

Legislative Council Panel on Security
Survey on International Business Attitudes to Corruption

PURPOSE

This paper sets out the response of the Independent Commission Against Corruption (ICAC) to findings of a recent survey on international business attitudes to corruption, and presents information on the corruption situation in the business sector in Hong Kong and ICAC's work in combating such corruption.

BACKGROUND

2. On 9 October 2006, a London-based international consultancy and a law firm (the Group) released findings of a survey they commissioned in 2006 on the attitudes of international business to corruption. The survey was conducted through telephone interviews with 350 international companies based in seven places including Hong Kong. For each place, 50 companies were interviewed. The survey findings attracted extensive coverage in the local press.

ICAC's RESPONSE

3. When the survey findings were released, there was no details on the context in which the survey was conducted. We note that the sample size

was small (covering only 50 companies in Hong Kong). This casts doubts on the representativeness of the survey.

4. In view of the interest aroused by the survey, and the discrepancy between the perceived corruption situation in Hong Kong, as reflected in the reports on the survey, and the actual corruption situation, we had contacted the Group and sought clarification about the methodology and scope of the survey. The Group has yet to provide us with detailed information on the methodology used, but in their response to ICAC's enquiry, they indicated that -

- the survey was concerned with international business transactions, and the respondent companies must be operating internationally in one of the selected industries;
- the breakdown of industries for Hong Kong was construction (18%), arms and defence (2%), oil, gas and mining (2%), banking and finance (36%), telecommunications (18%), retail (14%), pharmaceuticals and health care (8%);
- respondents were “primarily referring to encountering corruption when doing business in other places/countries” outside Hong Kong;
- it was misleading to refer Hong Kong as a “corrupt market place” and that was not what the respondents were saying; and
- in terms of best management practice, Hong Kong companies are good by regional standards but could be better by world standards.

Corruption Situation in Hong Kong's Business Sector

5. In Hong Kong, the corruption situation has remained stable with
----- corruption reports recording a declining trend since 2002 (at Annex).
Corruption complaints against the private sector, despite some year-on-year
fluctuation, have also registered a downward trend. In the first nine months of
2006, the Commission received 2,461 corruption reports, representing a
decrease of 8% from 2,680 reports received for the same period in 2005.
Consistent with the decline in the overall corruption reports, complaints
against the private sector also recorded a decrease of 9%. Our analysis and
intelligence indicate that corruption is under control and that there is no sign
of a deterioration in the corruption situation in Hong Kong.

6. A number of authoritative regional and international surveys have
found Hong Kong to have a clean and fair business environment. In the
World Economic Forum's Global Competitiveness Report 2006, among the
11,000 business executives surveyed, a vast majority did not consider
corruption a problematic factor for doing business in Hong Kong. The
Corruption Perceptions Index (CPI), released by the Transparency
International (TI) in October 2005, ranked Hong Kong as the **15th least
corrupt place among 159 places surveyed**. In this Index, 12 regional and
international surveys were used to assess Hong Kong's perceived corruption
situation. Meanwhile, the ICAC Annual Survey 2005 also found that about
95% of the over 1,500 respondents said they had not come across corruption in
the past 12 months.

Business Ethics Promotion

7. A clean business environment with a level playing field for all is essential to the continued success of Hong Kong. Apart from maintaining vigilance in investigative work seeking to make business corruption a high-risk crime, the ICAC spares no efforts in promoting ethical business practices.

8. The Community Relations Department (CRD) of ICAC has established a close partnership with the business sector in promoting an ethical business environment. The business ethics promotion programmes seek to instill awareness of the anti-corruption law, and encourage the adoption of corruption resistant and ethical practices among business organizations. These programmes are designed to target the specific needs and circumstances of different trades, and include initiatives such as assisting companies to formulate staff code of conduct, drawing up guidelines promulgating best practices, and providing ethics training for the management and staff of business organizations. In 2005 alone, the programmes reached some 1,300 business organizations, with 1,100 corruption prevention seminars for some 7,300 managers and 29,000 frontline staff of various trades.

9. A notable example of the work in this area is the two-year Business Ethics Promotion Programme for listed companies conducted between 2004 and 2005. Through this programme, CRD reached 70% of the companies listed on the stock exchange of Hong Kong, including all the 33 composite companies of the then Hang Seng Index. Among these, 590 companies (78%) had agreed to use ICAC's corruption prevention services; 500 (66%) had formulated or reviewed staff code of conduct, and 208 (27%)

had arranged ICAC talks for their management and staff. CRD also organized talks on Hong Kong's anti-bribery law and ethics management, and other educational activities reaching over 42,000 managers and frontline staff of the listed companies.

10. With the support of six major chambers of commerce, ICAC has since 1995 established the Hong Kong Ethics Development Centre, which is a model of the partnership between the public and business sectors in promoting business ethics and good corporate governance. As its on-going efforts, the Centre maintains an active dialogue with overseas counterparts and authorities in promoting ethical business practices. The Centre will look into issues relating to best management practice raised by the survey and continue to work with the business sector in identifying further initiatives to promote good governance.

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Independent Commission Against Corruption
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Corruption Reports between 2001 and 2006

	2001	2002	2003	2004	2005	2006 (Jan – Sept)
Total number of corruption reports	4,476	4,371 (-2.3%)	4,310 (-1.4%)	3,746 (-13.1%)	3,685 (-1.6%)	2,461 (-8.0%)*
Number of corruption reports concerning private sector	2,542	2,403 (-5.5%)	2,472 (+2.9%)	2,176 (-12.0%)	2,247 (+3.3%)	1,463 (-8.8%)*

* *Percentage compared with the same period in 2005*

- Corruption remains under control. The number of corruption reports concerning the private sector shows a declining trend between 2001 and 2005. Corruption reports in the first nine months of 2006 have also shown a decline by 8%, compared with the same period last year.
- Except in the area of building management, most major industries in the business sector recorded a drop in the number of corruption reports in the past five years, e.g. construction industry (50% drop from 295 to 146), finance and insurance (30% drop from 216 to 151), transport (47% drop from 223 to 118), and trading (38% drop from 165 to 101).