Building an effective anti-corruption programme

Transparency International – Business Integrity Programme

Private sector engagement is critical to countering corruption effectively

Global Economic Importance

The private sector accounts for up to 60% of all global business activities, and more than 79,000 MNEs are engaged in international production, accounting for 11 per cent of global GDP and sales worth US$31 trillion.[*]

Increased Privatization

In a globalized and liberalized world, state-owned enterprises are becoming privatized at an increasing rate. Furthermore, the private sector is increasingly providing services that were traditionally provided by the state.
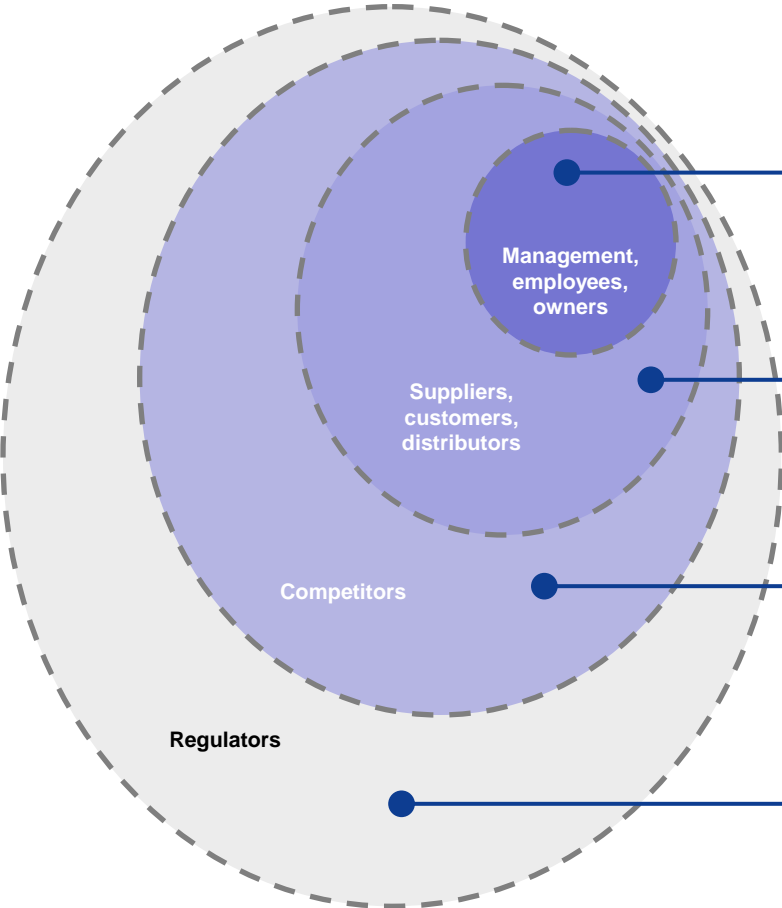
Trend setter

In an increasingly privatized world the private sector often sets or adopts standards in innovation, socio-economic and political developments, before governments and international organizations react.

* United Nations Conference on Trade and Development (UNCTAD), World Investment Report 2008: Transnational Corporations and the Infrastructure Challenge (Geneva: UNCTAD, 2008)

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Corruption in the private sector is more than bribing public officials

Spheres of corporate activity:

Types:

Main manifestations:

Management, employees, owners

Suppliers, customers, distributors

Competitors

Regulators

Corruption within the business

- Fraud
- Extortion
- Conflicts of Interest
- Insider Trading

Corruption in the supply chain

- Bribery
- Extortion

Corruption in the market environment

- Collusion

Corruption in society

- Undue Influence

Laundering the proceeds of corruption

Adopted from ‚Transparency International – Global Corruption Report, 2009'

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Addressing the risk of corruption in the private sector: What is expected from <u>businesses</u>?

(1) *Businesses have to **acknowledge that corporate integrity is a multi-stakeholder effort** that requires collective action across sectors, borders and institutional boundaries.*

(2) Businesses must **establish an anti-corruption programme** as an expression of values and principles and to systematically counter the risk of corruption through internal and external governance measures. → *focus of today's presentation*

(3) Businesses should **include supply chain stakeholders** (e.g. customers, suppliers) in its principles and governance measures (e.g. supplier training).

(4) Businesses should **publicly report on their corporate citizenship activities**, such as anti-corruption and compliance activities, lobbying and political contributions, revenue distribution, country-by-country financial information, and their organizational structure.

(5) Businesses should **join collective action frameworks for corporate integrity** that exist for anything from individual tendering processes and sector initiatives to supply chain integrity.

(6) Businesses should promote **international conventions** that level the playing field for all participants in the economy.

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Table of content

- **Corruption and the private sector**

- **Rationales for an anti-corruption programme**

- **Transparency International's Business Integrity Framework: Six-steps to implement an anti-corruption programme**

- **Engagement opportunities with the private sector**

The benefits of building an effective anti-corruption programme

"Companies with anti-corruption programmes and ethical guidelines are found to suffer up to 50 % fewer incidents of corruption, and to be less likely to lose business opportunities than companies without such programmes."

Transparency International,
Global Corruption Report 2009 - Corruption and the Private Sector

"Having an anti-corruption programme in place and publicizing it is seen as valuable or very valuable to a enterprise's brand by 86% of respondents."

PricewaterhouseCoopers, Confronting corruption –
The business case for an effective anti-corruption programme, January 2008

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Managing risks by implementing anti-corruption programmes

Financial Loss: Businesses face pressure from their stakeholders (e.g. customers, investors, export credit agencies) to adopt, implement and monitor good practice anti-corruption standards to avoid the risks of losing business, encountering operational constraints and falling share prices.

Legal & Regulatory Sanctions: Businesses (and their representatives) must adhere to laws & regulations in order to avoid the risks of fines, civil damages, loss of license to operate, and imprisonment.

Damage to Reputation: Business compete in globalized markets not only with their goods and services, but also with their reputation; corrupt practices increase the risk of negative publicity and damage to reputation (e.g. through media coverage, civil society campaigns, social networking).

Finally, in addition businesses have a responsibility to act as good corporate citizens

Milton Friedman: *„The business of business is business"*

This abundantly quoted (yet often misinterpreted) statement is often used to support the proposition that business has no **moral obligation** to society.

However, even Friedman concedes that this only holds if the corporation *'stays within the rules of the game, which is to say, engages in open and free competition, without deception and fraud'*.*

- **Good corporate citizens** engage in the fight against corruption by:

  1. **setting a positive example through their own conduct; and**

  2. **contributing to and promoting a corruption-free environment.**

- These engagements **reinforce each other** and ensure that business plays a **pivotal and expanding role in improving the well-being of societies, communities and individuals.**

* Taken from ‚Beyond profits and rules: the moral case for business to fight corruption globally' by Georges Enderle, published in Transparency International's Global Corruption Report 2009.

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Table of content

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Business Integrity Framework – six steps for building an effective anti-corruption programme

- Transparency International's **Business Integrity Framework** is a user-friendly **six step process** for building an **effective corporate anti-corruption programme**.
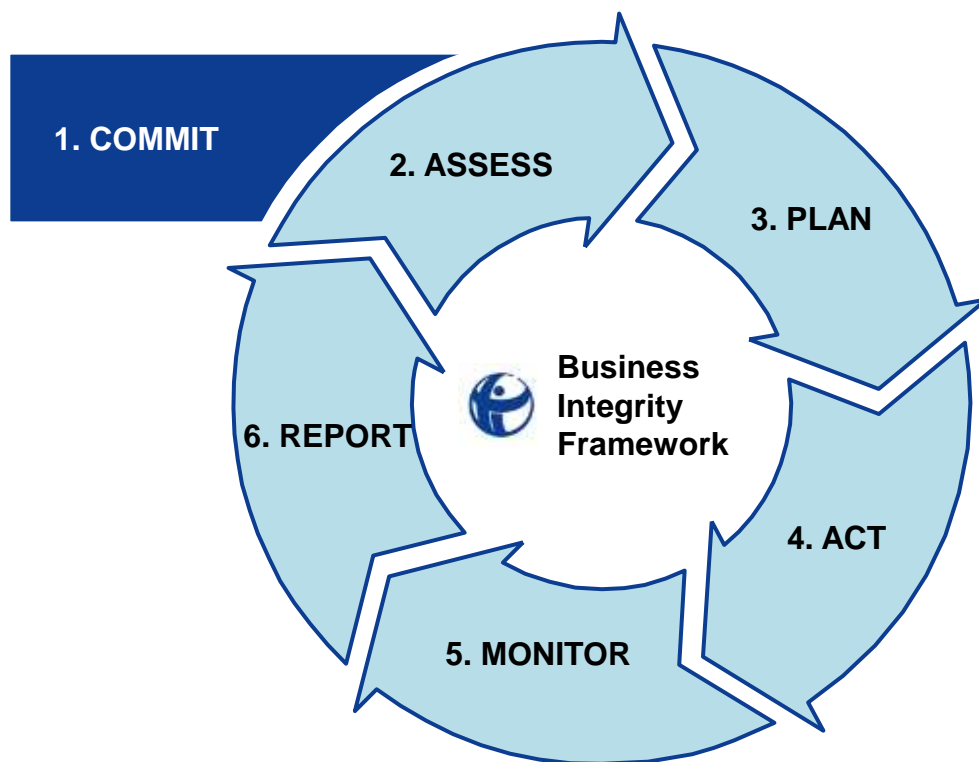
1. **Commit to an anti-corruption programme 'from the top'**

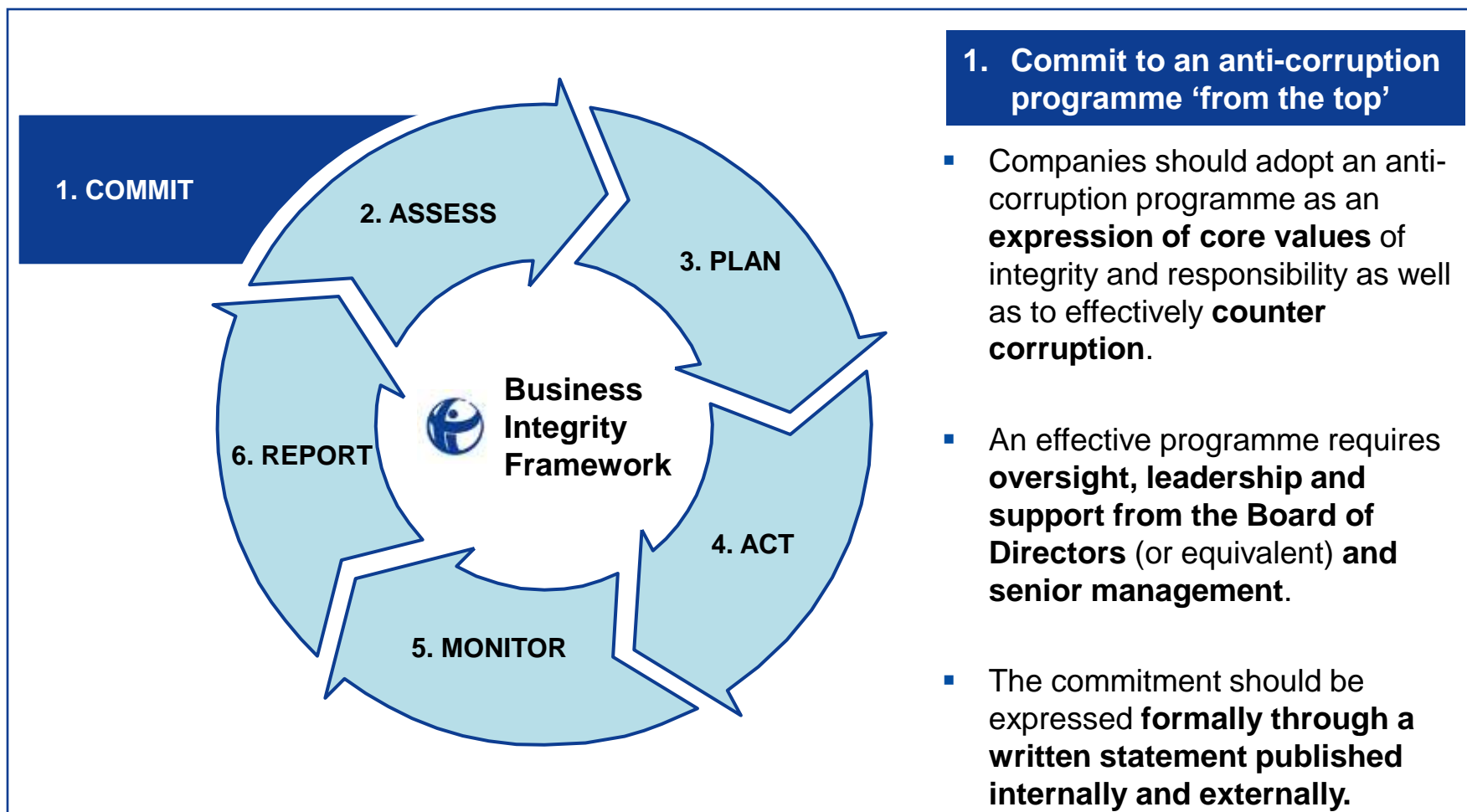2. **Assess the current status and risk environment**

3. **Plan the anti-corruption programme**

4. **Act on the plan**

5. **Monitor controls and progress**

6. **Report internally and externally on the programme**

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COMMIT: Commit to an anti-corruption programme 'from the top'

1. Commit to an anti-corruption programme 'from the top'

- Companies should adopt an anti-corruption programme as an **expression of core values** of integrity and responsibility as well as to effectively **counter corruption**.

- An effective programme requires **oversight, leadership and support from the Board of Directors** (or equivalent) **and senior management**.

- The commitment should be expressed **formally through a written statement published internally and externally.**

COMMIT: What is expected from business?

- The owners/shareholders, chairman or Chief Executive Officer **publishes a statement of the organisation's commitment** to anti-corruption business principles, e.g.:

  > - *"The enterprise shall prohibit corruption in any form whether direct or indirect."*
  >
  > - *"The enterprise shall commit to implementing a programme to counter corruption."*

- The **commitment is communicated and adopted throughout the organisation** in operational (e.g. procurement) and key support (e.g. Finance & Controlling) departments, as well as to external stakeholders worldwide.

- **Sufficient resources** are allocated to ensure implementation or review of the anti-corruption programme, which may include **the setup of an independent, cross-functional project team**.

- Commitment from the business's senior management should be **renewed on a periodic and regular basis** (e.g. yearly).

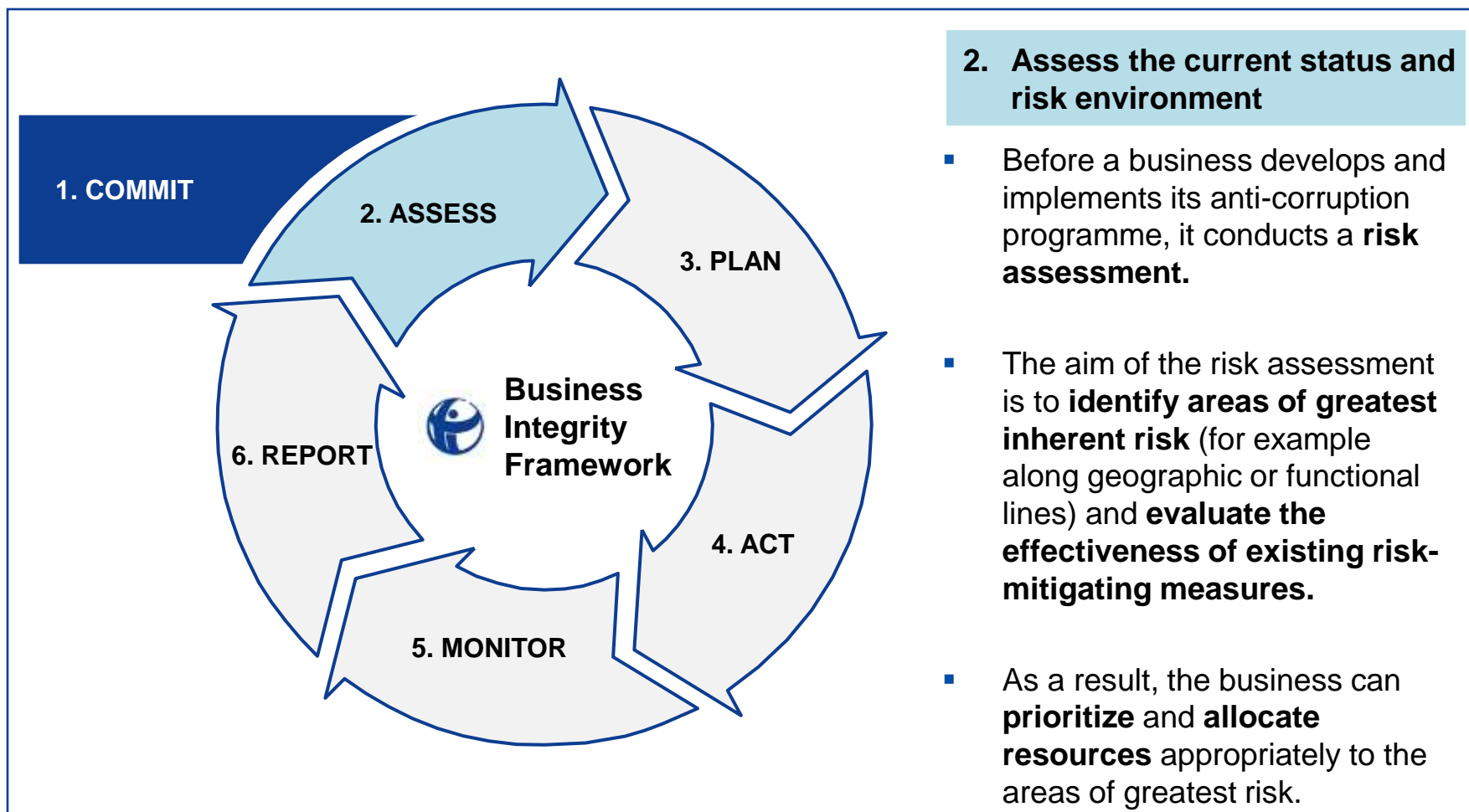- A **"culture of integrity"** is fostered from the top down.

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COMMIT: Tools from Transparency International

Tools	Helps business…
Business Principles for Countering Bribery	… to understand the **scope** of an anti-corruption programme and minimum **implementation requirements** *The Business Principles for Countering Bribery are the cornerstone of Transparency International's private sector anti-corruption activities.** *The Business Principles are not only relevant in the Commit phase, but apply throughout all other phases of the Business Integrity Framework.*
Business Principles for Countering Bribery – SME Edition	… to understand the **scope** of an anti-corruption programme and its **implementation requirements,** tailored to the **needs of small and medium-sized enterprises (SMEs)**

* The focus of the Business Principles lies on bribery as a core corruption risk. Other corruption risks include fraud, insider trading, collusion, undue influence (for more information, please refer to TI's Global Corruption Report 2009 – Corruption and the Private Sector).

ASSESS: Assess the current status and risk environment

2. Assess the current status and risk environment

- Before a business develops and implements its anti-corruption programme, it conducts a **risk assessment.**

- The aim of the risk assessment is to **identify areas of greatest inherent risk** (for example along geographic or functional lines) and **evaluate the effectiveness of existing risk-mitigating measures.**

- As a result, the business can **prioritize** and **allocate resources** appropriately to the areas of greatest risk.
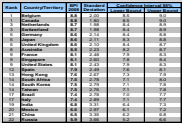
ASSESS: What is expected from business?
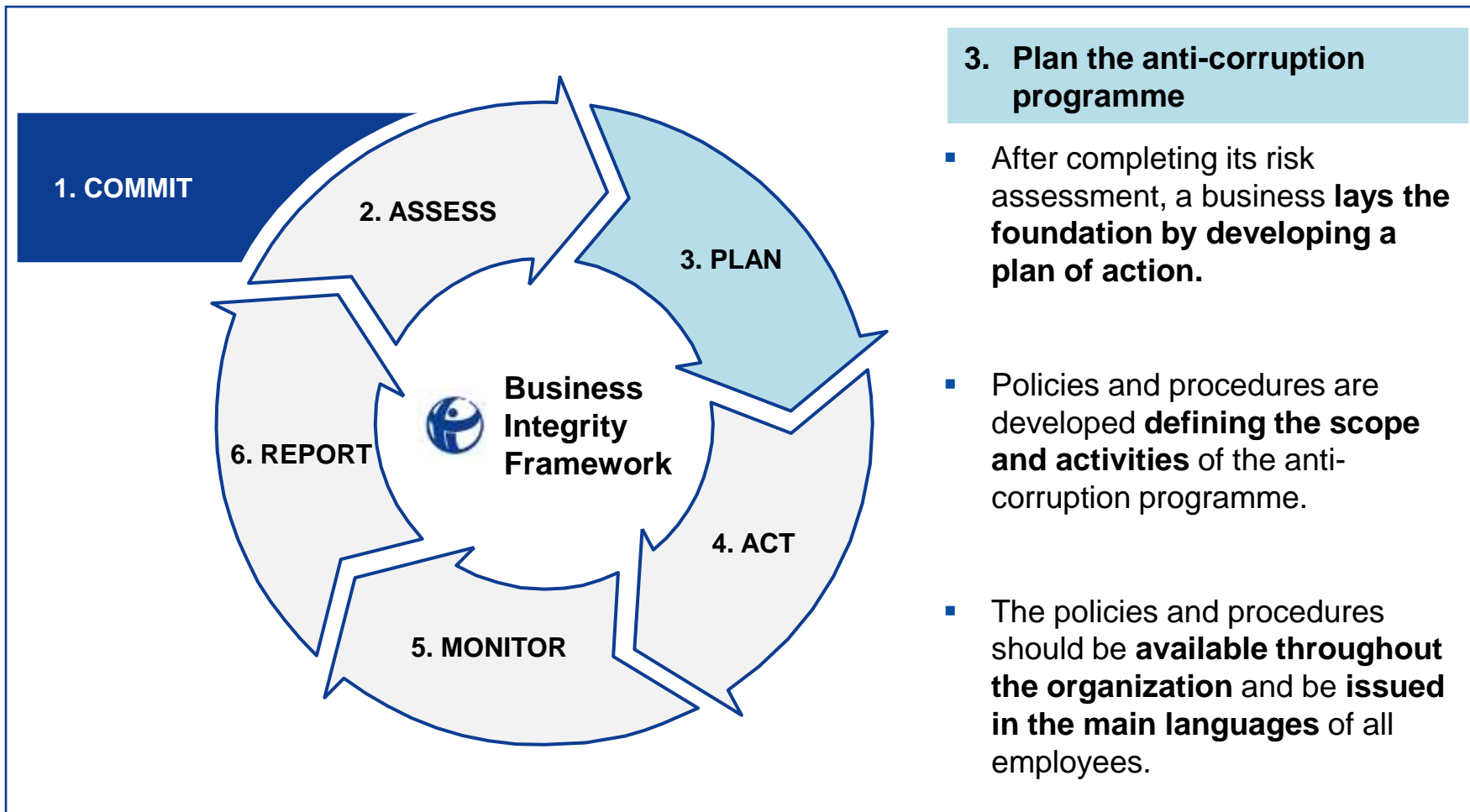
- The risk assessment **identifies inherent risks** of corruption by :

    - **industry**,

    - the **countries** in which the business operates, and

    - **business-specific corruption risks**, such as the procurement processes, interaction with public officials, utilization of intermediaries, political contributions, facilitation payments etc.

- Also, the risk assessment evaluates the effectiveness of existing risk-mitigating measures to determine the **residual risks of corruption in the business**.

- Finally, the risk assessment takes into consideration:

    - changes in the **legal environment**,

    - new or increased **risk exposure,**

    - **technological developments** (e.g. continuous auditing), or

    - **past experience** (e.g. internal audit reports, incidents).

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ASSESS: Tools from Transparency International

Tools	Helps business…
Anti-Bribery Checklist	… to carry out a **high-level assessment** of their **anti-corruption approach**.
Corruption Perceptions Index	... to understand **the perceived level of corruption in a particular country** among public officials and politicians.
Bribe Payers Index	… to assess **the likelihood of companies** from the world's wealthiest and most economically influential countries **to bribe abroad**.
Global Corruption Barometer	… to assess **general public attitudes towards, and experience of, corruption** in dozens of countries around the world.
National Integrity System assessment	… to understand the **anti-corruption provisions and capacities in a particular country**.

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PLAN: Plan the anti-corruption programme

3. Plan the anti-corruption programme

- After completing its risk assessment, a business **lays the foundation by developing a plan of action.**

- Policies and procedures are developed **defining the scope and activities** of the anti-corruption programme.

- The policies and procedures should be **available throughout the organization** and be **issued in the main languages** of all employees.

PLAN: Scope and implementation requirements of the programme

Scope of the Programme	Implementation Requirements
The programme should address the most prevalent forms of corruption relevant to the business, but at a minimum should cover the following areas:	The following requirements should be met at a minimum when implementing the programme:

■ **Corruption inside the business**
 → *Examples: Fraud, Conflicts of Interest, Insider Trading*
 	
 ■ **Corruption in the supply chain**
 → *Examples: Bribery, Extortion*
 	
 ■ **Corruption in the market environment**
 → *Example: Collusion*
 	
 ■ **Corruption in society**
 → *Example: Undue influence*
 	
 ■ **Laundering the proceeds of corruption**
 → *Example: Money Laundering*
	■ **Organisation, roles and responsibilities**
	
	 ■ **Business relationships** with
	     ■ Subsidiaries and other entities
	     ■ Joint ventures and consortia
	     ■ Agents and intermediaries
	     ■ Contractors and suppliers
	
	 ■ **Human Resources**
	
	 ■ **Training**
	
	 ■ **Raising concerns and seeking guidance**
	
	 ■ **Communication**
	
	 ■ **Internal controls, monitoring and record keeping**

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PLAN: What is expected from business?

- **Detailed policies, processes, training materials and guidance** that form the basis for the detailed implementation in step 4 (ACT) are drafted (or reviewed), e.g.:

  - Who is responsible for ensuring **compliance with and monitoring the programme** (e.g. compliance officer, internal audit)?

  - Do **existing policies** need to be adapted (e.g. employee incentive structures)?

  - What monitoring **controls** are needed?

  - How will **suggestions and complaints** be handled?

  - How will **the programme be communicated** to internal and external stakeholders?

  - To what extent will **external assurance and reporting** be used?

  - What **recordkeeping** systems need to be put in place?

- The policies and procedures should be **reviewed and approved by management**, **employee representatives** and (if appropriate) **external stakeholders**.

- The **detailed implementation plan** (including objectives, resources and timetable) must be drafted and approved by all relevant parties before proceeding to step 4.

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PLAN: Tools from Transparency International

Tools	Helps business…
Building an effective anti-corruption programme	… with detailed information on how to build an effective anti-corruption programme, providing practical background information and examples (e.g. anti-corruption policy statement).
The 2010 UK Bribery Act Adequate Procedures	… to **comply with the new UK Bribery Act** by providing clear, practical advice on good practice anti-bribery systems that in Transparency International's opinion **constitute 'adequate procedures'** for compliance with the Bribery Act.

ACT: Act on the plan

Business Integrity Framework cycle:
1. COMMIT
2. ASSESS
3. PLAN
4. ACT
5. MONITOR
6. REPORT
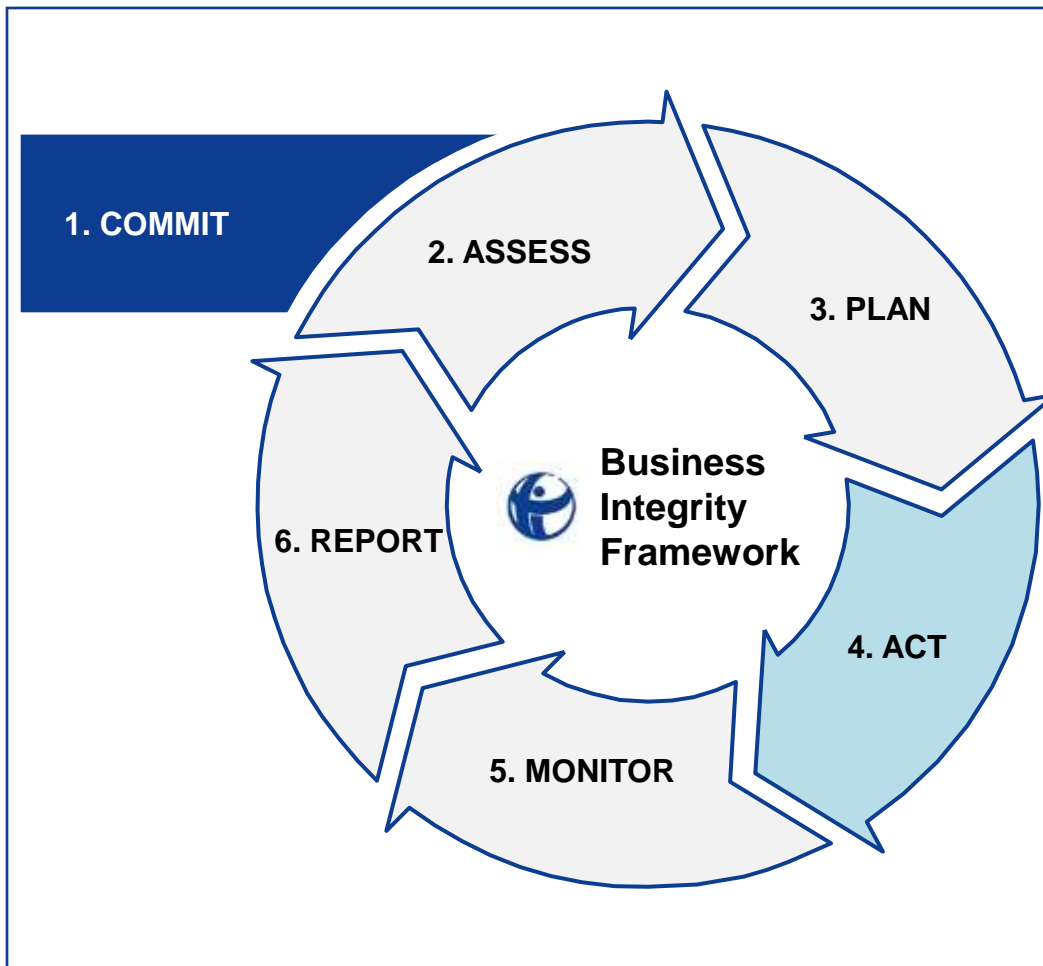
4. Act on the plan

- After planning an anti-corruption programme, the **written words need to be translated into visible actions.**

- This is a key step in the overall framework, as it is Transparency International's experience that while many businesses have **well planned programmes** they **fall short on effective implementation**.

- Controls must be tempered in **consideration of the trustworthiness and competence** of stakeholders.

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ACT: What is expected from business?

- After the planning and preparation, the day comes when policies and procedures need to be **integrated into the organisational structures**:

    - Implement **internal checks and balances** (e.g. detective and preventive measures)

    - Develop **supporting systems** (IT, etc.)

    - Communicate the **programme** (e.g. CEO announcement, workshops, newsletter)

    - Identify **'local champions'** to support the implementation

    - Deliver **training** (face-to-face, self-study etc.)

    - Provide supporting **tools and guidance** (e.g. self-assessment survey for high-risk departments)

- The launch should be **led from the top, with the Chairman or** CEO addressing the whole business and underlining the major changes and expected impact from the new policies and procedures.

- Implementing and maintaining an anti-corruption programme is a **change management exercise**, which should not be seen as a one-off project but an on-going process over time.

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ACT: Tools from Transparency International

Tools	Helps business…
Anti-Bribery Guidance for Transactions	… with guidance for anti-corruption **due diligence in mergers, acquisitions and investments**.
Resisting Extortions and Solicitations in International Transactions	… to establish **training** on how to **respond to an inappropriate demand** by a client, business partner or public authority in the most efficient and ethical way.

MONITOR: Monitor controls and progress

Business Integrity Framework

1. COMMIT
2. ASSESS
3. PLAN
4. ACT
5. MONITOR
6. REPORT
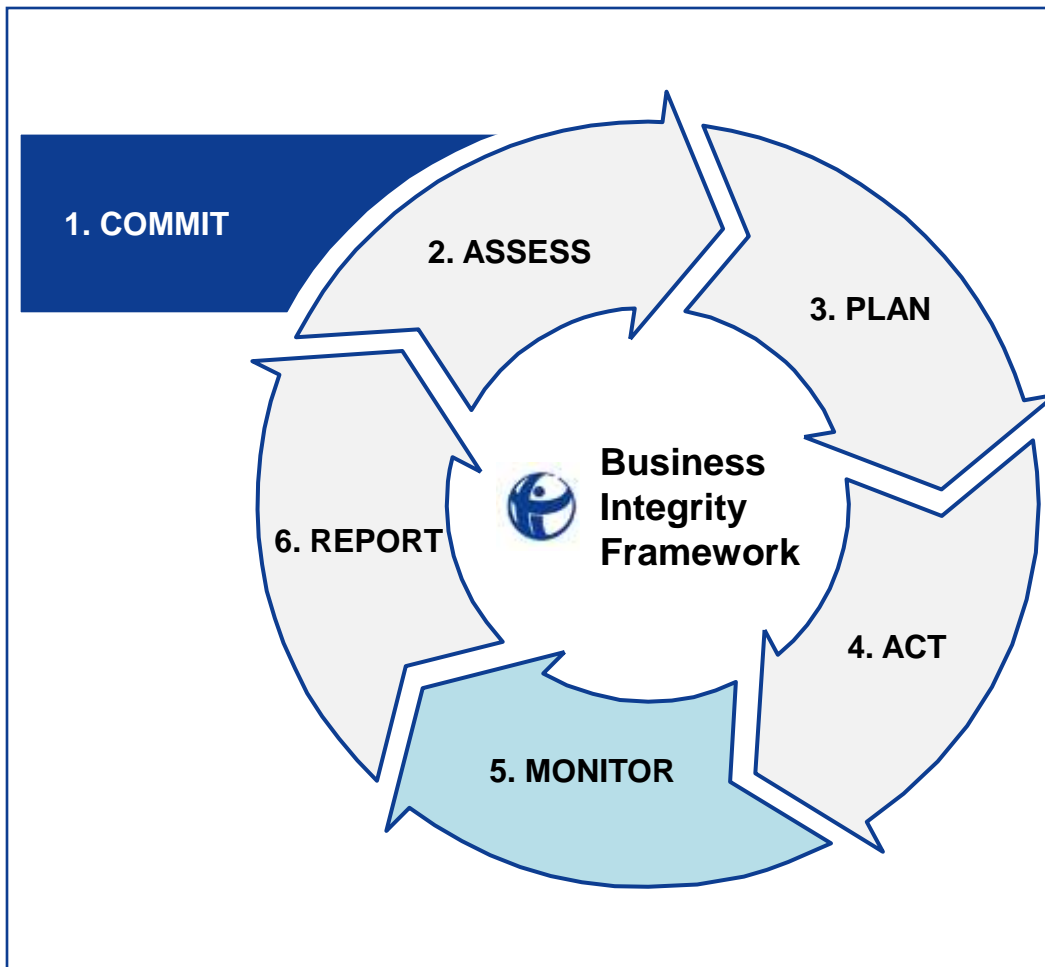
5. Monitor controls and progress

- Implementing an anti-corruption programme is **not a one-time event**; it needs to be followed up through **regular periodic evaluation (monitoring).**

- Monitoring ensures that **strengths and weaknesses are identified** and that the programme is **continuously improved to remain effective and up-to-date** (change management activities).

- **Internal and external monitoring** must be undertaken.

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MONITOR: What is expected from business?

- **Responsibility for the monitoring** of the overall anti-corruption programme needs to be assigned clearly and resources made available.

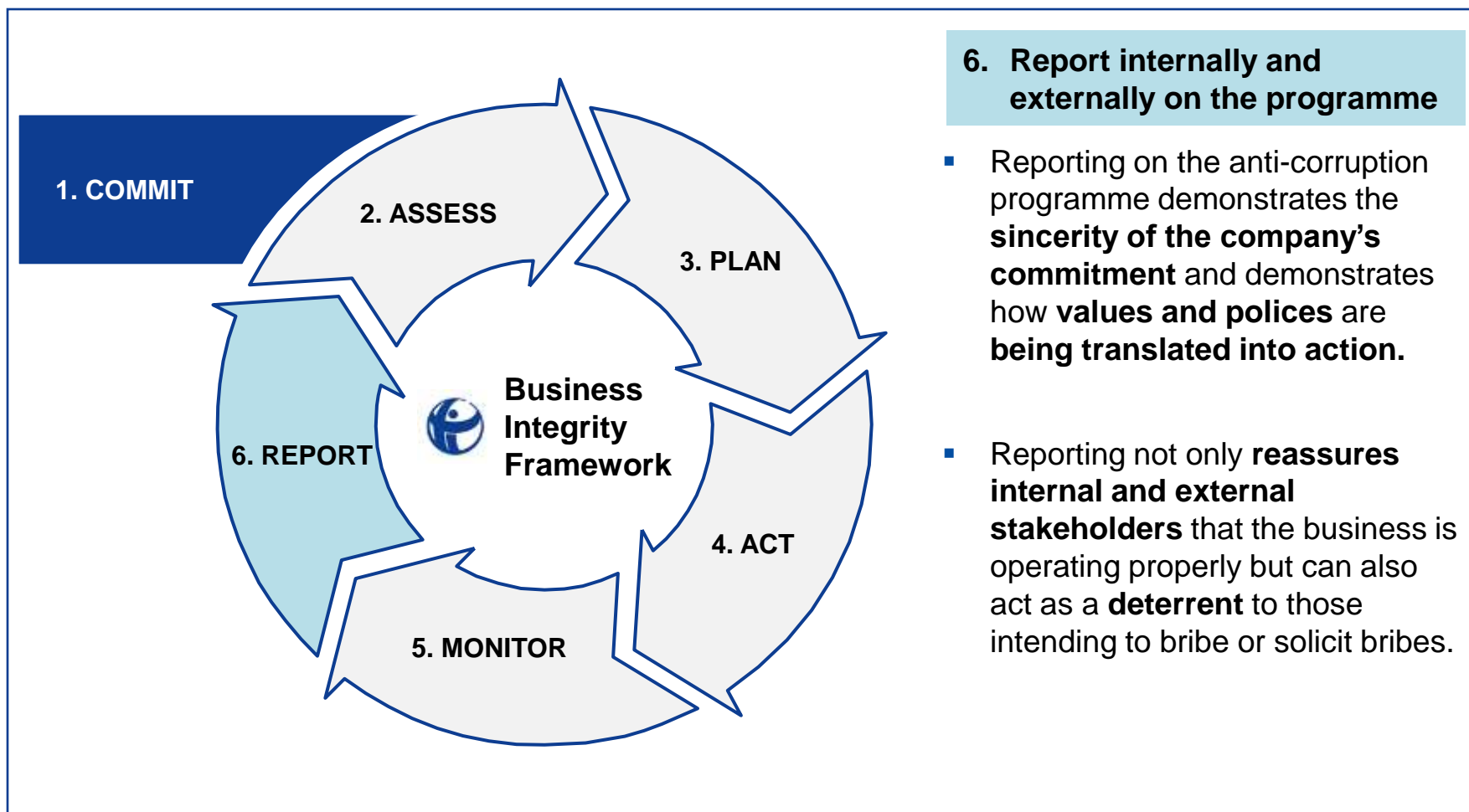- The **progress of the overall programme needs to be continuously monitored** (e.g. internal employee self-evaluations, automated controls monitoring).

- The **management of the company** (e.g. Board of Directors, Audit Committee) **must review the results of internal and external reviews** and ensure that required changes are implemented in an appropriate and prompt manner.

- In addition to internal monitoring and traditional external auditing processes, **external independent assurance** should be considered to provide further security to management and stakeholders regarding the effectiveness of the anti-corruption programme.

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MONITOR: Tools from Transparency International

Tools	Helps business…
Self-Evaluation Tool	… to **determine where they stand with their anti-corruption programme and identify improvements**, based on an easy-to-use checklist that comprises an in-depth and extensive range of more than 240 indicators.
Assurance Framework for Corporate Anti-bribery Programmes	… to **strengthen and lend greater credibility** to their anti-corruption programmes through the use of voluntary independent assurance.

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REPORT: Report internally and externally on the programme

6. Report internally and externally on the programme

- Reporting on the anti-corruption programme demonstrates the **sincerity of the company's commitment** and demonstrates how **values and polices** are **being translated into action.**

- Reporting not only **reassures internal and external stakeholders** that the business is operating properly but can also act as a **deterrent** to those intending to bribe or solicit bribes.

REPORT: What is expected from business?

- Information about the programme needs to be **regularly communicated to** relevant **internal and external stakeholders**, e.g.:

    - how the **programme is being implemented**,

    - **employee perceptions** and attitudes to the company's anti-corruption stance and performance,

    - numbers of inquires or issues raised through **help and whistle-blowing channels**,

    - numbers and types of **violations detected** as well as **corrective action undertaken,**

    - **sanctions** applied and **transactions abandoned** because of corruption incidents etc.

- Implementation experiences should be **discussed with external stakeholders and peer groups** to share good (and bad) practices and learn from each other (e.g. through participation in voluntary anti-corruption initiatives).

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REPORT: Tools from Transparency International

Tools	Helps business…
Anti-corruption Reporting Guidance	… to report on the anti-corruption programme by providing a **comprehensive set of 22 Reporting Elements** which can be used to provide information in a mainly **descriptive manner**.
Transparency in Corporate Reporting	… to **assess the extent** of transparency of corporate reporting on a range of anticorruption measures among the **105 largest publicly listed multinational companies**.

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Table of content

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"72% of overall respondents agreed that Civil Society organisations do not focus on businesses enough when fighting corruption – a view also shared by a clear majority of business respondents (66%)."

HUMBOLDT-VIADRINA School of Governance,
Motivating Business to Counter Corruption – A Global Expert Survey on Incentives & Sanctions, 2012
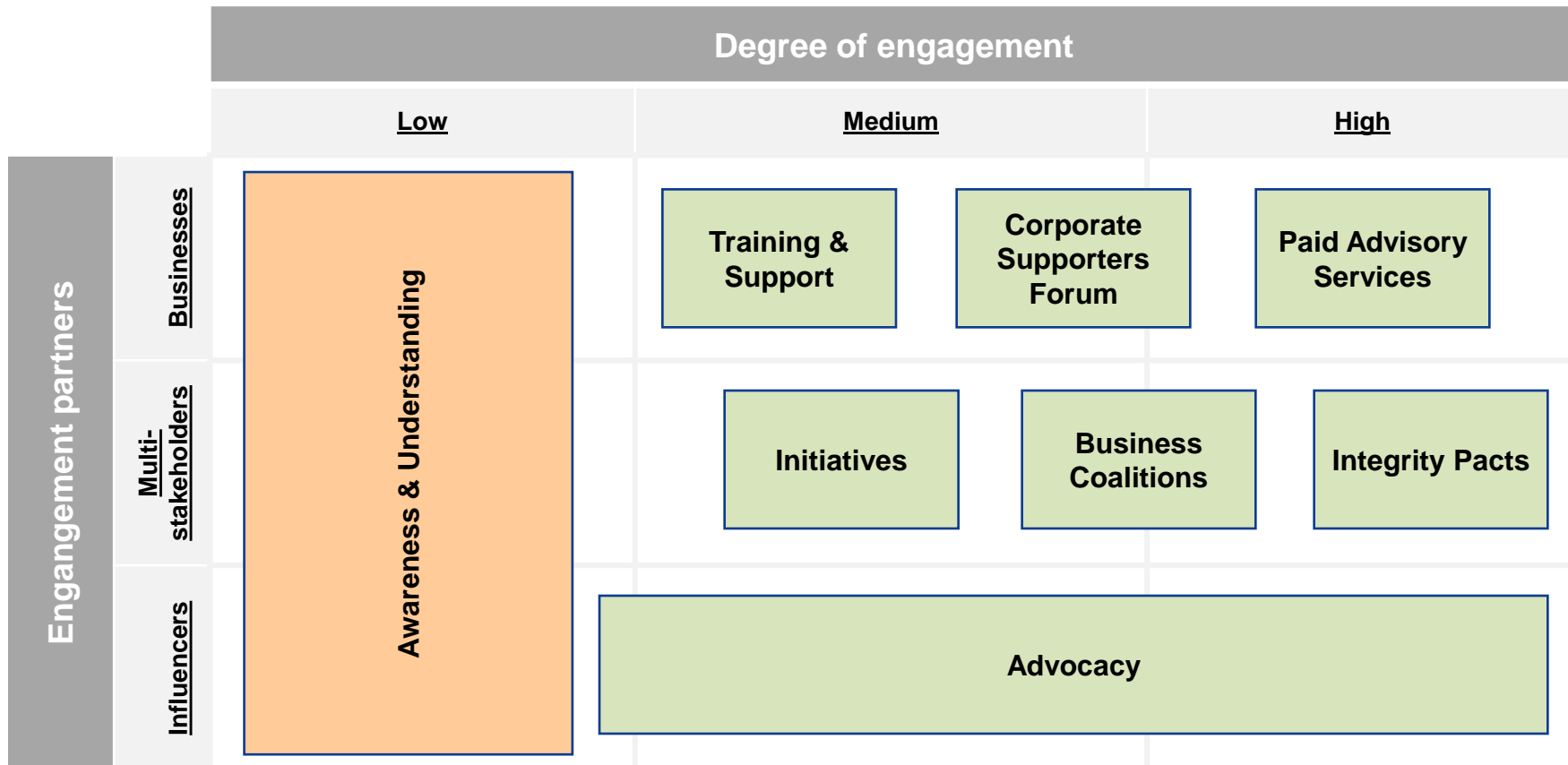
Engagement opportunities from various sources

- **Engagement opportunities can come from the private sector itself …**
  - Companies looking for a **proven and cost-effective way to implement** an anti-corruption programme
  - Companies **facing pressure from within their supply chain** need to demonstrate a commitment to fighting corruption
  - Companies that joined **voluntary initiatives (e.g., UN Global Compact)** seek to ensure that their **operations and strategies comply with** key anti-corruption principles

- **… or through partners and other circumstances…**
  - **Personal relationships** of National Chapter employees, Board of Directors, or expert advisors to companies or sectors
  - **Collaboration partners**, such as the local Chamber of Commerce, intergovernmental organisations, local embassies

- **… but can also be proactively identified and planned by the National Chapter.**

1	2	3	4
Identify your target group	**Evaluate their situation**	**Select your activities**	**Plan your engagement**

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Private Sector Engagement Framework

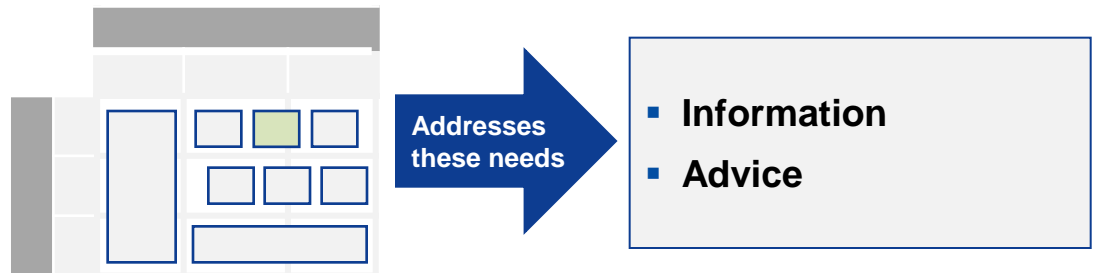|		**Degree of engagement**		
		Low	**Medium**	**High**
Engangement partners	**Businesses**	**Awareness & Understanding**	**Training & Support** / **Corporate Supporters Forum**	**Paid Advisory Services**
	Multi-stakeholders		**Initiatives** / **Business Coalitions**	**Integrity Pacts**
	Influencers		**Advocacy**	

The activities listed should not be seen as a sequential processes; typically, activities are conducted in parallel.

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Example: Corporate Supporters Forum

Overview

Addresses these needs →

- **Information**
- **Advice**

- National Chapters can create a local Corporate Supporters Forum (CSF); a CSF is a **group of companies**, convened by TI, dedicated to countering corruption.

- The CSF allows companies to have **well-informed discussions** with other companies and experts and provides open access to TI's expertise, events and networks.

- A CSF typically organizes a **series of events** (e.g., roundtables) and provides **regular updates** (e.g., in form of newsletters).

- A CSF is mostly relev**ant for companies with established generic anti-corruption policies and procedures**, seeking to discuss specific challenges.

Advantages

- Interaction with companies on a regular basis
- Understand private sector challenges and solutions
- Create commitment and peer pressure monitoring
- Identify private sector "champions"
- Test new ideas / concepts ("Sounding board")
- Mobilize resources
- Follow-up opportunities (e.g., research on key challenges)

Disadvantages / Constraints

- Requires time & effort
- Requires high credibility of National Chapter
- Limited number of participants

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Building an effective anti-corruption programme

Private sector engagement is critical to countering corruption effectively.

Transparency International's Business Integrity Framework is a user-friendly six step process for building an effective anti-corruption programme: COMMIT, ASSESS, PLAN, ACT, MONITOR, and REPORT.

For each step in the process, Transparency International provides a suite of tools that are available at no cost and are flexible enough to be tailored for their own purposes.

Transparency International may work with individual companies or a group of private sector participants to establish a plan of action.

Self-study trainings and support from the TI Secretariat private sector team is available for National Chapters in **engaging with the private sector**

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