News Release

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**European companies complacent about rising fraud and corruption risks**

* ***Employees are frustrated with management’s tolerance of unethical conduct***
* ***Czechs are calling for greater regulator and government supervision, but do not believe the authorities are willing and able to prosecute corruption***

*Prague, 24 May 2011 –* **More than a third of employees at large companies across Europe are prepared to offer cash, gifts or entertainment to win business. So say the results of an Ernst and Young European survey on fraud, bribery and corruption, which polled more than 2,300 employees from major companies in 25 European countries. The situation is even more alarming in the Czech Republic, where more than half of Czech managers feel that offering gifts, cash or entertainment can be justified to help a business achieve growth. It’s no surprise, then, that 83% of Czechs are calling for stricter regulator and government oversight. However, only 6% believe regulators are willing and able to prosecute corruption effectively. In contrast to western European respondents, fewer Czechs believe that
a company’s good reputation for ethical conduct pays off.**

Overall, almost 8 out of 10 respondents in Czech Republic agree bribery/corrupt practices happen widely in business in this country (62% European average). In Europe, cash payments as a form of bribery is most likely to occur in Greece (44%) and Russia (39%) and least likely in Norway (6%) and France (5%). 23% of the Czech respondents and even one out of three managers are prepared to offer cash payments to win business.

While 40% of the European respondents say fraud and corruption have worsened over the last two years due to economic downturn, only 20% of the Czechs respondents believe that increased corruption can be attributed to the economic crisis.

 *“Our survey findings should cause concern among directors across Europe, and not only for them,”* says Magdalena Souček, Country managing partner of Ernst & Young in the Czech Republic. *“Although anti-corruption measures are increasing, they seemingly do not have an appropriate impact on employees and their perception of unethical conduct of management. Employees believe that unethical conduct is tolerated more than ever and a focus on anti-corruption measures is declining. Reinvigorating the commitment by management and their boards to ethical growth should therefore be an urgent priority, and will be appreciated by employees and stakeholders alike.”*

Markus Lohmeier, Ernst & Young’s Fraud Investigation & Dispute Services Leader for the Central and Southeastern Europe, adds: *“The risk companies are facing here is in fact increasing because a number of countries are significantly toughening their anti-corruption regulations, meaning regulatory bodies will be far better able to prosecute fraud and corruption. All the more reason for management to demonstrate greater commitment to ethical conduct through their actions and not avoiding unpopular measures.”*

41% of polled managers said that offering entertainment to win or retain business is justifiable (the European average is 17%). A third would be willing to consider giving cash payment (the European average is 17%).

Only 30% of Czech respondents were certain that no significant cases of fraud had occurred in their company in the previous two years. At the same time, there seems to be little interest in stepping up anti-fraud measures: just one in five respondents said their company’s anti-fraud efforts had increased in the last year.

**Failure of compliance leadership from management**

It is clear from the survey that boards and senior management are held accountable for establishing and enforcing standards of ethical conduct. More than three-quarters of those surveyed think that company boards should be held personally liable for fraud, bribery and corruption.

*“When it comes to maintaining ethical standards, management is not setting a good example for employees. A third of Czech respondents do not believe that management behave honestly and ethically. No wonder: only 18% of respondents in management roles reject unethical conduct as a means to meeting financial targets,”* explains Tomas Kafka, a senior manager in Ernst & Young’s Fraud Investigation & Disputes Services in the Czech Republic.

The frustration employees have with their management is also highlighted by a significant increase in the number of people calling for more regulatory oversight. Seventy-seven percent of Europeans surveyed want regulators to do more to reduce the risk of company fraud and corruption, with the strongest response coming from countries that have been most affected by the recent financial crisis. More than 80% of respondents in Portugal, Ireland, Spain and Greece would like to see more supervision by regulators. This demand has to some degree been reflected in recent trends, for example, which has seen more enforcement actions under the US Foreign Corrupt Practices Act (FCPA). Interestingly, 7 of the largest 10 settlements in the history of the FCPA have involved firms headquartered outside the US.

A mere 6% of Czech respondents think regulators are willing and able to prosecute corruption effectively, while 41% of the respondents believe that regulators are not even willing to prosecute cases of bribery and corruption. The respondents believe that regulators are not willing to prosecute cases of bribery/corruption or are not effective said that bribery/corruption is too widespread to be tackled effectively (50%) or that prosecutors lack sufficient legal powers (44%). Not surprisingly, 83% are calling for more regulator and government supervision to lessen exposure to fraud, bribery and corruption.

*“These results highlight a lack of improvement in the corporate response to fraud and corruption that is surprising given the tougher enforcement of anti-bribery legislation in many countries. The increasing support by local prosecutors to US-led investigations of FCPA violations makes the risks from fraud and corruption even more acute,”* says Magdalena Souček.

**Employees not prepared for risks**

Many companies have to do more to establish a robust and effective corporate compliance environment. Staff awareness of anti-corruption policies is very low. In Czech Republic nearly 80% have not received anti-bribery or anti-corruption training and only one-third think their anti-bribery policy contains clear guidance.

Breaking down these results by country also reveals some alarming findings. Only 26% of employees in the UK and fewer than 20% in countries such as France and Germany have received anti-corruption training, despite recent regulatory focus on anti-corruption efforts.

**Honest and ethical conduct appreciated**

Management emphasis on ethical conduct should not stem from fear of prosecution by regulators alone. Indeed, the survey shows honest and ethical conduct can benefit business. One in four respondents said there is a commercial advantage to having a reputation as an “honest player”.

Compared to the European average (66%), significantly fewer Czech respondents (37%) believe there is a commercial advantage in a strong corporate reputation for ethical conduct*.*

 *“This result is a sad indication of the state of economic competition in the Czech Republic, and underlines potential inefficiencies in resource allocation in the Czech economy,”* says Tomáš Kafka.

**About the survey**Ernst & Young researchers conducted a total of 2,365 interviews in 25 European countries either by telephone, online, or in person. Those interviewed worked for companies that were either stock exchange listed, multinational or employed more than 1,000 people. The survey’s objective was to learn how companies are managing their exposure to fraud, bribery and corruption risk in today’s dynamically changing legislative and economic environment. A copy of the survey is available at [www.ey.com](http://www.ey.com)

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