The Foreign Policy Centre

TRANSPARENCY INTERNATIONAL (UK)

Countering Corruption: The role for corporate security

Thursday 1st May 2003, 8.30-10.15am, at The Foreign Policy Centre in association with Transparency International (UK)

The context of the seminar:

As part of the research project, 'Corporate Personnel Security in Emerging Markets', **Graham Rodmell** of Transparency International (UK) and **John Bray** of Control Risks Group spoke on the subject of why corporate security managers should be interested in corruption, showing how they can be part of the solution on the ground. Susan Cote-Freeman, also of TI (UK) introduced the recently published Business Principles.

TI Indices:

Each year TI publishes the **TI-Corruption Perception Index**, which statistically collates the results of numerous surveys of people working for multinational firms and attempts to assess the level at which corruption is perceived as impacting on commercial and social life. In this year's Index, the least corrupt countries, in a list of 102, were Finland, Denmark, New Zealand and Iceland, and the most corrupt were Bangladesh and Nigeria. The UK came in at number 10, up three places on last year!

Last year, TI also published its second **Bribe Payers Index**, which ranked 21 leading exporting countries in terms of the degree to which their corporations are perceived to be paying bribes abroad. The survey was undertaken in 15 leading emerging market countries. Most prone to bribe were corporations in Russia, China, Taiwan, South Korea and Italy; least prone to bribe were corporations in Australia, Sweden and Switzerland. The survey showed that bribes were most likely to be paid in public works contracts and construction, the arms and defence industries.

The main findings of the seminar:

Corruption can be harmful economically, commercially and societally. Economically, corruption is immensely damaging in the field of North-South development, where the true victims are the poorest and most vulnerable; commercially, corruption results in the misuse of a company's capital, and where employees know that corruption is routinely practiced, the corporate culture of that company can be tarnished. Surveys have shown that the perceived level of corruption is the single biggest disincentive for companies wanting to invest in foreign markets. As corruption has distorted markets, prevented fair competition and has fuelled extortion, emerging societies have voiced their concern about the impact of corruption on their countries, and as such, local voices are starting to influence corporate behaviour.

In recent years there has been a "revolution" in anti-corruption worldwide. In 1997, twenty-nine OECD countries and 5 non-OECD countries signed the OECD convention (all have now ratified it), thereby criminalizing the bribery of foreign public officials to obtain business anywhere in the world. Other organisations that have tackled corruption include the European Union, the Organisation of American States, and the United Nations. It was only the response to September 11th that achieved the criminalisation of foreign bribery in UK law. In force since 14th February 2002, Part 12 of the Anti-Terrorism, Crime and Security Act 2001 provides for extra territorial powers; it proscribes that any UK companies or nationals can be tried under UK domestic law, irrespective of where in the world the corruption or bribery took place. This legislation applies to both the public and private sector, and makes no distinction on the size of the bribe. Many companies have become more active in terms of fighting corruption; moreover, government departments are now openly supporting the policy eg.***Trade Partners UK*** now unequivocally states, "Bribery is bad for business".

Criminal penalties alone cannot achieve and sustain integrity in working practices. The implementation of voluntary principles is essential. As such, the DTI is promoting the OECD Guidelines for Multinational Enterprises requiring participating states (of which there are twenty-nine) to set up National Contact Points (NCPs) where the implementation of the guidelines can be monitored. Similarly, the ICC Rules of Conduct – Extortion and Bribery in International Business Transactions" – created by commerce for commerce, are also instructive.

A natural reaction to extortion backed by threats of physical damage to property or persons is to pursue a policy of "fortress" security (enhanced safety and security measures), but this does not help where the threats of corruption are internal. Concepts of corporate governance are rapidly developing; internal controls must be able to respond to risks, including risks of damaged reputation and business probity, especially as for large corporations it is often difficult to identify from where corruption stems. Companies looking to remain competitive and to enhance shareholder value into the future, will see corrupt business as a serious threat and positive measures to combat it as opportunities.

Communication between HQ and local offices:
Poor communication between HQs and their local offices is one factor that allows corrupt practices to continue unchecked. Indeed, contrary to general thinking that local employees perceive bribery and corrupt practices as necessary to working in an already corrupt environment or society, both speakers and participants noted that they were seeing more local managers looking to their HQs for an unequivocal policy against corruption and bribery.

There are numerous examples of companies that have a good code, but do not succeed in embedding it in their practices. It is unrealistic to expect employees to comply with ethics and principles they do not know about. Some companies do put their employees in a very difficult situation. It was suggested that companies should provide unequivocal guidelines, mandatory training for all staff all over the world, and rigorous compliance procedures, thus ensuring that any anti-corruption/bribery policies or codes made at "the top," are understood and implemented at the local level. A Company's zero tolerance policy, the FCPA and the new laws in the UK criminalising foreign bribery are then seen aa potential "shields". Moreover, the role of a local manager on the ground is key to the success of communication; this role is perceived as being very important for local staff.

Whistle-blowing:
There is evidence to show that whistle-blowing can be an effective tool in tackling corruption. One participant noted that when their company introduced a whistle-blowing scheme, an anonymous tip-off from a group of employees led it to uncover a major fraud within three weeks. Following the eviction of the offending management, productivity increased 10-fold.

Companies need to work hard to encourage the use of such schemes. This could take the form of a specific office to which to report, or an anonymous phone line (as one company noted they had). As well as being a place where malpractice can be reported, these facilities can also serve as a centre where help can be received. Security measures need to be taken though, so those who do wish to reveal information feel safe in doing so. For example, the risks of whistle-blowing are more significant for locals than expatriates, who can be withdrawn from the region.

Another suggestion was the creation of an 'Ethics Committee' within a company. Existing as a semi-independent body, the committee would be able to make decisions and rulings on ethical issues and its existence would illustrate the company's commitment to tackling corruption. One company present said that its Ethics Committee had been very useful. Others thought that the ethical issues of anti-bribery and corruption were a subset issue, and that a more overarching framework was needed for corruption to sit within.

Co-operation between companies:
In some countries, where there is at least a nominal commitment by the government to improve 'governance', joint action by international and local companies could make a real difference. There are clear benefits for companies working together to tackle corruption: they can share information, experiences, expertise, and to some extent, the costs of doing research and developing new policies. Conversely, companies may worry about working with competitors, or revealing information that may impact negatively on their reputation.

Resistance is however starting to break down. 12 international private banks have agreed to the Wolfsberg AML Principles concerning global anti-money-laundering and representatives from a number of sectors present noted increased co-operation on the ground. It is suggested that companies extend this kind of co-operation into the field of fighting corruption by jointly publishing policy documents; indeed, it has been further suggested that for SMEs, working together is the only option. TI, in association with Social Accountability International, have themselves developed a template of Business Principles for small, medium and large enterprises to develop.

At a local level, companies could agree that each would:

- Publish and disseminate their codes of conduct with explicit anti-bribery provisions taking media space for this purpose;
- Announce that anyone of them approached for a bribe would publicise the approach to an anti-corruption commission where it exists, or to the media;
- Announce a commitment to establish a mechanism for "whistleblowers" to report any bribes paid from within a company;
- Fully disclose all contributions made to political parties;
- Publish a list of accredited agents (if any) and announce that audit procedures will support the verification of services for which fees and commissions may be paid.

Transparency measures:
In order that any corrupt practice can be exposed, and also to deter corrupt practices from occurring in the first instance, companies should develop measures to improve transparency. These may include more rigorous employment screening, and compulsory disclosure of contributions to political parties, which is particularly important in post-conflict states where corruption is more likely, and registering gifts. Corporate security managers will have a significant role to play in these areas. They may also get involved by conducting due diligence research on business partners, supply chain contractors and agents retained to organise deals; and by reviewing and building all the company's key relationships, locally as well as globally. These functions are at the heart of delivering reputation.

It was noted however that disclosing all instances of corporate hospitality, although prudent, is not necessary. If the receipt of a gift or hospitality induces a conflict of interests, or embarrassment under the "newspaper test" (if a company or person would be embarrassed or shamed by the news of his receiving a gift or hospitality being in the public domain), disclosure is advisable, but it remains a matter of degree. The notion of disclosure promotes the idea of business responsibility.

Wider policy framework:
If an anti-bribery/corruption policy is to be effective, responsibility for its implementation cannot lie solely with the legal, financial, human resources, security or any other single department. What is needed is a committee structure, comprised of representatives from across the company. Moreover, the solution does rest with companies alone. It may be worth trying to enlist the help of UK ambassadors and high commissioners to join with the diplomatic representatives of other OECD states to make clear to 'host' governments the serious consequences to their nationals of being found guilty of bribing to obtain business. UK diplomatic posts are already required to report allegations of bribery by UK companies or by of other OECD states.

Conclusion:
What emerged from the seminar was that as companies seek to become more international, they become vulnerable to corrupt practices in primarily emerging and post-conflict societies. Corruption can not only threaten the reputation and profit making ability of companies, it can give rise to real security issues from bribery at one end of the scale, to physical attacks by vengeful people who have partaken in corrupt exchanges at the other. Corporate security managers can be part of the solution on the ground by acting as a link between HQ anti-corruption policy and local employee practice, by encouraging whistle-blowing, liasing with other corporate security managers from other companies, and by introducing measures to improve transparency.

This seminar is part of the Corporate Personnel Security in Emerging Markets research projects. This 16-month piece of work is being run by Rachel Briggs, Risk and Security Research Programme Manager at The Foreign Policy Centre. The project is kindly supported by **Shell**, **HSBC**, **GSK**, **Armor Group**, **Group 4 Falck** and **Control Risks Group**.

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For more information about this project or other work being carried out as part of the programme, please contact Rachel Briggs at Rachel@fpc.org.uk or on tel: 020 7401 5356.

TI and TI(UK):
TI is a not-for-profit, independent, non-governmental organisation, whose objective is to counter corruption, primarily in international business transactions. Its headquarters are in Berlin and there are now about 90 national chapters across the world. Above all it promotes the message that corruption needs to be and can be overcome.

TI(UK) is one of TI's founding Chapters. It was launched in 1993.

TI's approach is essentially practical and realistic. It bases its case primarily on economic and developmental grounds. It builds broad coalitions against corruption, working with government, business and civil society, seeking consensus across nations and cultures. TI will not investigate and expose individual cases of corruption.