ANTI-CORRUPTION AS STRATEGIC CSR:
A call to action for corporations

May 2009

Greg Hills, Leigh Fiske, Adeeb Mahmud

FSG SOCIAL IMPACT ADVISORS

Sponsored by
MERCK COMPANY FOUNDATION

In collaboration with
ERC ETHICS RESOURCE CENTER

About FSG Social Impact Advisors

FSG Social Impact Advisors is an international nonprofit consulting and research organization dedicated to accelerating social progress by advancing the practice of corporate social responsibility and philanthropy. Founded in 1999, FSG achieves its mission in three ways:

- **Advice** – Advising leading corporations, foundations and nonprofits on how to increase social impact through strategy development and evaluation
- **Ideas** – Researching and publishing innovative ideas and approaches for strategic CSR
- **Action** – Identifying long-term initiatives that address critical challenges and opportunities in the field

Our staff of international consultants combines the highest standards of strategy consulting with a deep understanding of corporate philanthropy, CSR, and the nonprofit sector. Our thinking is regularly featured in such publications as *Harvard Business Review, the Economist, Wall Street Journal, Stanford Social Innovation Review,* and many others. FSG has worked with dozens of global corporations — including Merck, Citi, GE, Microsoft, Nestle, Pfizer, Shell, and Swiss Re — to build competitive advantage and social value through innovative practices in CSR and philanthropy. For more information, see www.fsg-impact.org.

About the Authors

Greg Hills, Managing Director at FSG Social Impact Advisors, advises global corporations on CSR and corporate philanthropy strategy. He has published several CSR articles and white papers and speaks frequently on innovative approaches to CSR. Adeeb Mahmud, Senior Consultant, and Leigh Fiske, Consultant, both have significant CSR consulting and research experience. You may reach Greg at greg.hills@fsg-impact.org.

About The Merck Company Foundation

The Merck Company Foundation is a U.S.-based, private charitable foundation. Established in 1957 by the global research-driven pharmaceutical company Merck & Co., Inc., the Foundation is funded entirely by the Company and is Merck's chief source of funding support to qualified non-profit, charitable organizations. Since its inception, The Merck Company Foundation has contributed more than $560 million to support important initiatives that address societal needs and are consistent with Merck's overall mission to enhance the health and well-being of people around the world. For more information, visit www.merckcompanyfoundation.org.

About ERC

The Ethics Resource Center is the United States' oldest private, nonprofit organization devoted to independent research and the advancement of high ethical standards and practices in corporate, public and nonprofit institutions. It collects and analyzes data, supports the public discussion of ethics and ethical behavior, contributes to policy dialogue between business and government and promotes new thinking on effective practices in the workplace. The ERC's primary activities are research and benchmarking (it is the leading source of surveys and benchmarks on workplace ethics), dissemination of knowledge and its respected ERC Fellows program for chief ethics and compliance officers. For more information, visit www.ethics.org.

Table of Contents

Executive Summary 2

I. Introduction

Background 6

Objectives and Methodology 8

II. Corruption as a Front-Burner Issue

The Business Imperative 10

The Social Imperative 15

III. A Critical Assessment of Corporate Anti-corruption Efforts

The Necessity of Compliance 17

The Challenges of Collective Action 19

A Limited Focus on the Demand Side 24

IV. The Unique Value of Corporations 30

V. The Path Forward

Using a Strategic CSR Lens 36

A Call to Action for Corporations 37

Organizing for Impact 40

Future Prospects 42

Appendix A: Organizations Interviewed 44

Appendix B: Bibliography 46

EXECUTIVE SUMMARY

Corruption is not a peripheral social concern that corporations can ignore or passively address — it is a bottom-line business issue that directly affects companies' ability to compete. Widespread in emerging markets, corruption is becoming an increasingly important issue for business to address. Furthermore, it cheats disadvantaged populations by diverting resources for critical services like education, clean water, and health care into the pockets of dishonest government officials.

For decades, donors and nonprofits have targeted corruption, but with limited evidence of progress. Corporations have largely focused on "getting their own house in order" through ethics and compliance programs, as well as recently established collective action initiatives. With few exceptions, however, corporations have not committed to more proactive efforts aimed at comprehensive solutions to the problem.

This paper is a call to action for business to embrace anti-corruption as strategic corporate social responsibility (CSR) – moving beyond risk mitigation toward proactively solving social problems critical to the business. With a particular focus on the developing world, it suggests that corporations can build on existing models for compliance and collective action and take a greater leadership role in the broader anti-corruption effort. Just as top corporations have staked out proactive positions on other social issues, such as child labor and the environment, it's time for anti-corruption to become part of companies' CSR missions.

Sponsored by The Merck Company Foundation, a long-time supporter of ethics and anti-corruption work in emerging markets, this paper has also benefited from close collaboration with the Ethics Resource Center (ERC), a nonprofit that has served as Merck's implementation partner in establishing and managing ethics centers around the world.[1]

To conduct this research, FSG Social Impact Advisors interviewed leading global experts, stakeholders, and corporate representatives who are active in ethics and anti-corruption activities. We supplemented these interviews with research and analysis, so as to highlight effective global initiatives and offer recommendations for CSR professionals, compliance officers, and business-unit leaders.

Despite limited corporate activity overall, our research uncovered several examples of proactive, external efforts. Google is working with African governments to increase communications and transparency through online tools, GE is influencing Chinese antibribery governance regulations, and Merck has a long-standing program to fund anti-corruption NGOs in several markets. Much more is needed to achieve greater coordination, effectiveness, and scale, but these and other case studies provide a useful starting point for consideration and signal a radically different approach to anti-corruption efforts from the status quo.

[1] The Merck Company Foundation is the corporate foundation of Merck & Co., Inc., which is headquartered in Whitehouse Station, N.J., and operates as Merck, Sharp & Dohme (MSD) in most countries outside of the United States. In this paper, references to "Merck" include both Merck & Co., Inc., and the Merck Company Foundation.

We envision a world in which corporations become leaders in fighting corruption. To reach that goal, we recommend four complementary approaches (see Figure 1):

1. ***Ensure compliance.*** Corporations should continue to invest significantly in ethics and compliance programs to maintain or increase their level of integrity throughout all divisions and countries.

2. ***Strengthen collective action.*** Efforts need to shift from broad-based, diffuse declarations to more outcome-oriented pacts that can create effective incentives for members to change behavior.

3. ***Engage demand-side forces***. While the typical focus of corporate anti-corruption work is on the "supply side" of corruption (the private sector), corporations should expand their efforts to influence the "demand side" (the public sector).

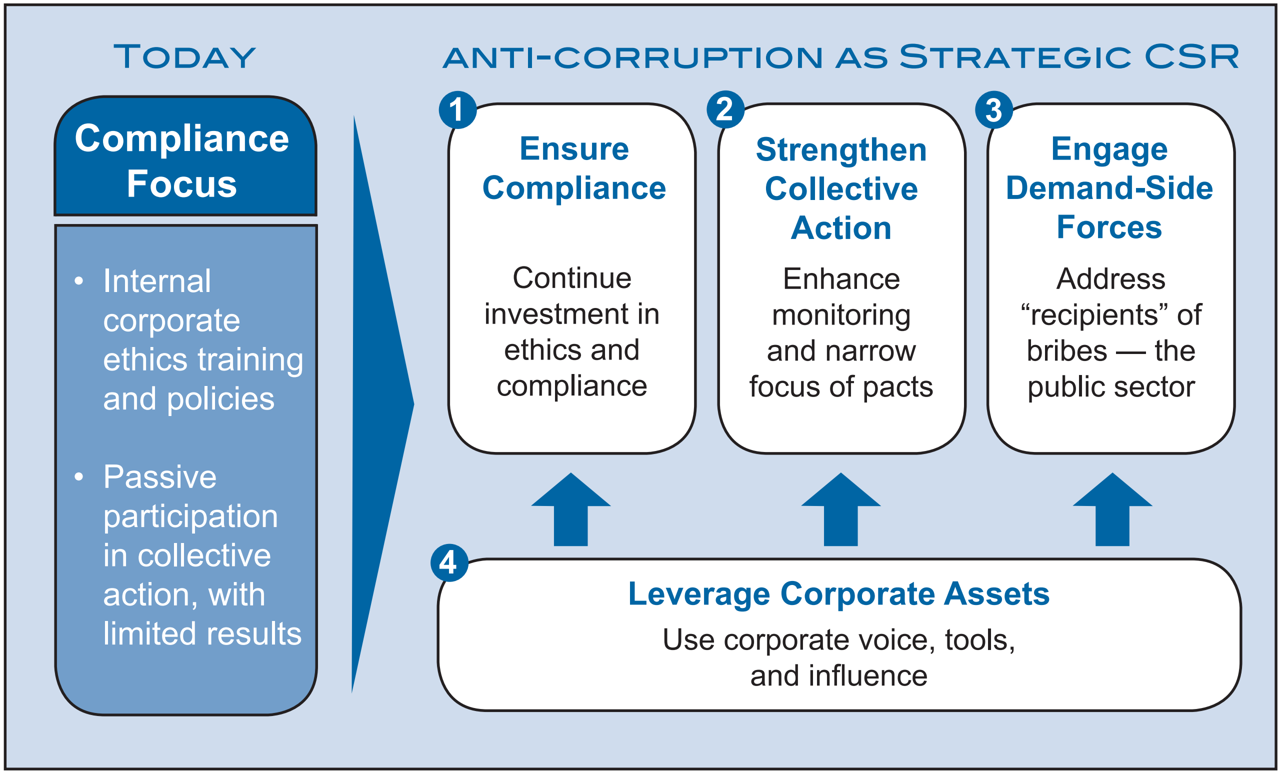
4. ***Leverage corporate assets.*** Corporations possess unique and powerful strengths in the fight against corruption, including communications power from the corporate brand, economic leverage, technical expertise, and cash resources for grantmaking.

Corporations are currently not organized to execute swiftly on the recommendations in this paper. A proactive, external-facing approach to fighting corruption has no natural home within a typical corporate structure, as ethics departments are usually staffed with compliance-focused lawyers and most CSR departments do not include anti-corruption work as a priority. To achieve success in the fight against corruption, corporations need to *adjust their mindset* to include a broader anti-corruption agenda and *align and integrate* resources and staff for effective execution.

Corporations are not a panacea for all the problems the world faces from corruption. However, companies have a business imperative to reduce corruption in critical growth markets and can play an integral role in developing meaningful solutions to this challenge.

Figure 1:

Four Paths to Fighting Corruption



Section I: Introduction

> "Corruption is now recognized to be one of the world's greatest challenges."
>
> — United Nations Global Compact

Background

Dumping chemicals into a river. Employing a child in a sweatshop. Bribing a government official. Each of these actions is irresponsible and often illegal, and also exacts direct costs on society. Yet corporations' role in addressing the last problem has been quite different from the others.

Companies have spearheaded sophisticated environmental and child-labor reform efforts, often looking well beyond their own firms to integrate their work with NGOs and the public sector. Fighting corruption, however, still remains a frontier field for corporations. While some companies seek tighter controls on bribery to ensure compliance with existing anti-corruption laws, proactive and effective approaches to addressing the overall problem of corruption are not widespread.

Corruption is defined as the "misuse of entrusted power for private gain" and represents a critical business issue for corporations and a significant social issue around the world.[2] Corruption costs an estimated $2.6 trillion globally in bribes, inflated project budgets, and legal and other expenses. It also undermines public trust and steals resources from developing countries that badly need the funds to address poverty and other social problems. As the typical source of bribes, corporations are a significant part of the problem and could benefit measurably from progress toward solutions — particularly in terms of reduced costs, greater

---

[2] This definition is from Transparency International. For the purposes of this paper, references to corruption primarily imply private-sector bribery of public officials. We recognize that corruption can also take a number of other forms, such as government officials "skimming" from public funds and bribery between private-sector actors. Our corruption definition excludes the larger umbrella of ethical issues such as human rights, labor practices, or environmental stewardship. Within the field, other terms used to refer to anti-corruption, particularly in the corporate sector, include compliance, transparency, ethics, and integrity.

operational efficiency, and improved reputation. Therefore, the anti-corruption field offers a major opportunity for strategic corporate social responsibility (CSR) programs to tackle an issue that is inherently linked with both corporate and societal interests.

While corruption was once a taboo subject, in the last decade fighting corruption has emerged as a worldwide movement encompassing a range of organizations and tools. NGOs such as Transparency International (TI) and Global Witness exert influence through advocacy efforts, corruption indices, and broad awareness building, while bilateral and multilateral efforts like the U.N. Convention Against Corruption, the Organization for Economic Cooperation and Development (OECD), and the World Bank Institute (WBI) have heightened global commitment to anti-corruption work. Existing resources that influence corporate work against corruption include TI's National Integrity System framework, WBI's Business Fighting Corruption portal, and the joint publication "Business against Corruption: A Framework for Action."[3] Further, collective action efforts — such as the United Nations Global Compact (UNGC), the World Economic Forum's Partnering Against Corruption Initiative (PACI), and the Extractive Industries Transparency Initiative (EITI) — have emerged within the last 10 years and succeeded in getting countries and corporations to sign on to efforts for reform and collaboration.

Despite this attention, corporations today largely treat corruption as a legal and risk-management problem requiring a compliance-driven approach. Ethics and compliance officers typically do not view external anti-corruption efforts as part of their jobs, nor do CSR executives often seek to address this social problem. Global or industry-wide anti-corruption initiatives are frequently toothless, inadequate in size, or nonexistent. Compared with other social issues that affect business, corruption has not received a proportionate level of attention. As Mark Snyderman, chief ethics and compliance officer and assistant general counsel at Coca-Cola, says:

> "Companies have been very active in looking at labor and environmental issues affecting their supply chain, but not much attention has been paid to anti-corruption."

[3] A joint publication of Transparency International, International Business Leaders Forum, and the United Nations Global Compact.

Why does corruption remain a neglected social issue among CSR priorities? How can corporations become a larger part of the solution? What changes need to be made in the corporate world in order to shift the mindset toward a strategic CSR approach?

Objectives and Methodology

This paper looks at anti-corruption efforts in the developing world through a lens of strategic CSR, moving beyond risk mitigation and toward proactive solutions for social problems critical to business. It explores how corporations can build upon existing models for compliance and collective action so as to play a greater leadership role in anti-corruption efforts throughout the developing world. Based on our findings, we call for corporations to embrace anti-corruption work as a strategic CSR priority and to redefine their role in improving the corruption climate in key markets.

This research was sponsored by the Merck Company Foundation, a pioneering supporter of ethics and anti-corruption reform in emerging markets. The paper also benefited from collaboration with the Ethics Resource Center, a nonprofit intermediary that has provided leadership, technical expertise, and administrative oversight for Merck's four ethics centers. ERC is the leading nonprofit organization dedicated to improving corporate ethics and anti-corruption practices.

The research methodology focused on identifying and understanding examples of corporate anti-corruption efforts beyond the traditional compliance-focused approaches. It sought to capture successful models, gaps in existing strategies, and potential future roles for corporations. We interviewed leading anti-corruption experts and stakeholders around the world, as well as over a dozen representatives from multinational corporations active in ethics and anti-corruption activities (see Appendix A). In addition, we conducted field research at three of the Merck-funded ethics centers – in South Africa, Colombia, and Turkey – meeting with key corporate, NGO, and government stakeholders in-country. We supplemented these interviews with secondary research and analysis so as to highlight effective elements of global anti-corruption initiatives and to offer recommendations and operational implications for corporations to consider. As companies seek more strategic ways to help solve the world's problems, we present a roadmap for executives to explore the new CSR frontier — fighting corruption in the developing world.

The Merck Company Foundation:

Sponsoring Innovation in Anti-corruption

The Merck Company Foundation has provided the inspiration and sponsorship for this paper. Over the last decade, Merck's pioneering role in anti-corruption reform has included the creation of four independent ethics centers aimed at increasing transparency and reducing corruption:

- The Gulf Centre for Excellence in Ethics (GCEE), 1998
- Ethics Institute of South Africa (EthicSA), 2000
- Transparencia por Colombia (TpC), 2000
- Ethical Values Foundation of Turkey (TEDMER), 2002

This paper is a forward-looking discussion about the next wave of corporate involvement in anti-corruption efforts.

Section II: Corruption as a Front-Burner Issue

> "For businesses, corruption is about risk and cost management, not just reputation."
> — Jonas Moberg, Extractive Industry Transparency Initiative

Corruption is estimated to cost $2.6 trillion annually, an amount equal to more than 5 percent of global GDP. Each year, over $1 trillion is paid in bribes; not only do these payments undermine fair competition and affect the profitability of businesses operating globally, but they also divert crucial public resources away from their legitimate uses, denying citizens essential public services such as education, clean water, and health care.

The Business Imperative

Costs to Business

Corruption poses a real business threat to corporations operating in the developing world. Executives have always been concerned about negative PR from corruption, but they are increasingly becoming aware of the additional costs and risks they face, including:

- Operational costs. Corruption adds additional expense throughout the corporate value chain and can lead to costly operational disruptions. Current studies suggest that corruption adds more than 10 percent to the cost of doing business in many countries, and that moving business from a country with low levels of corruption to a country with medium to high levels is equivalent to a 20 percent tax.[4]

[4] "Business against Corruption: A Framework for Action," United Nations Global Compact, Transparency International, and International Business Leaders Forum, 2005; "Clean Business Is Good Business: The Business Case Against Corruption," International Chamber of Commerce, Transparency International, the United Nations Global Compact, and the World Economic Forum Partnering Against Corruption Initiative.

- Legal risks. Corporations face substantial consequences if they engage in corrupt business conduct, including large fines and disqualification from future government procurement. For instance, the German engineering conglomerate Siemens recently agreed to pay a record amount in fines to settle bribery cases against the company (see the sidebar titled “Siemens: Learning from a Costly Mistake”).

- Competitive risks. Companies can also be at a competitive disadvantage if they refuse to pay bribes. Companies that adhere to strict principles against corruption can find themselves losing business to less ethical competitors who are willing to pay to influence the procurement process.

Siemens:

Learning from a Costly Mistake

The case of Siemens provides a stark reminder of the high costs corruption can impose on a multinational company. Between 2001 and 2007, the German conglomerate used a large slush fund to pay bribes to corrupt government officials in countries across the globe.

The activities involved several of the company’s business units, including a Siemens subsidiary in Argentina, which paid at least $40 million in bribes to win a $1 billion contract to produce national identity cards and $20 million to senior government officials to build power plants in Israel.

Following investigations by authorities in multiple countries, including Germany and the U.S., the illegal activities have cost the company significant financial resources, as well as an even greater asset, its reputation. The Guardian newspaper reported last year:

> *“The scandal has cost Siemens, a symbol of German engineering excellence and corporate probity, not only its reputation and that of former senior executives, but more than [$2 billion] in costs. The company is being investigated in scores of countries around the world, two ex-board members are under criminal investigation, and a senior manager was recently given a suspended two-year sentence.”*

In addition to incurring legal, accounting, and re-structuring costs, the staggering $1.6 billion paid by Siemens as a result of its accepting a plea bargain is the largest fine in modern corporate history.

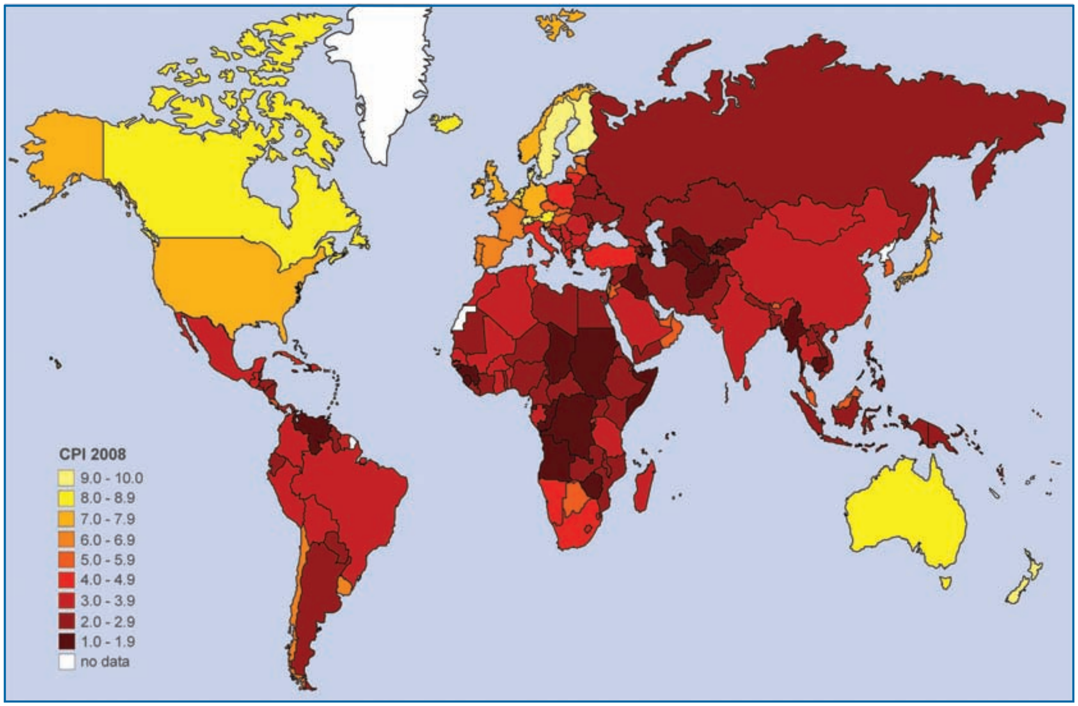
Since admitting its transgressions, the company has learned from its mistakes to inform its future activities. Siemens has since invested heavily in strengthening its compliance program. According to Sabine Zindera, Vice President, Corporate Legal and Compliance, the company has increased the number of staff working on compliance from six to almost 600 and has provided training to 120,000 of their employees during the last year. In an effort to become a leader in corporate compliance efforts, Siemens is also working with external stakeholders to create tools and resources to benefit the anti-corruption efforts of other corporations.

The Growing Importance of Emerging Markets

The global hot spots for corruption are developing countries (see Figure 2). The already significant costs of corruption will only increase as the proportion of global business conducted in developing countries — and emerging markets in particular — continues to rise. Research indicates that high-growth emerging markets have higher levels of corruption than G-7 countries (see Figure 3).[5] The powerful influence that these markets will have on the future success of multinational corporations is a strong incentive to engage in anti-corruption efforts.

Figure 2:

Global Hot Spots of Corruption

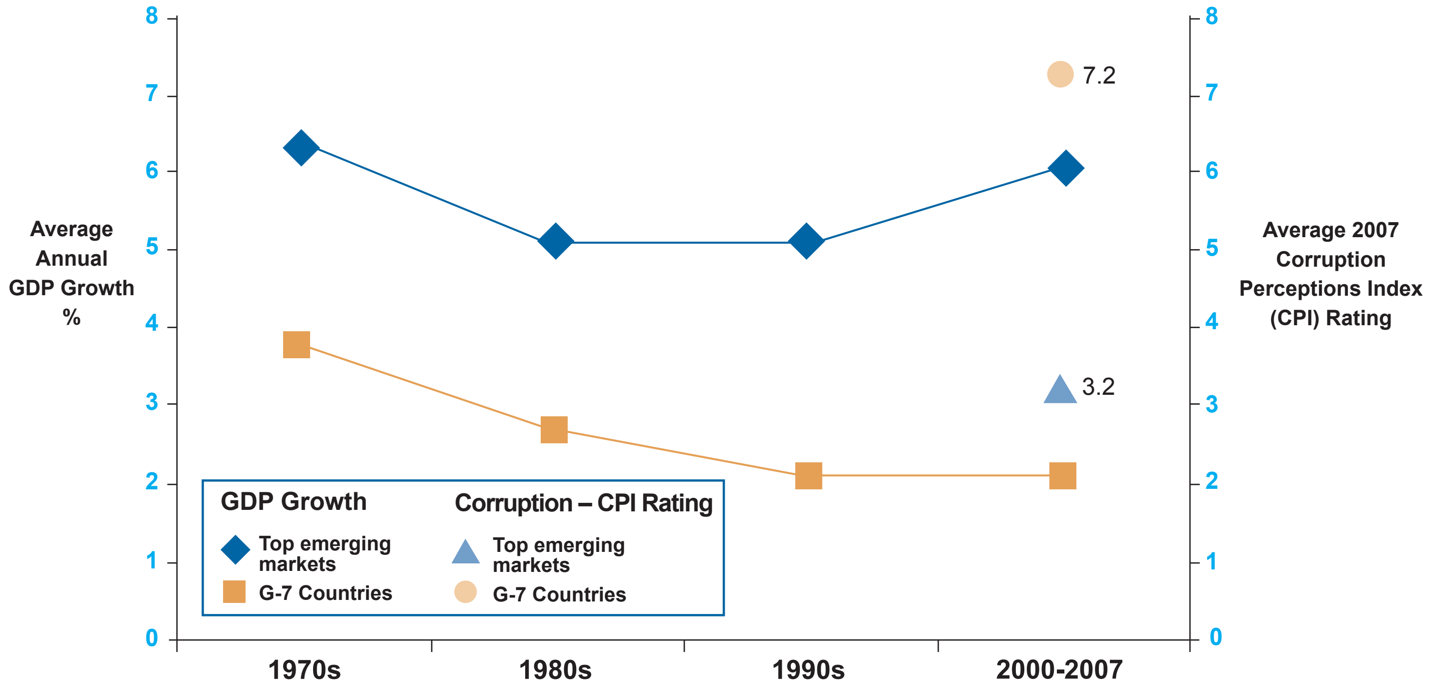


Source: Transparency International, 2007 Corruption Perceptions Index

[5] From 2000 to 2007, leading emerging markets GDP has grown at an average rate of over 6 percent, compared with just over 2 percent for the world's largest developed economies. On a scale of one to 10, where 10 indicates the lowest levels of corruption, the G-7 countries on average score 7.2, while the leading emerging markets score 3.2.

Figure 3:

Emerging Markets Have Higher Corruption



Source: The World Bank, Transparency International
Note: On the Corruption Perception Index (CPI) scale of one to 10, 10 indicates the lowest levels of perceived corruption.

Emerging markets are expected to increasingly drive the world economy in the future. Researchers predict that the four BRIC emerging economies combined could equal over half the total GDP of the six current largest industrialized economies by 2025, and could overtake them in less than 40 years.[6] The number of consumers in the developing world is growing at three times the rate of the developed world, and over the next 10 to 15 years, the majority of global growth in consumer goods consumption will be concentrated in emerging markets.[7] Revenues across multiple industries (e.g., technology, consumer packaged goods, manufacturing) indicate the growing contribution of emerging-market revenues and profitability to major corporations (see the sidebar titled "Emerging-Market Growth among Leading Corporations").

Emerging-Market Growth Among Leading Corporations

- **Cisco:** Emerging-market revenues have risen from 8 percent to 15 percent, accounting for 30 percent of overall revenue growth in the past three years.[8]
- **IBM:** The firm has a goal of increasing non-U.S. revenues from 18 percent today to 30 percent within the next five years.[9]
- **GE:** Emerging-market revenue growth averaged 20 percent over the past few years and was anticipated to reach $40 billion, or 23 percent of global sales, in 2008.[10]
- **Unilever:** The company already earns 45 percent of its revenues in emerging markets.[11]
- **Coca-Cola, Gillette, Nestle, and Colgate-Palmolive:** Each company earns over one-third of its revenues in emerging markets, with profitability equal to, and often greater than, that generated in developed countries.[12]

[6] BRIC stands for Brazil, Russia, India, China; the six largest industrialized economies are the United States, United Kingdom, Japan, Italy, France, and Germany; "The Growing Importance of Emerging Economies in the Globalized World and Its Implications for the International Financial Architecture," European Central Bank, 2007.
[7] "Five Rules for Winning Emerging Market Consumers," James A. Gingrich, *Strategy + Business,* 2008.
[8] "A Bigger World," *The Economist*, 2008.
[9] *Ibid*.
[10] GE Web site.
[11] Unilever.
[12] "Five Rules for Winning Emerging Market Consumers," James A. Gingrich, *Strategy + Business,* 2008.

An Increasing Sense of Vulnerability

A growing number of executives are recognizing that their companies are vulnerable to the effects of corruption. In a 2007 survey, senior executives reported that corruption was a top-of-mind business issue:[13]

- Almost two-thirds of executives have experienced some form of corruption.
- Nearly half have turned down a market opportunity due to corruption risks.
- Two out of five executives have lost a bid because of corrupt officials.
- Two out of five executives also claimed that their competitors pay bribes.

Senior executives also are becoming increasingly interested in addressing the negative effects of corruption. More than 70 percent believed that a better understanding of corruption would help their companies "compete more effectively, make better decisions, improve corporate social responsibility, and enter new markets." In addition, two-thirds of respondents believed that a level playing field is critical to their companies' future business success.[14]

The Social Imperative

In addition to having tangible business consequences, corruption exacts significant costs on society. Redirecting large sums of money contributes to increased poverty and income inequality and discourages foreign direct investment in poor countries where it is needed most. The effects include:[15]

13 "Confronting Corruption: The Business Case for an Effective Anti-corruption Program," PricewaterhouseCoopers, January 2008. Data from a global online survey of 390 senior executives conducted by the Economist Intelligence Unit.
14 *Ibid*.
15 Jonathan P. Doh, Peter Rodriguez, Klaus Uhlenbruck, Jamie Collins, and Lorraine Eden, "Coping with Corruption in Foreign Markets," Academy of Management Executive, Vol. 17, No. 3, 2003.

- Reduced government services, particularly for the disadvantaged. Studies indicate that in some countries corruption adds as much as 25 percent to the cost of public procurement.[16] This diversion of resources results in lower quality services, which also become more expensive and often unaffordable for the poorest citizens.

- Constraints on foreign direct investment. Investors typically avoid environments in which corruption increases the cost of business and undermines the rule of law.[17] As Bono, a board member of Debt AIDS Trade Africa explains, "The single biggest obstacle to business and the renewal of the economies in the South is corruption and the single biggest obstacle to getting start-up money for those businesses, if you want to look at aid as investment, is corruption."

- Decreased trust in government. In societies where bribery persists and corrupt officials are not held accountable, citizens lose faith in their government. A lack of public trust undermines the rule of law, which can lead to increased crime, reduced safety, and further instability.

[16] "Business Against Corruption: A Framework for Action," United Nations Global Compact, Transparency International, and International Business Leaders Forum, 2005.
[17] John Sullivan and Alexsandr Shkolnikov, "The Costs of Corruption," *Issues of Democracy,* Vol. 11, No. 12, December 2006.

Section III: A Critical Assessment of Corporate Anti-corruption Efforts

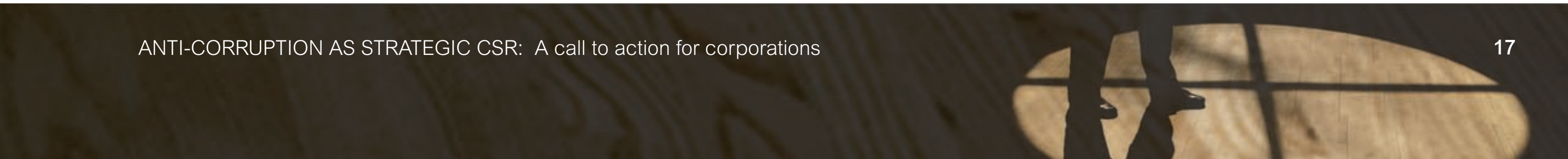
> “We’ve been working to address these issues for over 25 years, and in many cases, we still have very little to show for it.”
>
> — Jerry O’Brien, Deputy Division Chief, USAID Global Development Alliance

The anti-corruption field faces an uphill battle as it seeks to demonstrate effectiveness and progress. The following is a critical assessment of the current state of the movement, with a focus on the potential role of corporations in improving traditional approaches. We find that corporations need to increase the vigilance of their compliance efforts, invest in improving collective action approaches, and include a focus on the demand side of corruption in the public sector.

The Necessity of Compliance

Adherence to existing antibribery laws is the baseline of corporate anti-corruption efforts. The Foreign Corrupt Practices Act (FCPA) requires U.S. companies to refrain from corrupt practices when conducting business abroad. Companies in countries that belong to the Organization for Economic Cooperation (OECD) must follow similar regulations. It would therefore be difficult to find a major Western multinational corporation that hasn’t addressed internal compliance.[18]

[18] A survey of global companies conducted by the Conference Board in 2004 found that 97 percent of the companies surveyed operated ethics programs. Available at http://www.newswise.com/articles/view/503570, accessed on 29 January 2008.



Over the last decade, an increased global focus on corporate governance has led corporations to become more aggressive with internal compliance and ethics management. Leading corporations have used a range of effective tools and approaches to build strong internal ethics cultures and systems, including:

- Ethics codes of conduct,
- Regular and comprehensive staff training,
- Integration of ethics issues in performance reviews,
- High-level oversight tasked with ethics and compliance as a function,
- Ombuds systems, whistle-blower policies, and ethics hotlines,
- Monitoring, auditing, and enforcement mechanisms, and
- Collecting metrics to show impact.

Integrating ethics programs into a company can significantly increase awareness and compliance. For example, a corporate client of Ethics Institute of South Africa (EthicSA), one of the Merck-funded ethics centers, reported notable changes from a focused ethics program:

> "We have already seen the effects in our company. People have started realizing conflicts around trips and gifts, especially at the management level. There's undoubtedly a great consequence of ethical awareness."

Despite considerable investments in compliance, large gaps remain. Corporations must design and implement the basics of a companywide ethics management system, institute a range of compliance best practices, and apply them throughout their divisions and markets. Corporations also must build a base of evidence that demonstrates that compliance activities are effective tools not only for reducing bribery but also for mitigating risk. In addition, corporations must meet the challenge of implementing a global compliance program that observes the local laws and ethical norms of the individual countries where they operate, while also remaining consistent with the policies and values of a single corporation.

Creating a robust internal ethics program is a critical first step for multinational corporations that will help drive cultural transformation, and in turn, reduce bribery among employees. We therefore recommend an increased emphasis on ethics and compliance programs to ensure a high level of vigilance.

The Challenges of Collective Action

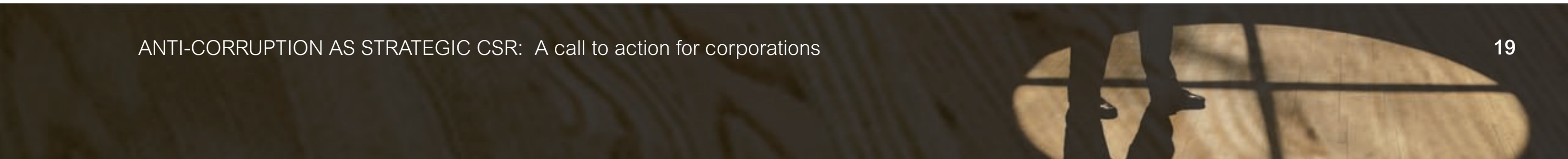
Several players have made the case for collective action to combat corruption, including the World Bank, the United Nations, and the International Business Leaders Forum (IBLF). When companies combine efforts, they can increase their potential impact while sharing risk, offering a stronger voice, and reducing levels of investment. As Sheldon Daniel, director of corporate responsibility at **BP**, says:

> "When multiple voices get involved [in fighting corruption], then technocrats realize the pressure and take more interest. If it's just a BP thing, then you risk losing the war. Using multiple parties as an approach can create a more robust effort."

Collective action, however, so far has not demonstrated sufficient effectiveness at reducing corruption. We found that such approaches often involve broad-based, diffuse declarations without substantive monitoring and enforcement mechanisms. However, our research suggests specific opportunities for corporations to improve collective action:

- Strengthen monitoring, enforcement, and accountability. Companies need to work collaboratively to increase monitoring and enforcement mechanisms, such as requiring independent monitors to track member compliance and ensure accountability with pact declarations.
- Encourage narrowly focused pacts by industry and geography. At the same time, corporations should support the development of pacts within individual industries, such as construction and energy, or within country-level or regional geographies in order to ensure greater depth and increased relevance.
- Stimulate increased participation in existing pacts. Companies must also increase the number of participants in focused pacts by recruiting more companies at both the multinational and local levels, as well as more countries in the case of global pacts. Their work should also ensure that collective action includes the three important legs of the stool — business, government, and civil-society organizations.

Structures for collective action include global coalitions (e.g., UNGC), industry-focused pacts (e.g., the Extractive Industries Transparency Initiative), and integrity pacts (e.g., the agreement governing the construction of the Berlin airport). In the last few years, companies have realized the value of collective action and have come forward to form alliances, sometimes even with competitors in the same industry. Most models of collective action are quite nascent, but common principles for improving effectiveness do exist.



Strengthen Monitoring, Enforcement, and Accountability

Adequate monitoring and enforcement mechanisms are critical to effective collective action. If coalitions involve no more than a broad agreement that companies sign without any risk of penalty, then the incentives for ethical behavior will remain low. Nathaniel Heller, cofounder and managing director of Global Integrity, argues that collective action efforts with weak monitoring and enforcement are like "window dressing, in that companies are happy to sign on, but they end up being ineffective and largely a PR campaign." On the other hand, if penalties for failing to comply exist — through expulsion from the coalition, lost business, or negative publicity — then the coalition becomes much stronger in its efforts to root out corruption. Few of the current collective efforts, however, have implemented strong enforcement methods.

Perhaps the most established and well-known collective action involving industry is the Extractive Industries Transparency Initiative (EITI). Formed in 2002 by then British Prime Minister Tony Blair, EITI is a coalition of governments, corporations, civil-society groups, investors, and international organizations. It promotes transparency in resource-rich countries through the publication and verification of corporate payments and government revenues from the oil, gas, and mining industries. Jonas Moberg of the EITI Secretariat explains the motivations behind the formation of the coalition: "Corruption requires a collective approach. A prisoner's dilemma problem like corruption can only be addressed through collective action."

During the last year, EITI has made efforts to include an enforcement mechanism. To join the initiative, governments voluntarily sign on to the program as "candidate" countries, which have to meet certain requirements. Currently, over 20 candidate countries are involved with EITI. Over a two-year period, an independent monitor must validate that countries are meeting agreed-upon parameters and transparency goals, after which they can graduate to "compliant" status. Because this process is still new, no countries have yet achieved compliant status. Nevertheless, EITI represents one of the leading examples of collective action to date, given its narrow focus, efforts to include monitoring, and its tripartite approach of bringing together companies, governments, and civil-society organizations (see the sidebar titled "EITI: A Unique Collaboration with Unrealized Potential").

Extractive Industries Transparency Initiative (EITI):

A Unique Collaboration with Unrealized Potential

EITI's position as a leading collective action initiative results from several positive factors:

- **A multistakeholder approach**

  "The strong point of EITI is that right from the very start it's been a coalition of all these parties that otherwise wouldn't necessarily want to sit at the same table."

  — Stuart Brooks, policy coordinator at Chevron

- **A clear set of rules**
- **A narrow focus on the transparency of revenues in the extractive industries**
- **A strong outreach network**
- **A model of securing government ownership over the process**

  "EITI has worked hard to get governments to own its goals, and without that commitment and ownership, this would never work."

  — Stuart Brooks of Chevron

In spite of its robust model, EITI still faces multiple challenges:

- EITI is a **voluntary mechanism** and there is no procedure to ensure that all resource-rich countries opt in.

  "While we have continued to be quite supportive of the current voluntary system, we still think we need a mandatory system."

  — Radhika Sarin, international coordinator at Publish What You Pay, which works closely with EITI

- The initiative needs to provide **incentives for middle-income countries**, such as South Africa and Brazil, to join.
- It needs to **attract smaller, national oil companies**.

While EITI holds significant potential, it remains to be seen how successful the initiative will be over the coming years in expanding its reach, securing more commitments, and showing real impact on reducing corruption. Says Ben Heineman Jr., author of *High Performance with High Integrity* and a former general counsel for GE: "I'm all for the EITI, and I think it's great, but you shouldn't proclaim victory yet. There's a long way to go."

Other global efforts to establish collective action remain at early stages of development, including the World Economic Forum's Partnering Against Corruption Initiative (PACI), the Construction Sector Transparency (CoST) initiative, and the Water Integrity Network (WIN). PACI, a CEO-driven global collaboration that includes 150 companies in a range of industries, provides avenues for corporate collaboration on three levels: 1) the company level which focuses on peer-to-peer learning; 2) the industry level which focuses on informal approaches to develop sector-wide solutions such as reducing customs facilitation payments; and 3) the multi-stakeholder level which includes in-country compliance dialogues as well as fostering policy innovations to incentivize corporations toward greater compliance. WIN, announced in 2006, recently began working on pilot projects, and CoST, launched in May 2008, is still undergoing initial pilots and planning efforts. While these are positive signs, the jury is still out on the effectiveness of such efforts.

Encourage Narrowly Focused Pacts by Industry or Geography

Collective action must ensure a focus that is narrow enough to be highly relevant to specific geographies or industries. The broader the number of countries and industries included in an initiative, the more complex it becomes to manage effectively.

For example, the UNGC's 10th principle[19] which focuses on corruption represents a step in the right direction, but given its large scope and mandate, its effectiveness to date is unclear. One anti-corruption stakeholder points to the lack of clarity in the objectives and activities of the U.N. Global Compact: "The UNGC is rather intangible; it's not clear what they're doing." Monitoring and enforcement mechanisms of such large-scale, global pacts are also inherently challenging. "Everyone signs on to it and is required to report every year, but no one checks to see if the reports are accurate," adds Stuart Gilman, a global anti-corruption expert.

[19] The U.N. Global Compact's 10th principle states that businesses should work against corruption in all its forms, including extortion and bribery. U.N. Global Compact includes over 4,700 corporate participants and stakeholders from over 130 countries. It is the largest corporate citizenship and sustainability initiative in the world. The partnership includes 10 principles involving human rights, labor, environment, and anti-corruption, which member companies are expected to abide by.

Concentrating on a specific geography, industry, or project allows collective action to maintain a narrow and manageable scope. For example, integrity pacts — most often formed between a government procurer and bidding companies — maintain targeted focus on a specific project. The integrity pacts stipulate specific ethical behavior for a project, and if any lapse is found, companies may be expelled from the pact and disqualified from bidding. With provisions for civil-society oversight, integrity pacts have been used in more than 80 projects around the world and have been adapted for use on several World Bank projects.[20] However, by definition, integrity pacts are not permanent in nature. So while they may be effective on a project-by-project basis, they are less effective as a systemic, long-term anti-corruption tool.

Stimulate Increased Participation in Existing Pacts

Assuming strong monitoring and a narrow focus, an increase in the number of corporate or country participants can improve the effectiveness of collection action. Corporations can play an influential role in encouraging this increased participation, either by drawing on individual relationships with competitors or governments or by leveraging existing business-led organizations, such as the International Business Leaders Forum and American Chambers of Commerce, as critical intermediaries.

Transparencia por Colombia (TpC), the Merck-supported ethics center in Colombia, has seen evidence of success through a highly participatory industry collaborative in the water-pipe manufacturing sector. By 2008, 11 suppliers representing 95 percent of the public water-pipe contracting market in Colombia had signed the agreement and more than half of the distributors and other intermediaries so far had complied, as well. As a result, discounts off of list prices to distributors fell, greatly reducing the padded profit margins that are normally a key way to hide bribes to government officials.

[20] "Civil Society and the Private Sector: Fighting Corruption Is Good Business," Huguette Labelle, Development Outreach, The World Bank, September 2006. Available at http://www1.worldbank.org/devoutreach/september06/article.asp?id=363 (accessed on December 15, 2008).

As a result of this collaborative pact, 80 percent of all employees in signatory companies — about 5,000 workers — are subject to an anti-corruption clause in their labor contracts that imposes severe penalties for violating the agreement. Comments one water-pipe stakeholder:

> "Before the agreement, we didn't trust other factories. We didn't even talk to them. Now the environment is improved — we're together in a common goal. So if a bid comes out skewed to the benefit of one product or factory, we tell our ethics committee, which then pressures the procuring official to rectify the terms."

While OECD countries have adopted anti-corruption legislation, a critical need in the fight against corruption is the increased commitment of developing-country governments. This is especially true for emerging markets like Brazil, China, and India, which rank poorly in corruption-perception indices but will represent increasing revenues for multinational corporations in the coming years. "Emerging markets are the markets that will grow and where corruption is the greatest challenge," says Fritz Heimann, cofounder of Transparency International. Ensuring the greater participation of these governments in collective action programs will be critical to their success.

A Limited Focus on the Demand Side

Corruption is a two-sided coin — it includes both the supply side source of bribery, typically the private sector, and the demand side recipients of bribery, typically the public sector.

Our research suggests that the demand side of corruption is a significant blind spot for corporations as they fight corruption. Corporations have traditionally focused only on the supply side by engaging in compliance and collective action efforts. But as Nathaniel Heller of Global Integrity says, "There are very few examples from the last 10 or 15 years of corporations working on the demand side."

> "There is a need to address demand as much as the supply; demand is equally harmful."
>
> — Sabine Zindera, Vice President, Corporate Legal and Compliance, Siemens

Based on our research findings, we recommend several potential avenues for corporations to expand their demand-side efforts:

- Influencing legislation. Companies can work with academics and policy makers to improve antibribery policy and enforcement.

- Organizing workshops. They can convene local, regional, or global workshops that include government, the private sector, and civil society in an open discussion of anti-corruption reform.

- Exposing public-agency corruption. Through public rankings and other means of exposure, they can support efforts for fair and structured tracking of government transparency and ethical performance.

- Building capacity. Companies can lend expertise and help build skills in financial management, technology, or ethics (e.g., transparent procurement practices) to public agencies, or NGOs supporting public agencies.

Our research identified a few innovative companies that have experimented with demand-side initiatives. Their experiences offer instructive examples of what could be possible with a more structured and comprehensive approach to fighting corruption.

GE launched multipronged efforts in China focused on demand-side reform, because bribery and corruption risks influenced market dynamics. According to Steve Maloy, GE's general counsel for Asia-Pacific, "We were having very serious problems in competing for business due to concerns about corruption in Asia." The company's current efforts seek to influence anti-corruption legislative reform by working with academics and policymakers, engaging ministry and business leaders on ethics-training conferences and workshops, and conducting grassroots education and awareness programs (see the sidebar titled "GE's Three-Pronged Anti-corruption Approach in China").

GE:
A Three-Pronged Anti-corruption Approach in China

GE's ethics and anti-corruption program in China takes multiple approaches, with a significant focus on influencing the demand side of the corruption equation, along three dimensions:

1) Legislation

- *Support NGO efforts.* GE supports the Hills Governance Center at Tsinghua University, an ethics center named after Roderick Hills, former chairman of the U.S. Securities and Exchange Commission.
- *Engagement with academics and legislation.* GE liaises with academics and works with key policy makers to understand and influence legislative developments.

> "When there is key legislation coming up, the Chinese government generally asks leading academics and other experts to join advisory committees. We've participated in a number of these committees. It's very open. GE lawyers have been invited to be on the drafting committee for various laws."
>
> — Stephen Maloy, General Counsel for Asia-Pacific, GE

2) Outreach to Ministries and Business

- *Ministry relationships.* GE periodically meets with contacts in government ministries to address such issues as fighting corruption and ensuring party discipline.
- *Ethics seminars.* In December 2005, GE sponsored an ethics seminar in Beijing that was attended by 120 stakeholders from corporations, government, academia, and other areas. Topics discussed included compliance, transparency, and potential government interventions.

3) Education and Awareness

- *Ethics materials.* The firm provides internal ethics training materials to Chinese state-owned companies, government officials, and academics.
- *Grassroots education.* It hosts lectures and pro bono teaching about corporate law and the role of compliance in the legal profession.
- *Executive education.* GE invites public- and private-sector leaders to U.S.-based training programs.

Merck's establishment of the Gulf Centre for Excellence in Ethics (GCEE) in Abu Dhabi, United Arab Emirates, explicitly included the idea of addressing the demand side of corruption as it sought to increase the transparency of the government's business practices. The rationale was that as business transactions became more transparent and less corrupt, Merck would benefit as it competed based on the quality of its products alone.[21] Partly as a result of the efforts of GCEE, the United Arab Emirates' Ministry of Health (MOH), was transformed in multiple ways:

- Officials began enforcing procurement rules by reversing improper contracts for medicines.
- Extortive behavior by MOH personnel appeared to be declining, possibly due to codes of conduct.
- Bids were increasingly awarded based on the quality of medicines.
- Ministry personnel were emboldened to speak more openly about ethical concerns.
- MOH published regulations about clinical trials for the first time, with oversight from a new research ethics committee.
- The ministry developed a patient charter of rights.
- The National Bioethics Commission, the idea for which was first raised at a GCEE conference in 2002, was inaugurated in 2007.

Google provides another powerful example of a corporate anti-corruption effort focused on the public sector. Google and Google.org, its philanthropic arm, are leveraging technology to increase communications and transparency around government activity in six countries in sub-Saharan Africa. Initial efforts include

[21] "The Gulf Centre for Excellence in Ethics," Jonathan B. Levine, Center for Corporate Citizenship, Boston College, January 2003.

collaboration with government webmasters to improve the searchability of existing government Web sites, which in turn will give citizens and stakeholders easier access to information, as well as drive usage of Google's core search product. Google also plans to apply technology to elections and eventually make detailed public-sector budget data available online to facilitate the ease of tracking government expenditures. "We believe information is empowering and powerful," says Matthew Stepka, director of business and operations strategy at Google. "It can be used for reducing corruption."

Joining forces with other companies to influence the demand side of corruption is another approach available to corporations and offers the benefit of spreading risk across several organizations. The **China Center for International Business Standards** is a new organization that takes a business-led approach to anti-corruption work and will soon organize to influence policy dialogue. Sponsored by the International Business Leaders Forum, the center currently receives funding from 10 multinational corporations, three development agencies, and local Chinese organizations. Future activities will include translating international anti-corruption materials into Chinese, conducting research, and providing guidelines.[22]

Transparencia por Colombia (TpC), one of the ethics centers funded by Merck, has engaged in demand-side reform through its Integrity Index tool. This publication established a public ratings system that exposed national, state, and local government agencies for their perceived risk of corruption, and has had a significant influence on improved transparency and ethical performance in the public sector.[23] The Index has become widely used as a benchmark by government agencies, which use it to identify and correct weaknesses, competing aggressively to improve their transparency and raise scores. These improvements have been evident in increased ratings. The median rating of 179 national institutions rose from 63 percent in 2003 to 76 percent in 2005, reflecting

[22] Interview with Peter Brew, International Business Leaders Forum.

[23] The Integrity Index is a rating tool that uses three key indicators: 1) the institution's level of transparency; 2) the number of official investigations/sanctions/legal actions against it; and 3) compliance with norms and standards. Many subindicators are also used. The National Index, released annually starting in 2002, covered 179 entities, or 80 percent of all executive, legislative, and judicial institutions. The State Index, which started in 2003, covered 100 percent of entities in 32 states (excluding state legislatures that require a separate methodology). The first Municipal Index rated 23 percent (250) of all 1,100 municipalities nationwide (as of 2008).

progress in transparency and compliance with standards. And the level of institutions classified as at “high risk” of corruption fell dramatically, from 13 percent to 3 percent over the same three-year period. In the words of one in-country stakeholder:

> “Transparencia has positively and significantly affected the government with the Index. It is a credible measurement system, and that has generated a culture of values among public authorities – a sense that ‘somebody is watching’ them. That never existed before in Colombia.”

While these examples indicate positive opportunities for demand-side reform, our research also revealed significant caution and resistance to this general notion. One corporate representative expressed skepticism about a demand-side focus:

> “I have my doubts about how effective companies can be on the demand side. There are certainly limitations in terms of time and resources and the acceptability of such activities. The best way to cut demand from the public sector is to make it clear that there will be no supply. Making sure that we don’t pay bribes is how we deal with the problem.”

Despite the inherent sensitivities and challenges of initiatives that are critical of government behavior, addressing the demand side of corruption remains an untapped opportunity for corporations to pursue. The proactive and creative nature of these demand-side efforts from GE, Merck, and Google can guide other corporations. With these lessons in mind, companies need to venture more deliberately into this area and begin a step change toward reducing the demand for bribes around the world.

Section IV: The Unique Value of Corporations

As efforts by NGOs and donors continue to fall short of expectations, corporations remain a critical missing link in the fight against corruption. Corporations are uniquely qualified to provide critical new approaches and knowledge for the field. A large multinational corporation possesses a variety of assets that are often more powerful than those of a single NGO or donor agency. Peter Brew of IBLF says:

> "Companies can bring financial management, legal compliance, and technical-assistance skills to mentor local companies on anti-corruption efforts. Beyond just writing checks, companies have the opportunity to demonstrate leadership in fighting corruption by the way they run their business activities and by fully participating in the business life of their host communities."

Yet our research indicates that corporations often fail to appreciate their inherent power and influence. Only a handful of examples exist of innovative corporations leveraging their assets to address the external corruption environment. Our findings suggest several opportunities for corporations to build on their assets, including:

- Voice or brand. Corporations have communications power that can be leveraged to influence businesses, donors, and governments toward action. For example, CEOs can give public speeches, participate in high-visibility collective action, and offer corporate support to new initiatives.

- Economic leverage. Corporations offer valuable foreign capital, jobs, and tax revenue that can also influence host governments and their decisions. Additionally, corporations can appeal to the desire of governments to enhance their competitiveness and increase levels of foreign direct investment, which could result from lower levels of perceived corruption.

- Technical expertise. Corporations can provide training and capacity building to national companies, government officials, and civil-society organizations. These actors can draw on internal ethics and compliance expertise in such forms as manuals and best practices, as well as business, financial, or technological advice.

- Cash grants. Financial support to NGOs can help them overcome important resource hurdles and capacity constraints.

Voice or Brand

Well-established global corporations can utilize their significant brand equity in the fight against corruption. For instance, **GE** played an instrumental role in establishing the now well-known nonprofit Transparency International in 1993. "It was clearly in our self-interest to have our competitors stop bribing," says Ben Heineman Jr., senior fellow at the Belfer Center for Science and International Affairs at Harvard University's Kennedy School of Government, and former General Counsel for GE. Additionally, TI and GE successfully collaborated to convince the OECD to adopt a convention to criminalize foreign bribery among its member countries.[24] While the successful long-term implementation and ultimate effectiveness of the convention will, according to Heineman, "require a change in the politics of the OECD, the signatory nations, and their corporations," this was an important first step that may not have taken place without GE's significant involvement.[25]

[24] "Combating International Corruption: A Work in Progress," *The Metropolitan Corporate Counsel,* July 2008. Available at http://www.metrocorpcounsel.com/pdf/2008/July/19.pdf (accessed on December 15, 2008).

[25] "Arrested Development: The Fight against International Corporate Bribery," Benjamin W. Heineman Jr., *The National Interest,* November 2007.

Likewise, **Fluor**, the global engineering and construction company, has used its voice and influence effectively to engage in anti-corruption efforts outside the company. Fluor's CEO has given public speeches about the need to fight both the supply and demand side of corruption and has played a leading role in establishing PACI. Additionally, Fluor has helped produce a movie about corruption in the global construction industry. The film is subtitled in 15 languages and will be shown to both private and public officials, as well as students around the world.

Economic Leverage

Corporations' economic position as significant sources of foreign capital, employment, and tax revenue can powerfully influence the decision making of host governments. **ExxonMobil** has been working closely with Equatorial Guinea, for example, to assist the country in becoming a member of EITI. Given the significant amount of business ExxonMobil conducts in the country, the company has an influential voice that it has leveraged to engage the government in this process.

Companies can also point out that an ethical business environment is essential for countries that want to attract foreign direct investment and build their nation's global competitiveness. Proclaiming that anti-corruption and ethics are virtues in themselves may fall on deaf ears. But when these values are positioned as critical tools of innovation and competitiveness — in which international businesses use corruption as a negative factor in determining where they invest — business can strike a much louder chord with governments.

Technical Expertise

Corporations can offer technical expertise in ethics and industry practices that can also be valuable tools against corruption. **Siemens**, the German technology company, has recently been working with the World Bank Institute to develop a toolkit for collective action that corporations can use in their work against corruption. Siemens brings knowledge from the multiple industries in which it operates, as well as lessons from its recent experiences dealing with a bribery scandal and the subsequent ramp-up of a large scale ethics and compliance infrastructure.

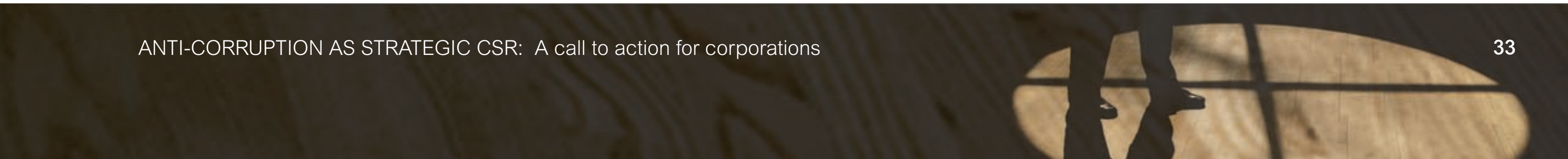
The only multinational corporation on the WBI working group, Siemens has provided in-kind support and technical assistance to develop an online portal and a guide that organizations can use to better understand and apply collective action against corruption. What's more, the corporation has benefited from its participation in the partnership with WBI: "We participate in the working group meetings to exchange knowledge and develop our own skills in compliance, as well," says Sabine Zindera, vice president of corporate legal and compliance at Siemens.

While current corporate compliance efforts focus heavily on internal staff training, corporations have also provided training to players outside their firms. These efforts include training for other private-sector players, such as national companies, government officials, and civil-society organizations. For instance, when **Shell** develops new business in emerging economies, it often shares with national oil companies the policies, lessons, and compliance best practices that its own experiences have informed. "When local companies ask us to share with them our procedures, anti-corruption is always one of the requested topics," explains Albert Wong, head of policy and external relations at Shell.

Cash Grants

Although cash represents only one aspect of a company's assets, it can send powerful signals and create significant impact. Whether through philanthropic grantmaking or direct support from corporate budgets, financial support to resource-constrained NGOs fills critical gaps. In the last decade, **The Merck Company Foundation's** more than $9 million in support of international ethics centers has been a leading example of corporate philanthropic investment in the external ethical environment (see the sidebar titled "Pioneering Corporate Investments in Anti-corruption"). Says EITI's Moberg:

> "You could argue that Merck was 20 years ahead of its time. It started its engagement near the beginning of the Foreign Corrupt Practices Act. It's only in the last few years that FCPA-driven changes are happening at other companies."



The Merck Company Foundation:

Pioneering Investments in International Ethics Centers

Merck has invested more than $9 million in supporting nonprofit ethics centers in South Africa, Turkey, Colombia, and the United Arab Emirates. The initial support for the ethics centers program began in 1996 and is planned to continue through 2010. Merck's rationale was to create a true overlap of business and societal interests: as business transactions became more transparent and less corrupt, Merck would benefit because it could compete based on the quality of its products alone.[26]

Merck partnered with the Ethics Resource Center, the leading nonprofit organization dedicated to improving corporate ethics, which provided leadership, technical expertise, and administrative oversight. The ethics centers have adopted a range of activities and approaches, including training, conferences, research, writing, consulting, and industry indices. To achieve impact, the four centers focus on some or all of the following levers for change:

- Organizational ethics. The centers promote ethical behavior within businesses or government agencies through the creation of ethics management systems, training programs for ethics officers and employees, ethics hotlines, and whistle-blower policies.

- Industry-specific reforms. They catalyze ethical reform and anti-corruption practices within specific industries or associations of businesses.

- Public policy and standards. International ethics centers influence national or regional policies and standards to provide legal frameworks for instituting anti-corruption efforts.

- Public opinion. They create awareness among the general public to assert positive pressure on other stakeholders.

- International. The centers draw from and contribute to global initiatives that address ethics reform and anti-corruption.

This focused work has paid off in knowledge that others can use to effect similar change. Patricia J. Harned, Ph.D., president of the Ethics Resource Center, reflects on Merck's role:

> "To a great extent, Merck has been a pioneer in helping to create the ethics centers. They recognized the need for a level playing field around the world and they took a long-term view in identifying a solution. The environment, especially in the early going of the project, was difficult, but the lessons learned will pay off for those who come after."

The anti-corruption movement has grown significantly in the last decade. Given the number of players who are now engaged in solving this issue, the need for Merck's role in pioneering this movement is now less critical. Therefore, Merck is currently phasing out of its direct support of the nonprofit ethics centers, yet it remains firmly committed to and supportive of the need for effective, coordinated anti-corruption efforts across the globe.

---

[26] "The Gulf Centre for Excellence in Ethics," Jonathan B. Levine, Center for Corporate Citizenship, Boston College, January 2003.

Section V: The Path Forward

Using a Strategic CSR Lens

Because of the unique and substantial threat that corruption poses to both business and society, corporations should begin viewing the issue through the lens of strategic corporate social responsibility. As Michael Porter and Mark Kramer argued in an influential 2006 article in *Harvard Business Review,* strategic CSR efforts should target issues that are of high importance to a company's core business strategy and operations and also have a meaningful benefit to society. While traditional CSR efforts focus on the tension between business and society, fighting corruption presents an opportunity to focus instead on their *interdependence* in order to create "shared value."[27]

Viewing corporate anti-corruption efforts in this light, rather than as damage control or a PR campaign, requires new ways of thinking and different approaches. But the effort can result in significant reward, both for the business environment and the lives of people throughout the world. The history of corporations tackling other social issues, such as child labor, provides examples of the power of such a transition.

Nike's evolution over the last decade from child-labor pariah to CSR leader offers an instructive model for moving away from a compliance focus toward strategic CSR. Nike now seeks to address "systemic change" and identify "root causes" of child labor practices, a far cry from its status in the 1990s as a poster child for exploitive multinational companies after details came to light in major publications of the company's contract factories using child labor, paying "slave wages," and creating substandard working conditions.[28] Nike's statement of its current perspective on factory labor conditions highlights a mindset that would have been inconceivable at the outset of its crisis:

[27] "Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility," Michael Porter and Mark Kramer, *Harvard Business Review,* December 2006.
[28] "The Path to Corporate Responsibility," Simon Zadek, *Harvard Business Review,* December 2004.

> "The challenge we have set for ourselves is to play a role in bringing about positive systemic change for workers' rights within our supply chain and the industry at large. Nike's evolving approach to tackling working conditions within our supply chain mirrors the evolution within a broader change movement."[29]

We acknowledge that corruption has unique qualities that distinguish it from other social problems. The paradox of corruption is that while it is happening everywhere, it is rarely seen. Unlike children in sweatshops or toxins being dumped in rivers, the clandestine exchange of cash or property for a favorable decision from someone in power is rarely photographed or measured. The act of bribery itself is not directly damaging to lives or the environment, but the resulting outcomes can have devastating effects on competition and human development.

What's more, the ways in which corporations might engage in anti-corruption efforts in the developing world differ significantly from buying books for a school or donating medicines to a hospital, noncontroversial measures that governments typically welcome. A comprehensive approach to fighting corruption requires a focus on the demand side. However, corporations typically shy away from this approach, as it implies being critical of a government that is often a key customer or stakeholder in its business activity. Trying to root out corruption among key government actors, while maintaining a strong business presence, is often perceived as too difficult or risky for companies acting alone.

Despite the salient differences between corruption and other social issues, expectations for corporations must be raised in order to capitalize on tangible opportunities for impact.

A Call to Action for Corporations

Imagine a world in which multinational corporations are sophisticated players in the anti-corruption movement. In this world, companies work hand in hand with leading anti-corruption players and governments to help ensure that bribery remains an exception that is harshly regulated rather than a rule that is begrudgingly accepted. Collective action agreements are focused, effective, and routine. Corporate anti-corruption departments are commonplace and staffed with experts familiar with external, multistakeholder initiatives. Global programs are comprehensive in scope, yet tailored to specific geographies and industries.

---

[29] Nike Corporate Responsibility Report, 2007.

Such a vision is a long way off, but distance need not warrant inaction. As with the environmental and child-labor movements, the ladder toward strategic CSR must be climbed starting at the bottom rung. Corporations need to recognize the importance of the issue to their business and acknowledge that they have a unique ability to contribute to the fight against corruption. Not only are they part of the corruption equation as the typical source of bribes, but they also have the ability to exert significant influence over government policies and practices. Working alone or in collaboration with government and civil society participants, corporations bring a distinct and valuable set of technical, human, and financial resources that, when leveraged effectively, can significantly increase the impact of anti-corruption efforts.

To catalyze this movement, we call for corporations to embrace anti-corruption work as strategic CSR. A step change is needed, with corporations moving from narrow compliance-focused approaches to broader roles that maintain an emphasis on compliance but also increase proactive, external, and more comprehensive efforts. We recommend that corporations adopt four complementary approaches (see Figure 4):

1. ***Ensure compliance.*** Corporations should continue to invest significantly in ethics and compliance programs to maintain or increase their level of integrity throughout all divisions and countries. While effective compliance practices are widely known, many multinational corporations struggle to execute consistently across all company locations.

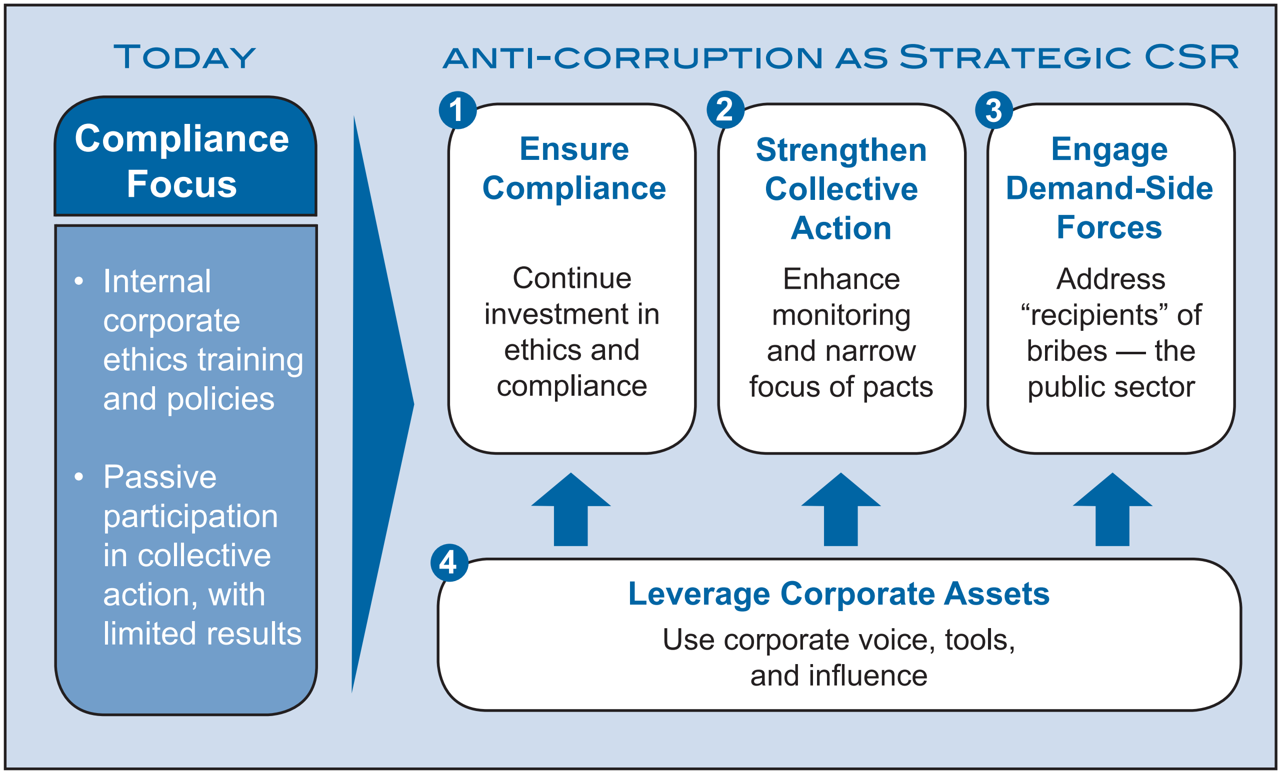
2. ***Strengthen collective action.*** Efforts need to shift from broad-based, diffuse declarations to more outcome-oriented pacts that can create effective incentives for members to change their behavior. We recommend that corporations invest in approaches that encourage enhanced monitoring and enforcement, a narrowed focus by country and industry, and increased participation among participants and stakeholders.

3. ***Engage demand-side forces.*** While the typical focus of corporate anti-corruption work is on the supply side of corruption (the private sector), corporations should expand their efforts to influence the demand side (the public sector). Key levers include influencing legislation, organizing workshops, conducting ethics training, and calling out public agency corruption through public rankings and other means of exposure.

4. ***Leverage corporate assets.*** Corporations possess unique and powerful strengths that can be used to enhance and improve anti-corruption efforts. The corporate "tool kit" includes communications power from the corporate brand, economic leverage, technical expertise in ethics and business skills, and cash resources for grantmaking.

Figure 4:

Four Paths to Fighting Corruption



Organizing for Impact

Corporations are not currently organized for swift execution of the recommendations in this call to action. A proactive, external-facing approach to anti-corruption has no natural home within a typical corporate structure, as ethics departments are usually staffed with compliance-focused lawyers and CSR departments do not typically address anti-corruption issues. A successful anti-corruption program will require resources, people, organizational commitment, and strong execution. To achieve success and impact in anti-corruption efforts, corporations need to adjust their mindset and tailor their operations.

> "Very few companies have a clear policy on transparency and civil society that runs through the company both vertically and horizontally. They are very erratic about it."
>
> — Karin Lissakers, Director, Revenue Watch

Transform Mindsets

Our research reveals that corporations currently don't view themselves as primary actors in the anti-corruption movement. Whether due to low awareness, skepticism, or risk aversion, corruption is not typically seen as an area for proactive external engagement.

To ensure broad adoption of the necessary mindset, the movement must win over several important functional areas within corporations:

- CEOs. The best way to instill a sense of urgency and priority within a corporation is to gain the commitment of the CEO and other senior leaders and for them to communicate consistently and regularly to the rest of the company.

- Business-unit heads. Commercial managers need to include effective anti-corruption activities in their overall toolkit of market entry and growth in the developing world. These leaders should not ignore the costs and risks of corruption — they should address them like any other business issue.

- Ethics and compliance officers. Ethics leaders have enormous responsibilities for overseeing ethics training and ensuring ethical practices among employees. But they can do more to address external issues of corruption that are critical to business success. They need to start by increasing their own awareness of anti-corruption activities in their countries and regions. Who are the key donor and NGO actors in the field and what are their initiatives? What is the host government doing and in what ways can ethics officers engage and support public-sector officials to increase awareness, capabilities, and processes around transparency?

- CSR and corporate-philanthropy executives. The CSR team needs to consider anti-corruption among the range of social issues that deserve time and financial support, just like health, education, and the environment. They should ask the question, “Are my current social investments addressing issues that can improve the corporation’s operating environment?” Often local corporate charitable giving programs invest in worthwhile causes but make the mistake of avoiding any strategic linkage to business imperatives.

Align and Integrate

An appropriate level of infrastructure and capacity is required to execute structured anti-corruption efforts. Current gaps imply the need to align and integrate the disparate worlds of ethics, compliance and CSR through the following efforts:

- Integrate business functions. Spearheading successful anti-corruption efforts will require the integration of expertise and resources across a range of business functions: compliance, CSR, communications, public affairs, and business units. For example, when an anti-corruption effort is working to increase procurement transparency in the government, it needs to draw upon the ethics expertise of compliance officers, the communications expertise of the PR staff, the government relationships of the public affairs staff, and the philanthropic resources and expertise of CSR executives.

- Hire experts. While ethics and compliance officers are experts in implementing ethics-management systems, they are not typically trained on effective practices in designing and implementing multistakeholder collective action. Corporations need to hire experts who can provide leadership and direction for a corporation's collective action activities. This new added capacity is necessary to increase the corporation's likelihood of achieving its anti-corruption goals.

- Coordinate globally. Corporations need to coordinate their efforts with their range of anti-corruption activities around the globe. When best practices can be shared in a systematic way, such cross-program learning increases efficiencies, leads to opportunities for achieving additional scale, enhances communications consistency, and bolsters a corporation's brand.

- Communicate progress. Corporate responsibility reports should include a section on anti-corruption activities, both individual and collective. Companies should discuss what they are doing and track evidence of success. Further, organizations like the U.N. Global Compact and EITI should encourage corporations to include standard anti-corruption reporting frameworks in their annual communications.

Ongoing investment in and coordination of resources are critical success factors for an effective anti-corruption program, particularly given the newness of this issue area for most corporations.

Future Prospects

Whereas a typical corporation looks at financial results on a quarterly and annual basis, anti-corruption work can take years to achieve impact. The multistakeholder, collective nature of initiatives, combined with challenging cultural and market hurdles, implies the need for a long-term, sustained approach. Since progress against corruption is an enduring business interest of companies, the timeline for results should reflect this incremental pace of reform.

Corruption and bribery will never be eradicated: Unequal power dynamics and individual desires for financial self-improvement will always exist. Within the developed world, corruption scandals hit the headlines regularly. In the U.S., Jack Abramoff's network of corrupt members of Congress and former Illinois Governor Rod Blagojevich's removal from office for allegedly selling President Obama's vacated Senate seat loom as constant reminders that corruption will never be completely eliminated.

What can be eliminated is a systemic acceptance of corruption and bribery — the attitude of helpless capitulation to problems for which there are solutions. The lesson from recent corruption scandals is not that corruption still exists, but how swiftly and forcefully the legal system and society has condemned these actions and exacted substantial professional and legal ramifications on the perpetrators.

The goal of the anti-corruption movement is to steer countries along the path from entrenched cultures and systems that enable corruption to ones that make it legally, culturally, and morally unacceptable. Yet moving down that path is complex and difficult, as the work interacts with a range of broader forces, such as democratic values, economic development, cultural norms, and the rule of law. But even within that context, business can do a great deal to slowly but meaningfully create change.

For corporations, corruption is a core business issue that negatively affects their competitive position and their bottom line. Companies are not the only cause of corruption, nor are they the only player who can solve it, yet they have an integral role and responsibility to ensure that the global economy makes rapid progress in stamping out corruption wherever it appears.

Appendix A: Organizations Interviewed

Experts and Key Stakeholders

- **Ethics Institute of South Africa**, Willem Landman, CEO
- **Ethics Resource Center**, Pat Harned, President
- **Extractive Industries Transparency Initiative**, Jonas Moburg, Head of Secretariat
- **George Washington University**, Susan Aaronson, Professor
- **Global Integrity**, Nathaniel Heller, Cofounder and Managing Director
- **Harvard University**, Ben Heineman, Senior Fellow, Belfer Center for Science and International Affairs, Kennedy School of Government and former General Counsel at GE
- **Hong Kong Independent Commission Against Corruption**, Julie Mu, Assistant Director of Community Relations
- **Independent Consultant**, Stuart Gilman
- **Independent Consultant**, David Goldwyn
- **International Business Leaders Forum**, Peter Brew, Head of Asia Pacific Region
- **PAVCO** (Colombia), Pedro Nel, Contracting Manager
- **Publish What You Pay**, Radhika Sarin, International Coordinator
- **Revenue Watch**, Karin Lissakers, Director
- **Transparencia por Colombia**, Alma Balcazar, Private Sector Director
- **Transparencia por Colombia**, Maria Ines Granados, (former) Integrity Pact Manager
- **Transparency International**, Fritz Heimann
- **U.N. Global Compact**, Olajobi Makinwa, Issue Manager, Transparency and Anti-corruption
- **USAID**, Jerry O'Brien, Senior Anti-corruption Specialist
- **USAID,** Tina Del Castillo, Anti-corruption Advisor
- **Water Integrity Network**, Teun F. Bastemeijer, Manager
- **World Economic Forum Partnering Against Corruption Initiative**, Valerie Federico-Weinzierl, Associate Director of Corporate Global Citizenship

Corporations

- **BP,** Sheldon Daniel, Director, Corporate Responsibility
- **Chevron**, Stuart Brooks, Manager, International Relations
- **Coca Cola**, Mark Snyderman, Chief Ethics and Compliance Officer
- **DeBeers**, Stephen Lussier, Executive Director, External and Corporate Affairs
- **GE**, Stephen Maloy, General Counsel, GE Asia-Pacific
- **GE**, Ken Meyer, Vice President, Integrity and Compliance (retired)
- **GE**, Ken Resnick, General Counsel, GE Oil & Gas
- **Google**, Matthew Stepka, Director, Business and Operations Strategy
- **Merck & Co.**, Jacqueline Brevard, Chief Ethics Officer
- **Shell**, Albert Wong, Head of Policy and External Relations
- **Siemens**, Klaus Moosmayer, Compliance Operating Officer and Chief Counsel Compliance and Investigations
- **Siemens**, Sabine Zindera, Vice President, Corporate Legal and Compliance
- **Wal-Mart**, Gary Hill, Vice President, Global Ethics Office

Appendix B: Bibliography

Aaronson, Susan Ariel, “Oil and the Public Interest,” *Vox,* July 12, 2008, http://www.voxeu.org/index.php?q=node/1395.

Business Fighting Corruption, http://info.worldbank.org/etools/antic/index.asp.

Center for International Private Enterprise, http://www.cipe.org.

Doh, Jonathan P., Peter Rodriquez, Klaus Uhlenbruck, Jamie Collins, and Lorraine Eden, “Coping with Corruption in Foreign Markets,” *Academy of Management Executive*, Vol. 17, No. 3, 2003.

The Economist, “The Empire Strikes Back,” July 15, 2000.

The Economist, “The New Champions,” September 18, 2008.

Extractive Industries Transparency Initiative, http://www.eitransparency.org.

Gingrich, James A., “Five Rules for Winning Emerging Market Consumers,” *Strategy + Business.* December 11, 2008, http://www.strategy-business.com/press/16635507/16583.

Heineman, Benjamin W., Jr., “Arrested Development: The Fight against International Corporate Bribery,” *The National Interest,* November 2007.

International Business Ethics Institute, http://www.business-ethics.org.

International Chamber of Commerce, http://www.iccwbo.org.

International Chamber of Commerce, Transparency International, United Nations Global Compact, World Economic Forum Partnering Against Corruption Initiative, “Clean Business Is Good Business: The Business Case against Corruption,” July 17, 2008.

Jaeger, Jaclyn, “FCPA Update: More Prosecutions, Stiff Fines,” *Compliance Week,* August 14, 2007.

Labelle, Huguette, “Civil Society and the Private Sector: Fighting Corruption Is Good Business,” *Development Outreach,* The World Bank, September 2006, http://www1.worldbank.org/devoutreach/september06/article.asp?id=363.

Levine, Jonathan B., “The Gulf Centre for Excellence in Ethics,” Center for Corporate Citizenship, Boston College, January 2003.

McKinsey & Company, “From Risk to Opportunity: How Global Executives View Sociopolitical Issues; McKinsey Global Survey Results,” *McKinsey Quarterly,* October 2008.

The Metropolitan Corporate Counsel, “Combating International Corruption: A Work in Progress,” July 2008, http://www.metrocorpcounsel.com/pdf/2008/July/19.pdf.

Millennium Challenge Corporation, “Building Public Integrity through Positive Incentives: MCC’s Role in the Fight against Corruption,” Working Paper, 2005.

Pieth, Mark and Gemma Aiolfi, “The Private Sector Becomes Active: The Wolfsberg Process,” *Journal of Financial Crime,* Vol. 10/4, pp. 359-365, 2003.

Porter, Michael and Mark Kramer, “Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility,” *Harvard Business Review,* December 2006.

PricewaterhouseCoopers, “Confronting Corruption: The Business Case for an Effective Anti-corruption Programme,” January 2008.

Save the Children U.K. and Global Witness, “Making It Add Up: A Constructive Critique of the EITI Reporting Guidelines and Source Book,” February 2005.

Sullivan, John and Alexandsr Shkolnikov, “The Costs of Corruption,” *Issues of Democracy*, Vol. 11, No. 12, December 2006.

Transparency International, http://www.transparency.org.

Trichet, Jean-Claude, “The Growing Importance of Emerging Economies in the Globalized World and its Implications for the International Financial Architecture,” Reserve Bank of India, Mumbai, November 26, 2007.

United Nations Global Compact, “Business Against Corruption: Case Stories and Examples,” April 2006.

United Nations Global Compact, Transparency International, and International Business Leaders Forum, “Business Against Corruption: A Framework for Action,” 2005.

World Economic Forum, Partnering Against Corruption Initiative, http://www.weforum.org/en/initiatives/paci/index.htm.

Zadek, Simon, “The Path to Corporate Responsibility,” *Harvard Business Review*, December 2004.

Acknowledgments

FSG Social Impact Advisors gratefully acknowledges The Merck Company Foundation for its support of the research, writing, and publication of this paper. In particular, we want to thank Ingrid Novak and Leslie Hardy for their guidance and leadership on behalf of Merck. We also appreciate the instructive counsel and assistance provided by Pat Harned at the Ethics Resource Center throughout this research. We are grateful to Jonathan Levine who assisted FSG with initial in-country ethics research and contributed ongoing ideas and feedback to improve the final product. We thank Willem Landman of EthicSA and Peter Brew of International Business Leaders Forum for offering their time and insights as external reviewers. Finally, the authors wish to thank the several dozen leaders in the field of international business ethics and anti-corruption who participated in interviews and offered their insights, examples, and suggestions. Without their invaluable contributions, this report could not have been produced.

Disclaimer

All statements and conclusions, unless specifically attributed to another source, are those of the authors and do not necessarily reflect the opinions of the interviewees or representatives of Merck, The Merck Company Foundation, or the Ethics Resource Center.

Anti-corruption as Strategic CSR:

A call to action for corporations

FSG SOCIAL IMPACT ADVISORS

Boston • Geneva • San Francisco • Seattle

Telephone: 617-357-4000
www.fsg-impact.org

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
www.fsc.org
© 1996 Forest Stewardship Council
FSC

25%

The paper used in the production of this booklet is FSC Certified and is harvested under environmentally responsible conditions. It contains 25% post-consumer fiber and is printed using vegetable-based inks. Wind energy has been used for its printing.

To see this report online, go to:
http://www.fsg-impact.org/ideas/item/Anti-Corruption_as_Strategic_CSR.html