Corporate Responsibility & Anti-Corruption: the Missing Link?

While corporate responsibility initiatives have multiplied dramatically over the past 20 years there still is no universal understanding or unified approach when it comes to their concept or practice. At their worst, corporate responsibility programmes may be mere window-dressing exercises. At their best, these initiatives represent genuine attempts by companies working with stakeholders to address the great environmental, social and ethical challenges of our times.

As corporate responsibility programmes continue to evolve, the challenge for the anti-corruption movement is determining the appropriate place for anti-corruption efforts and whether — and how — they can support a company’s corporate responsibility strategy.
1. Bridging the gaps

If corporate responsibility is to deliver on its promise of sustainability for companies and the societies in which they operate, corporate governance and credible anti-corruption efforts should be integrated more closely and effectively to mitigate risks and promote responsible business behaviour.

Yet corporate responsibility and corporate governance, including measures and initiatives to combat corruption in business, have developed mostly in parallel. The greed and irresponsibility that were uncovered in the wake of the 2008 financial crisis illustrate the deep lack of understanding of the true meaning of corporate responsibility, its relationship to corporate governance and how both can help to address corruption and encourage a holistic approach to building corporate integrity.

This working paper attempts to bridge this gap by putting forward how work to combat bribery and corruption deserves a place in the corporate responsibility canon.

The evolution of corporate responsibility and its rise on company agendas can also provide some relevant lessons on how to raise the profile of anti-corruption issues — and equally the profile of the anti-corruption movement — among companies.

2. What’s in it for business?

Despite a growing and at times confusing list of terms to explain corporate responsibility, a common thread among them is the recognition that the responsibility of business extends beyond providing financial returns to shareholders and includes benefiting society as a whole (see side bar).

Corporate responsibility, whose ultimate aim is ensuring sustainability, focuses on the ethical behaviour of companies in their interactions with society and the environment. Corporate governance, for its part, looks at interactions as well, but from an internal management perspective. Measures to control the risk of bribery and corruption form part of a company’s broader corporate governance efforts. The purpose is to reduce a company’s financial and operational vulnerabilities, and achieve greater transparency, accountability and integrity.

Assessing and mitigating a company’s risks to bribery and corruption is not only a central component of corporate governance, but it should also feed into an enterprise’s overall approach to corporate responsibility. TI believes the ethical commitment that underpins corporate responsibility cannot be fully realised without the commitment to eschew bribery and corruption in all a company’s activities (see side bar). The government of South Africa has acknowledged this linkage, as evident in the King III Report that mandates integrated company reporting, stating that a business’s strategy, risk, performance and sustainability have become inseparable.

Given this understanding, corporate responsibility should and can be more closely connected to efforts that counter corruption in order to promote their mutual success and effectiveness. Admittedly this thinking is a shift from how the anti-corruption movement originally viewed corporate responsibility. A decade ago, there was some ambivalence towards corporate responsibility which was thought to be a short-lived trend and viewed as superficial in its approach.
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However, non-governmental organisations (NGOs) and swelling ranks of citizens are increasingly looking to business to help solve some of the world’s seemingly intractable problems and, better still, to prevent some of them from occurring at all through more responsible corporate behaviour.

Yet companies are still doing a considerable amount of soul searching about corporate responsibility and what is actually the ‘business of business’. Corporate responsibility programmes are often relegated to a company’s legal or compliance departments rather than being integrated into its daily business processes. Particularly on matters of anti-corruption work, this is too often the case.

These and other concerns have led detractors of corporate responsibility to dismiss it as a mere public relations exercise, just another name for charity or a means for business to avoid dreaded regulation. Still a number of major corporations and sector leaders have learned, at times the hard way, that corporate responsibility is a key condition for a company to have the right to do business (see side bar).

3. Corporate responsibility: taking hold?

The pressure on companies to become better corporate citizens is not coming from stakeholders alone. In recent years, shareholders have been increasingly demanding that companies act as good corporate citizens (see side bar). For example, a small but growing group of investors (institutional or otherwise) has included corporate responsibility among the investment criteria used to evaluate a company’s environmental, social and governance performance (i.e. ‘socially-responsible investment’, SRI).

Another emerging trend in corporate responsibility has been the use of legislation by some countries. Denmark and France, for instance, have adopted laws which mandate companies to include information on their corporate responsibility programmes in their annual reports. In the United Kingdom, trustees of pension funds must now disclose how they have taken into account corporate responsibility issues in their investment decisions. In February 2009, Nigeria introduced a controversial bill which proposes to make compulsory a donation representing 3.5 per cent of a company’s profits towards corporate responsibility activities such as community investment and philanthropic activities. Other countries with corporate responsibility legislation on the books include Bulgaria, which focuses on labour and social policies in the workplace and communities.

As corporate responsibility takes hold and grows, the anti-corruption movement should strive to operationalise links between bribery and corruption and the corporate responsibility agenda. For example, the call for ethical practices by companies and their suppliers as part of corporate responsibility programmes can help to impose a level playing field, explicitly rejecting the use of bribery in business dealings. In this sense, promoting ethics, which is already considered a component of corporate responsibility, can have a direct effect on anti-corruption efforts while, at the same time, pursuing explicit anti-corruption programmes can help to strengthen a company’s commitment to responsible behaviour.

Still corruption is a new issue in the corporate responsibility arena. It is not an established pillar such as environmental sustainability or labour and human
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The UN Global Compact: A Platform for Anti-Corruption

More than 5,800 companies are registered with the Global Compact. Signatories to the compact include the Mexican construction conglomerate CEMEX as well as the German pharmaceuticals giant Bayer.

One of the key commitments made by companies that sign up to the Compact is the annual submission of a Communication on Progress, which is a demonstration of a signatory’s adherence to and progress on the principles. A special Global Compact task force chaired by Transparency International has developed comprehensive guidance materials to produce more thorough and consistent reporting on principle 10 and anti-corruption efforts across Global Compact signatory companies.

During their first year of participation, companies and organisations must report on at least two of the four Global Compact issues areas (human rights, labour, environment and anti-corruption) and after five years of participation, participants are required to report on all four issue areas.

Companies that fail to produce a Communication on Progress are ultimately delisted. Since being launched, about 1,800 companies have been dropped from the Global Compact for having failed to comply with this requirement.

Rights. Corruption did not register as a broader policy concern in the public and private sector before the late 1990s, following the establishment of Transparency International (TI) and other anti-corruption organisations, as well the recognition by the World Bank that corruption was an impediment to development. In 2003, the ratification of the United Nations Convention against Corruption (UNCAC) built on earlier initiatives to create an international legal framework on the topic.

4. Integrating corporate responsibility and anti-corruption

With corporate responsibility and anti-corruption now more entrenched in the policy arena, the challenge in creating closer linkages between them is not one of building greater awareness, but rather how each issue is being addressed within business.

The responsibility for anti-corruption, particularly in the United States where companies have tended to adopt a legal compliance approach to this issue, has traditionally been under the purview of the legal or compliance departments. Corporate responsibility, on the other hand, is often entrusted to external affairs departments or dedicated corporate responsibility units. The communication between those two departments is often lacking and their mandates not aligned. Behind closed doors, corporate responsibility may even be viewed as being too soft or not truly grounded in the company’s work and fully embraced by a company’s operating units and staff. Corporate responsibility officers often speak of the challenges they encounter within their own organisations where their activities are not seen as part of the core business and are therefore viewed as less important.

Despite these organisational realities, there have been calls for greater integration of corporate responsibility and anti-corruption initiatives by companies, particularly in relation to business reputation and ethics. This was highlighted in the 2008 report commissioned by BAE Systems, the UK defence company, into its business conduct. The report, which was sought by the company to examine its ethical principles and practices after a high-profile probe into allegations of bribery in one of its arms deals was called off, makes the case for greater integration of corporate responsibility, risk management and ethics. Lord Woolf, the British judge who wrote the report, recommended that “The Board Corporate Responsibility Committee (CRC) should have primary responsibility for oversight and reporting on standards of ethical business conduct and the management of reputational risk.”

This push for integration has been recognised within global instruments on corporate responsibility, namely the UN Global Compact, which is widely accepted as the world’s largest corporate responsibility initiative (see side bar). The Compact is a set of voluntary norms that relate to areas such as human rights, labour, the environment and corruption. The Compact is composed of 10 principles and is rooted in the consensus that exists around similarly themed international agreements, such as the Universal Declaration of Human Rights and UNCAC. Wherever they operate and have influence, company signatories to the Compact are called on to adhere to the principles.

The 10 Principle, with its focus on combating corruption, filled a gap which TI had been signalling since 2000. The ratification of UNCAC helped provide momentum for this principle, which was included in the Compact in 2004. In many ways, the inclusion of the 10 Principle was a watershed in terms of
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Several companies have already been excluded from the FTSE4Good Index for failing to comply with its new criteria. Since the index was launched in 2001, more than 270 companies have been excluded for not meeting one or more of its guidelines for inclusion. There are currently more than 820 companies in the index.

Recognising corruption as a core element of corporate responsibility and linking it to the issues which had long been central to the corporate responsibility discourse: the environment, human rights and labour practices. Another impetus for the integration of anti-corruption efforts within corporate responsibility programmes has come from the investment community. Some investment fund managers have called for the incorporation of an anti-corruption dimension into corporate responsibility work. In the past five years, TI has made considerable efforts to integrate anti-corruption measures into key corporate responsibility codes, standards and indices. For example, in 2005, TI began working with FTSE4Good, a socially responsible investment index, to add bribery and corruption to its initial criteria which cover environmental management, climate change mitigation, human rights, supply chains and labour standards. Bribery and corruption criteria are being introduced on a phased basis, focusing first on companies that are deemed high risk for corruption.

5. Corporate responsibility: more credible, more transparent

Building the credibility of corporate responsibility initiatives that address corruption as well as other concerns, requires companies to communicate and be more transparent about these efforts with internal and external stakeholders. Some companies under-report their corporate responsibility practices and programmes, including anti-corruption work, whereas others showcase their achievements in sustainability reports that may read like marketing brochures. For instance, companies might provide a very visible profile of their work, with their logo displayed prominently rather than focusing on real outcomes.

Overall, companies should better communicate and be more transparent about their work on corporate responsibility, particularly efforts targeting corruption. Many companies have made laudable strides in communicating their corporate responsibility programmes and reporting on their performance with the help of frameworks such as the Global Reporting Initiative (GRI), which sets out the indicators companies can use to provide information on their economic, environmental and social performance (see sidebar). For the GRI, anti-corruption indicators are listed under ‘social performance’, including explicit measures such as the “percentage and total number of business units analysed for risks related to corruption”, as well as implicit gauges like “the total value of financial and in-kind contributions to political parties, politicians, and related institutions by country”.

But much progress is needed in order for non-financial reports that are produced by companies as part of corporate responsibility programmes to provide consistent and meaningful information that is comparable across corporations. This is an issue that TI found to be particularly acute for reporting on anti-corruption work. In 2007, TI commissioned a survey to probe company reporting on practices to combat bribery and corruption. The study, Transparency in Reporting on Anti-Corruption – A Report of Corporate Practices (TRAC) assessed the extent to which close to 500 leading companies have reported the strategies, policies and management systems they had in place for fighting bribery and corruption. In spite of some exemplary practices, only seven of the 486 companies reviewed achieved the top score while 151 received the lowest. Across the board, companies tended to report on the presence of high-level
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Giving an Anti-Corruption Focus to Responsibility Initiatives

There are various corporate responsibility initiatives underway that could better integrate anti-corruption work to support their outlined aims. Many of the linkages are already implicit and simply require understanding how combating corruption helps to uphold them.

For example, the work done by the Responsible Jewellery Council to build consumer trust in ‘responsible’ supply chains of gold and diamonds could better emphasise the impact that bribery and corruption have in the process and honouring the group’s ‘anti-trust’ policy for trading. As part of the current initiative, similar companies have come together under an umbrella of corporate responsibility issues to guide their operations to be more transparent, accountable, ethical and done with integrity.23

The International Council on Mining & Metals (ICMM) is another initiative set up using the same model where the world’s leading companies operating in this sector have committed to business practices and work programmes that are aligned with sustainable development.24

Drawing on the structure already in place, anti-corruption efforts could be made more explicit to support the 10 principles of ICMM’s sustainable development framework, which includes corporate governance, ethics and risk management.

policies addressing anti-bribery and corruption but were mostly silent on the systems that support them. This absence of detail weakens the credibility of such reporting and can throw into question company commitment to broader corporate responsibility efforts towards internal and external stakeholders.

The eruption in recent years of several major corporate corruption scandals, partly due to greater enforcement of foreign bribery laws, has further eroded the credibility of companies and fed stakeholder scepticism of the claims made by enterprises regarding their anti-corruption efforts and commitment to corporate responsibility. To begin addressing these concerns, TI has been working with the six largest accounting firms in cooperation with the World Economic Forum, to develop a ‘Framework for Voluntary Independent Assurance of Corporate Anti-Bribery Programmes’. The aim of the initiative is to encourage business to consider public reporting and independent third-party assurance of anti-bribery programmes as a means to lend greater credibility to and raise stakeholder confidence in corporate measures to counter corruption and promote responsibility.

6. Moving forward

The increasingly mainstream acceptance of corporate responsibility could provide anti-corruption activists and practitioners with a greater opportunity to create and deepen the linkages that exist between both movements — in terms of content and approach. The overlap in interests between anti-corruption initiatives in the private sector and the ethical goals of corporate responsibility offers a natural integration with companies’ responsibility programmes that currently focus on the environment, human rights and labour rights.

Operationalising these connections at the company level is one step towards improving integration. More dialogue and cooperation between those responsible for anti-corruption and those overseeing corporate responsibility could help build greater coherence between approaches. To link content, business should be encouraged to participate in collective action against corruption. Existing industry and sector initiatives could be replicated on a wider scale. Other efforts that have been established around responsible business practices could also be expanded to include bribery and corruption (see sidebar).

Yet another step is required of the anti-corruption movement. The corporate responsibility agenda provides the anti-corruption movement with an increasingly relevant platform for its message and this is an opportunity it must consider. The anti-corruption movement should seek to learn from the experiences and successes of corporate responsibility initiatives that have been able to set standards and principles on areas such as the environment, human rights and labour relations. While they are still in evolution, these standards and frameworks are more mature than those that have been developed relating to corruption. They provide an opportunity to reflect on their successes, as well as failures.

To promote advances on both these fronts, actions by the anti-corruption movement could include:

- Intensifying its dialogue with leading corporate responsibility initiatives to ensure that the anti-corruption dimension is given the focus it deserves.
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- Working more closely with the corporate responsibility and investment communities to promote the adoption by companies of anti-corruption policies and programmes based on TI tools such as the Business Principles for Countering Bribery.

- Promoting greater corporate transparency through corporate responsibility by advocating that Fortune 500 companies adopt corruption reporting criteria such as those that have been developed by TRAC and the TI/UNGC Reporting Guidance.

- Making corporate anti-corruption programmes more credible and linked to corporate responsibility through the use of tools that allow for independent assurance.

While these suggestions are only a preliminary list of entry points, they can help to enhance the linkages necessary so that the anti-corruption movement contributes to the corporate responsibility agenda, as well as learns from it.
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References:
1. The use of the term 'corporate responsibility' rather than 'corporate social responsibility' throughout this paper is deliberate. Many practitioners in the field have adopted this terminology and the authors believe that the term is more apt as it removes the more philanthropic connotation the term may have traditionally had. The term corporate social responsibility (CSR) has, however, been retained in quoted material.
2. Terms abound: corporate responsibility, corporate social responsibility (CSR), corporate citizenship or, as recently coined by a UK expert, corporate sustainability responsibility. Also see: CSR International Working Papers, publications/politics/policies/p0_3_2009_082Uri.pdf.
3. See: www.csrinternational.org/?p=1100. The International Organization for Standardization has been working on ISO 26000, a voluntary standard for corporate responsibility by companies. See: www.iso.org/.
6. See: The King III Report was passed on 1 September 2009 and entered into law on 1 March 2010. For more information, see: www.pwc.com/za/en/press-room/king-li-integrated-reporting.html.
11. Under pressure from Greenpeace and a Europe-wide protest movement, Shell had to scrap its plans for the disposal in the North Sea of the Brent Spar oil storage facility.
12. See: www.shell.co.uk/home/content/gbr/aboutshell/shell_businesses/e_and_p/facts_figures/decommissioning/brent_spar/brent_spar.html.
13. This is based on public statements made in 1996 by then World Bank President James Wolfensohn. See: http://go.worldbank.org/MR11Y8R0ZA0.
16. The reporting matrix is comprised of two reporting levels: basic and desired. The matrix is accompanied by a companion document that includes descriptions of reporting elements and presents examples of appropriate reporting. www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/UNG-C-AntiCorruptionReporting.pdf.
19. The Global Reporting Initiative (GRI) is an organisation that has developed the world’s most widely used sustainability reporting framework through a consensus-building dialogue with actors from business, civil society, labour, and professional institutions. The framework provides principles and indicators for organisations to measure and report their economic, environmental, and social performance. See: www.globalreporting.org.
20. For information on the indicators used for the GRI G3 Guidelines can be found at: www.globalreporting.org/ReportingFramework/G3Online/PerformanceIndicators.
21. Results were based on the analysis of publicly available documentation and were aggregated by country and industry sectors. A maximum of 50 points could be received by any company, which was based on three reporting areas: strategy (maximum 10 points), policy (maximum 15 points) and management systems (maximum 25 points). For more information on the TI TRAC Report, see: www.transparency.org/news_room/latest_news/pres_releases/2009/2009_06_19_trac_press_release.
22. Information on the number of companies delisted and currently in the index are as of 31 March 2010, which was provided by the FTSE Group. The FTSE4Good Index does not include tobacco producers, weapons systems manufacturers, nuclear power utilities and uranium processors.
24. For more information on the Responsible Jewellery Council, see: www.responsiblejewellery.com.
25. For more information on the ICMM, see: www.icmm.com/our-work.

Transparency International (TI) is the civil society organisation leading the global fight against corruption. Through more than 90 chapters worldwide and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption, and works with partners in government, business and civil society to develop and implement effective measures to tackle it. For more information go to: www.transparency.org

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