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Transparency International Questions Use of Corruption Index

By Henry Cutter

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SAP said in October that it would stop paying sales commissions on public-sector deals in countries with scores of 50 or less on the Transparency International index. Above, SAP headquarters in Germany are shown in January. PHOTO: REUTERS

Transparency International's Corruption Perceptions Index is being employed as a line in the sand by companies trying to shape global compliance programs to minimize their risk of a bribery scandal. The anti-corruption group isn't happy.

The German firm SAP SE said in October that it would stop paying sales commissions on public-sector deals in countries with scores of 50 or less on the Transparency International index. The commissions cutoff was announced as the software company disclosed that it had reported itself to U.S. authorities after paying 94 million rand, or about $7 million, to companies with ties to South Africa's Gupta family to win contracts with state-owned enterprises,The Guptas are at the center of a corruption scandal in South Africa for allegedly using their close relationship with President Jacob Zuma to amass wealth. The Guptas and Mr. Zuma have denied wrongdoing.

Some other companies use the index in much the same way, as a trigger for specific actions. "I have other clients that have adopted a similar position," said Manny A. Alas, global Foreign Corrupt Practices Act leader at the professional-services firm PricewaterhouseCoopers. "They haven't broadcasted it."

Transparency International takes issue with that use of its index. "Poor performance in the CPI is like a red flag, but the response to a red flag should not be cutoffs, but greater attention to, and investment in, how to prevent corruption and maintain integrity in business practice," said Robin Hodess, internal managing director at Transparency International.

Companies should apply their best practices wherever they do business, Ms. Hodess said. “Due diligence, for example, is always required within the supply chain and with service providers,” she said. “The ‘stop payment’ approach is more akin to taking the same medicine, no matter the illness.”

The index, rolled out in 1995, measures how corrupt 176 countries’ and territories’ public sectors are seen to be. For 2016, scores ranged from 90 out of 100, for Denmark and New Zealand, to 10, for Somalia, considered the most corrupt country. The global average score was 43, while South Africa’s result was 45.

SAP said that while it appreciates Transparency International’s guidance, it believes its use of the index as a cutoff is a best practice. It remains active in public-sector sales. The cutoff announced in October refers to third-party commissions, while compensation for SAP staff isn’t affected, it said.

Compliance experts say indexes have a valuable role to play in corporate due diligence. “Companies are dealing with a huge amount of data if you think of their third-party relationships,” said Alexandra Wrage, president and founder of Trace International, a business organization that helps companies manage third-party risk and publishes its own nation-by-nation measure of corruption. “It would be absolute chaos if companies were required to assess the risk individually.”

A country-by-country index score, she said, can be a useful element in the sorting process a company uses to assess risk, along with factors such as the amount of interaction with government customers, the size of a deal, and whether local partners are paid a fixed fee, or only if they succeed in making a sale.

Indexes can also be a tool for cross-checking the results of a company’s risk assessment externally—a “sanity check,” said Kevin Hyams, head of the governance, risk and compliance practice at Friedman LLP, a full-service accounting and advisory firm. But SAP’s use of the Transparency International index appears to have another aim, he said.

“It’s a mitigation they put in place to immediately take care of a highly damaging reputational situtation,” Mr. Hyams said. “They’s both legitimate uses, but different.”

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