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“Anti-Corruption and Corporate Citizenship”

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“Corruption is everywhere”.

This is the provocative conclusion that Peter Eigen, founder of Transparency International, draws in his recent book, summing up decades of investigation and advocacy.

Today, few would question this statement, considering that survey after survey tell us that trust in corporations, governments and other institutions has reached alarmingly low levels. We cannot say whether corruption today is more or less endemic than say ten years ago. But surely, awareness about it and the willingness to fight it has increased enormously.

Only a few years ago, corruption was hardly an issue. Today it is on the global agenda. This astonishing change can be attributed to a number of factors, including the post-9/11 political will to more closely examine financial transactions; the spectacular collapse of corporate icons; the convergence of thinking among aid professionals that good governance, after all, does matter; the rise of commodity prices and the subsequent spotlight on the use or abuse of associated revenues; and, to be sure, the tireless efforts of committed advocates for transparency.

The rapid rise of corruption as a global issue has coincided with the explosive growth of the corporate citizenship agenda. Anti-corruption measures have become integral to

corporate responsibility initiatives, giving it ethical and business grounding and, therefore, greater robustness.

The UN Global Compact's tenth principle states that businesses should work against corruption in all its forms, including extortion and bribery.

This principle raises important questions.

First, corruption is subject to criminal law while most corporate responsibility (CR) issues are based on voluntary activities which often go beyond law or try to fill the void of ineffective implementation of existing laws. Compliance with criminal law and promoting aspirational goals involve different processes and incentives and disincentives.

Does it make sense to mix them?

Second, the prevalence of corruption is a societal phenomenon that involves all segments of society – its institutions, political leaders and the public in general. Asking business to come clean on corruption while failing to bring society at large along may not only be ineffective – but also arbitrary.

Indeed, these were some of the concerns that a number of CEOs raised when the UN Global Compact introduced its tenth principle against corruption in 2004. Another concern was that a focus on anti-corruption could crowd out the other issue areas that the Global Compact advances: human rights, workplace issues and the environment.

Today, nearly two years after the introduction of the tenth principle, we can say with confidence that these concerns were unfounded. Instead, the tenth principle has given enormous impetus to the UN Global Compact. It has reinforced both objectives of the Compact – the promotion of organizational change based on universal principles and the call for action to collectively advance UN goals. More specifically, the following can already be said:

- Effective implementation of the tenth principle within organizations follows the same organizational change process as for the other principles. While anti-corruption may involve additional reporting requirements in accordance with prevailing regulation, the overall processes to make anti-corruption an integral part of corporate strategy and operation are the same: leadership commitment, effective organizational change and management processes, empowerment of employees, incentives, the capacity to assess change and impact, and communication to shareholders and stakeholders. Many of our participants have shared their experiences in implementing the tenth principles in learning meetings, national and global working groups as well as in an upcoming Global Compact publication: *Business against Corruption – a collection of case stories*.

- Through the Global Compact’s transparency and accountability tool – the Communication on Progress (COP) – management processes, annual activities and indicators of change can be reported to shareholders and stakeholders in the same manner as is the case with the other issue areas, and many of our participants already do so. This is supported by recent developments in the reporting industry. The judges’ report for the UK Awards for Sustainability Reporting 2005 included a review on corruption reporting which was carried out by Transparency International and highlighted good practices by companies. On 21 February 2006, the FTSE Group launched criteria for countering bribery for its FTSE4Good Index Series. Evidence of significant bribery could constitute a sufficient reason for removing any company from the FTSE4Good index unless there is mitigating evidence of anti-bribery systems and effective remedial action. And, also, the new GRI:G3 will include additional criteria related to anti-corruption and transparency.

- When it comes to actions in society that go beyond the immediate sphere of influence of an organization, the tenth principle has greatly underscored the importance of working together. More than any other principles it encourages

cooperation between corporate participants and other stakeholders and policy makers. A number of our local networks have already undertaken collective action inspired by the tenth principle, in all regions of the world. Dialogues and joint actions have already started to take place on quite a large scale in places such as Malawi, Egypt, Norway, Germany, Denmark, Brazil and Argentina. Some of the most encouraging examples include business voices speaking jointly to public institutions by making the case that business can only become more competitive if public institutions are more effective.

- The fear that the tenth principle might crowd out other priority issues has proven wrong, not least because it is more and more apparent that corruption deeply affects all other issue areas that corporate responsibility deals with. The abuse of entrusted power is a root cause for human rights abuses and may be associated with environmental damages. Many workplace and supply chain dilemmas are directly connected to corruption. Corruption is also at the heart of ineffective or inadequately implemented public policy frameworks which in turn is, arguably, the root cause of most business-society dilemmas in the first place.

The very good message is that the tenth principle against corruption does not live in isolation. It has merely been the culmination of a growing trend supporting voluntary initiatives that started many years ago driven by courageous actors.

- In response to a widely publicized corruption scandal, the International Chamber of Commerce published the first version of the Rules of Conduct in 1977. These rules have been updated in 1996, 1999 and 2005 and have been widely adopted by companies worldwide.
- A major turning point with respect to the development of civil society was the creation of Transparency International in 1993. It was the first global non-governmental organization devoted to combating corruption and the development of tools such as the Corruption Perception Index, the first corruption league table of

nations; the Bribes Payer's Index, aimed at understanding the supply side of corruption; and the Transparency International Business Principles for Countering Bribery, a set of guidelines for corporate behavior.

- Sector specific guidelines for fighting corruption and bribery were developed in various industries – for example, the financial industry with the Wolfsberg Anti-Money Laundering Principles; the Position on Transparency by the International Association of Oil and Gas Producers (OGP); and the more recent global efforts of the World Economic Forum Partnership against Corruption Initiative (WEF PACI), which was born out of an engineering and construction sector initiative developing new anti-bribery guidelines based on the Transparency International Business Principles.

In parallel to the growth of voluntary approaches, national, regional and international legal regimes have been strengthened significantly. In the US, for example, the Foreign Corrupt Practices Act of 1977 is an important benchmark.

The UN Convention against Corruption which came into force on 14 December 2005 is rightly seen by many as a milestone in the evolution of international conventions. The convention not only offers all countries a set of standards to strengthen regulatory regimes to prevent and control corruption – including innovative measures concerning asset recovery and international co-operation – it also includes a comprehensive chapter on preventive measures which covers both public and private actors. More specifically, it asks Member States to foster and strengthen the private sector's own initiatives to enhance internal control mechanisms and to establish and promote corporate codes.

As is the case with all UN Conventions, its ultimate impact will depend on effective implementation by Member States. There are many ways in which business and other stakeholders can help make this happen. Pressuring governments to ratify and effectively implement the Convention is one way. Another is to actively engage in prevention: developing and implementing codes and procedures to safeguard business integrity,

sensitizing employees and disclosing progress made in annual reports and taking part in the development of tools, learning, dialogue and national actions.

The rapid growth of regulatory and voluntary approaches against corruption suggests that both approaches can not only coexist but they may also reinforce each other. Regulation requires effective implementation and enforcement agencies. It describes a minimum floor below which society is prepared to impose sanctions. In general, regulation does not unleash creative forces within organizations. It feeds on compliance-thinking based on cost minimization. Voluntary initiatives can fill part of the void where regulation is not working and thus make the case for regulation. But probably more important, voluntary approaches can go beyond regulation by offering incentives for innovation and tacit forms of behavior that cannot be codified and without which trust-based relationships could not function.

So, while Peter Eigen's "corruption is everywhere" conclusion is undoubtedly true, it is equally true that combating corruption is becoming part of the global corporate citizenship agenda. And here, I wish to draw attention to some recent and rapidly-unfolding trends the promise to further elevate anti-corruption within the context of corporate citizenship.

Five Key Trends

1) Corporate citizenship goes truly global

Corporate citizenship has seen explosive growth in recent years. For example, the United Nations Global Compact started off with about 50 participants in July 2000. Today, there are nearly 3,000 participants and stakeholders from 90 countries and demand, especially in emerging economies where opportunities for change are greatest, continues to grow. The rising prominence of Southern transnationals could well be the story during the next decade. But it is not only the numbers that describe the picture. At the same time there is a gradual change towards more quality and deeper engagement. Transparency and public

accountability are on the rise. While there are significant leads and lags across countries and regions of the world, there is no doubt that these trends are now truly global across issues and industry sectors. At the same time, senior management and board responsibilities are expanding, suggesting that corporate responsibility (CR) issues are today taken more seriously than a few years ago. This expansion reflects the recognition that societal legitimacy goes beyond shareholders and that risk management in a globalizing world and related CR activities need to be dealt with at the highest level of a company's operation. And, as CR creates new materiality around the issues it advocates, board responsibilities now may also include issues that used to be the exclusive domain of governmental co-operation.

2) From avoiding costs to creating value

One way of capturing this overall trend is to track the broad motives with respect to why corporations have engaged in corporate responsibility initiatives. Leaving aside competition policy – arguably the orphan of the CR debate – there has been a shift from an initial attempt to respond to social tensions and occasional accidents towards a proactive, value-creation attitude. The rapid transformation of philanthropy into a strategic asset that reinforces the fundamental competencies of an enterprise is just one example that exemplifies this change. Today, the recognition that environmental, social and governance issues can have a deep impact on value creation is gaining the upper hand.

Thus, along with the moral case has come the business case for a principles-based change process. And, the business case is no longer just about avoiding costs for getting it wrong. It is increasingly about the benefits for getting it right.

3) Financial markets are catching up

Global business has long understood that going global not only brings about efficiency gains and market growth. It also means being exposed to new challenges and risks. Encouragingly, mainstream financial markets have recently started to take seriously the

expanding enterprise risks in analysis and long-term investment decisions. What used to be considered “soft issues” are now gaining financial relevance. In particular environmental, social and governance issues are increasingly seen as being relevant to long-term viability and financial performance. Several important developments are currently taking place in this area with the UN Global Compact playing a leading role in some of them. Increasingly, for example, mainstream financial analysts are incorporating these issues into research and processes, while institutional investors are recalibrating policies and mandates to reflect this new reality. This trend promises to recognize and reward companies that are taking the long view.

4) Relationship between voluntary and regulatory approaches

Another important trend is the growing recognition that voluntary and regulatory approaches are fundamentally different but complementary. This understanding is in stark contrast with previous debates where the battle cry was much about “regulation versus voluntary” approaches. It is today widely recognized that both are required and can indeed reinforce each other and that different situations require different solutions.

Often neither regulation nor voluntary approaches may be sufficient to change the tragic case of failing states or systemic abuse of entrusted public authority. But a combination of both may well bring about improvements. Sometimes the real challenge is not the political will to adopt regulation but the willingness and capacity to give practical meaning to it. In such situations, voluntary initiatives can play a useful role by helping to establish the case for effective implementation of regulation, while encouraging innovation and new approaches.

5) A new symbiosis: corporate governance and corporate responsibility

The rise and expanding role of corporate governance has given major impetus to the issues before us. Corporate governance and corporate responsibility have reinforced each other in several ways and the overall trend is one of convergence. Anti-corruption and

transparency measures have been a driving force in this development, in addition to a greater appreciation of the long-term risk management dimension.

In the US, for example, corporate governance rules have de-facto made codes of conduct a legal necessity. Thus, the New York Stock Exchange and Nasdaq have required since 2004 that listed companies adopt and disclose a code of conduct. And, federal sentencing guidelines of 2005, in connection with remedying harm from criminal conduct, offer a discount on their “culpability score” if indeed the organization can demonstrate that it had a code implemented in the first place.

Against this background of an ongoing internationalization of markets, the rise of corporate governance has thus added much momentum to traditional CR issues and in the case of the Global Compact led to the addition of the tenth principle.

Conclusion – What Works, What Doesn’t, and the Path Forward

The case against corruption in all its forms is today well established. Abuse of entrusted power, whether in rich or poor countries, in the North or in the South, East or West, erodes trust and de-legitimizes governments. Its economic costs, often at the expense of the weakest members of communities, have long been recognized. Add to this the distortion of competition and productive investment.

But despite the enormous growth of regulatory and voluntary initiatives, the rise of corporate governance, the strengthening of national, regional and global regulation and the supply of voluntary engagement opportunities, there is surprisingly little evidence of what works and what does not.

But it is not only the lack of knowledge about what works that is disturbing. It is also the fact that corruption scandals stay on the front pages. The revelation, for instance, in the report of the Independent Inquiry Committee into the Iraq Oil-for-Food Program that

more than 50% of the 4,500 companies involved were investigated for illegal payments suggests that much is yet to be done.

At the organizational level, whether public or private, there is much that can be done to institute ethics that discourage corruption and bribery. Codes of conduct and effective implementation can be effective tools that not only reduce downside risks but also promote positive attitudes, employee moral and productivity. Credible policies and effective communication can go a long way to protect organizational integrity. Business should not be too worried that doing so will unduly expose business actors. Anti-corruption is important for all organizations, public and private. The United Nations, the most global of all public institutions, is currently going through a serious process of institutional reform as a consequence of the oil-for-food corruption scandal. In response to the crisis, the UN introduced disclosure requirements and new ethic rules as well as a new ethics office, reporting directly to the Secretary-General. When the crisis hit, the organization was not well prepared and clearly, if proper policies had been in place, the damage could have been lessened. This experience is one that many corporations are familiar with. The bottom-line is simple: in today's world no organization can afford not to have an effective no-bribe policy in place and prevention may well be better than cure.

But can no-bribe policies at the organizational level bring about broad-based changes in environments where corruption is systemic? Creating islands of sound business ethics may provide a positive impetus but may not be realistic or sufficient. The prisoners' dilemma poses a real challenge. True, almost everybody would benefit if everybody were to cooperate and take action. But those who would act first may well be at a disadvantage. The individual incentive then is to do nothing and to hope to "free-ride", benefiting from the action of others. The result is generally collective inaction despite the fact that cooperation would have been the best outcome for most.

One way to overcome this basic dilemma is to facilitate broader movements, dialogue and action opportunities where like-minded actors from the private and public sectors tackle the issue together. Business may well be a driving force in this. After all, market

distortions undermine competitiveness and to the extent that bureaucratic obstacles for doing business are a cost disadvantage, they are also a source of opportunities for corruption.

Offering platforms that bring together like-minded business actors, civil society and the public sector is one way the UN Global Compact is currently trying to make a positive contribution. A number of promising approaches have already started, combining global advocacy with local action. Many of our participants who have extensive experience on anti-corruption are dedicated to winning over more business champions to embrace no-bribe policies and to form alliances that can support national efforts. In the course of the next year a selected number of Global Compact networks will widen their activities on the tenth principle to national initiatives against corruption, such as Brazil, Argentina, our regional hub for Eastern Europe, and South Africa, and we hope that many more will follow these examples.

Ladies and gentlemen,

The focus on anti-corruption and its integration in the corporate citizenship agenda are important developments. They contribute to greater market integrity and hold the promise of infusing improved governance in the public and private spheres alike. We may not always know what works best. But we do know that there are at least two viable pathways ahead: advancing a principles-based organizational change process across all organizations and fostering collaborative efforts that involve all actors of society. In this, continued advocacy and discourse will also be crucial, including the voices of civil society and of a strong and free media.

We know that pursuing these efforts is both urgent and important if indeed we are to realize the potential of sustainable and inclusive global markets – arguably one of the greatest experiments in human history.

Thank you.