the bureaucracy is an acceptable cost for businesses whose supply chains spiral out across various corners of the globe. A 2016 investigation in the UK revealed a leading automotive and engineering major (incidentally also implicated in the Petrobras affair) had paid out hefty bribes in exchange for lucrative contracts.⁵ For executives at these companies, there seems to have been some underlying notion that, in the long term, bribery yields benefits.

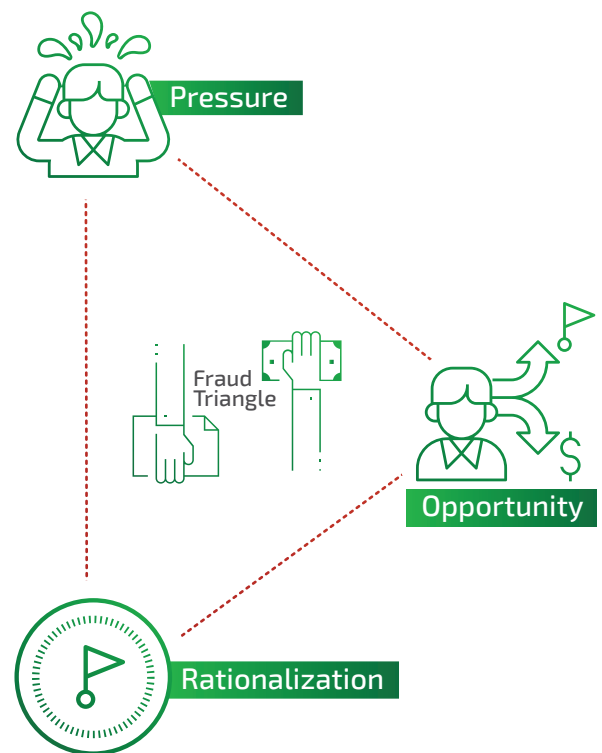
The “Why” of Supply Chain Corruption

But this is looking at the situation through a warped lens. In the example cited above, worldwide kickbacks apparently resulted in over USD 31 million in profits.⁶ However, as it turns out, penalties outstripped profits as the corporation ended up paying more than USD 800 million⁷ in fines to British and US authorities. The situation in Brazil also shows the difficulty of operating and convoluted supply chains that branch out across locations. As the chain of decision-making becomes more fragmented, the risk of corruption becomes real. The question at the heart of the matter is, why do people choose to engage in questionable practices?

The Fraud Triangle

Like most other forms of corruption, the fraud triangle theory can explain why supply chains become overrun with bribery. Pressure, opportunity, and rationalization are the three sides that make up this triangle. And in volatile business environments, rationalization becomes easy. In fact, reports clearly substantiate what is already common knowledge: that the decision to commit fraud often comes from within and is taken by individuals. The effect of these decisions trickle down through the supply chain. Poorly regulated and monitored supply chain networks, and fragile relationships with vendors enable these factors to cause corruption in the form of poor working conditions and/or bribes paid out to government officials.

On top of this, companies rarely have complete visibility into their supplier networks. While cases such as the worker deaths at Samsung’s semiconductor and LCD manufacturing lines have received mainstream traction, this lack of knowledge spans across industries as varied as retail, technology, and pharmaceuticals. Research shows that 62% of organizations conduct checks only on the first level of their third-party networks.⁸



The Inconvenient Fallout of Fraud

The impact of supply chain fraud is severe and can be felt across business, government, and society. A study states that corruption in the public sector costs between \$1.5 trillion and \$2 trillion annually in bribes alone.⁹ The US launched nearly 32 investigations and closed 98 cases relating to bribery and corruption between 2014 and 2017,¹⁰ taking a large bite out of tax payer dollars.

Taking a Stand Against Corruption

Supply chain corruption causes financial losses in the short term, and loss of market share and reputation in the long-term. Despite its power to cause unparalleled harm, companies are still not doing enough to curb its effects. In a report from The Economist Intelligence Unit, only a third of the 800 executives surveyed stated that corruption and bribery were being addressed in their organization's supply chain management.¹¹ However, the number stands higher for US firms, at 52%.

Legal recourse does exist in a number of countries worldwide as they seek to eliminate corruption throughout supply chains. Examples include the Foreign Corrupt Practices Act (FCPA) in the US and the Prevention of Corruption Act in India.

However, these laws tend to be complicated in their application, especially in their framing of "foreign public official" and even their definition of a "bribe" can go to severe extremes. There is a need for thorough training and effective communication for these laws to have maximum effect, not to mention significant legislative traction to reframe them in



Delineating a Solution

While there is no one solution to eliminating supply chain corruption, companies can follow some steps to decrease the possibility of it:



Examining your organizational hierarchy and process of approvals



Updating internal controls related to corruption, including securing your site against unauthorized personnel



Utilizing analytics to detect unusual activity



Recognizing objective sources to test controls and dealings



Conducting due diligence of third-party elements in supplier networks



Executing audits of suppliers abroad



Acting swiftly in response to any indication of corruption

Through such measures, companies need to ensure that their suppliers follow their expectations and comply with their code of conduct. Increasingly, enterprise stakeholders are looking for solutions that will help control and mitigate corrupt practices and supplier performance.

- In a recent survey by Avetta and Verdantix, increasing visibility into contractor performance across the enterprise was the number one reason for implementation of contractor management software, considered important or very important by 83% of respondents.





How Avetta Minimizes Risk of Supply Chain Corruption

Avetta's secure API, 360-degree feedback management system, and supplier prequalification solutions are a new generation of SaaS technology designed to ensure supplier and worker compliance.

Prequalifying Suppliers

For us, ensuring the integrity of supply chains begins before contractors even step foot on worksites. We collect data on relevant performance indicators — TRIR, AMR, and DART — to accurately gauge a supplier's standing within the industry. Potential suppliers are also required to provide relevant information about diversity hires, safety programs, and important certifications. We even design custom questionnaires for clients who request specific information. Providing personalized and regularly updated information is key to maintaining healthy vendor networks.

- Bill Burket from Range Resources says, "Because of Avetta and our use of an improvement plan with our contractors, we were able to demonstrate more than 30% improvement in just one year for the health and safety performance of our contractors."

Ensuring Safe Work Sites

Despite our thorough prequalification process, we aim to ensure that individuals hired to work on our client sites are adequately certified, qualified, and experienced. We host online training sessions to update contractors and follow up with regular assessments to facilitate retention. We also vet contractors and workers against terrorist watch lists to ensure the utmost safety of onshore and offshore worksites. Our dashboard can track whether contractors are adhering to compliance requirements and procedures like carrying proof of identity and badges on work sites. Clients are also alerted to any change in worker status – contractors who do not meet compliance standards are flagged on the system. Our cloud-based solution also has a built-in document management system to ensure licenses and certificates are easy to track.

Having these solutions in place allow us to ensure site-level safety by monitoring who is coming on to the work site, whether they have adequate experience and can hit the ground running, can avoid unforeseen accidents, and most importantly complete projects to a high standard.

- **“Avetta really listened to our business needs and accommodated our process in their solution to better satisfy our needs,” says Christine Oliveira from LafargeHolcim.**



Auditing Suppliers

Fair and objective assessment of supplier performance ensures compliance and greatly mitigates chances of fraud and malpractice. Our auditing process provides fair and objective supplier report cards that are an accurate reflection of their past performance and an indication of how they will perform in future. Not only do we prioritize adherence with applicable local, regional, and international regulations, we also perform site visits to ensure proper on-field execution.

- **According to Nick Wilkerson of SBA Communications, “Avetta really simplifies subcontractor management. Even in the field, we can review all subcontractor information, including their safety manual. Avetta allows us to determine compliance status at a glance.”**

The Need to Act Now

As Brazil's case shows, the circle of bribery was so large that it has, as of now, led to the arrest, prosecution, and ousting of various government officials from three different Latin American nations. While the arm of the law is long, the reach of supply chain fraud is even broader. Malpractices are best nipped in the bud, and pruning away the threats is of the utmost importance in maintaining a healthy supply chain.

References

¹Source: No One Has Ever Made a Corruption Machine Like This One, Bloomberg Businessweek, <https://www.bloomberg.com/news/features/2017-06-08/no-one-has-ever-made-a-corruption-machine-like-this-one>

²Source: Behind Brazil's Corruption Crisis, <https://www.cips.org/en-SG/supply-management/analysis/2019/april/brazils-corruption-crisis/>

³Source: IMF: Fiscal Monitor: Curbing Corruption, <https://www.imf.org/en/Publications/FM/Issues/2019/03/18/fiscal-monitor-april-2019>

⁴Source: Bribery is just the cost of doing business: <https://www.theglobeandmail.com/opinion/article-bribery-is-just-the-cost-of-doing-business/>

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⁶Source: Bribery Is Just the Cost of Doing Business, <https://www.theglobeandmail.com/opinion/article-bribery-is-just-the-cost-of-doing-business/lbid>

⁷Source: Companies are Sinking in Risk: Thomson Reuters 2016 Global Third Party Risk Survey, <https://www.thomsonreuters.com/en/press-releases/2016/november/thomson-reuters-2016-global-third-party-risk-survey.html>

⁸Source: Corruption Costs \$1 Trillion in Tax Revenue Globally: IMF, <https://www.reuters.com/article/us-imf-corruption/corruption-costs-1-trillion-in-tax-revenue-globally-imf-idUSKCN1RG1R2>

⁹Source: Anti-Corruption Watchdog: Most Countries Ignore Anti-Foreign Bribery Laws, <https://www.voanews.com/archive/anti-corruption-watchdog-most-countries-ignore-anti-foreign-bribery-laws>

¹⁰Source: No More Excuses: Responsible Supply Chains in A Globalised World, The Economist Intelligence Unit, <http://growthcrossings.economist.com/wp-content/uploads/sites/47/2017/07/EIU-SCB-RSC-WP.pdf>

¹¹Source: TRIR = Total Recordable Incident Rate, EMR = Experience Modification Rate, DART = Days Away, Restricted, or Transferred



About Avetta

Avetta connects leading global organizations with more than 85,000 qualified suppliers, contractors, and vendors across 100+ countries. We support the sustainable growth of supply chains through our trusted contractor prequalification, supplier audits, insurance monitoring, robust analytics and more. With real results in helping companies reduce TRIR, our highly configurable solutions elevate safety and sustainability in workplaces around the world—helping workers get home to their families each night.