STAND TOGETHER AGAINST CORRUPTION

A PRACTICAL GUIDE TO HELP PREVENT CORRUPTION IN THE SUPPLY CHAIN

United Nations Global Compact
About the United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to voluntarily align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with over 12,000 signatories in more than 145 countries. www.unglobalcompact.org

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This guide was developed by Elena Bombis, Stein Hansen and Cecilie Hersleth, with significant editorial input from Anita Househam, the UN Global Compact Office staff and the UN Global Compact Advisory Group on Supply Chain Sustainability.

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United Nations Global Compact Office
Two United Nations Plaza, New York, NY 10017, USA
Email: globalcompact@un.org

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INTRODUCTION

Corruption is an obstacle to economic growth and social development around the world. Its effects often hit already marginalized groups particularly hard. Corruption undermines democracy, public accountability and the rule of law. Corruption is also bad for business — it distorts competition, increases the cost of doing business globally and adds significant uncertainty to business transactions.

The purpose of this guide is to provide short and practical guidance to companies on managing anti-corruption in the supply chain. It does not focus in great detail on the company’s management system for anti-corruption.

The guide outlines the business case for fighting corruption in the supply chain and describes the main elements of an efficient anti-corruption programme for preventing corruption in the supply chain. For in-depth guidance on how to react if a corrupt demand is made or corruption occurs, consult the complementary UN Global Compact Guide “Fighting Corruption in the Supply Chain: a Guide for Customers and Suppliers”.

Finally, selected references to relevant anti-corruption guidance material are provided here. Examples of company practices are highlighted throughout this guide.
In most countries, acts of corruption constitute a criminal offence, for which individuals and companies may face severe legal penalties. Punishment for individuals who engage in corrupt behavior can consist of several years of imprisonment and heavy fines. Companies may also be held liable for failing to prevent corruption and required to pay substantial fines.

In addition to the legal penalties, companies may also suffer serious reputational and financial consequences, such as additional costs, cancellation of contracts, and a loss of support from customers, suppliers and investors.

Corruption encompasses both the offering, promising and giving of money or anything of value (active corruption) and the requesting, agreeing to receive or acceptance of money or anything of value (passive corruption).

The first legally binding international anti-corruption convention, the United Nations Convention Against Corruption (UNCAC), established that states are required to outlaw, at a minimum, the following acts: bribery of national and foreign public officials and officials of public international organizations; embezzlement, misappropriation or other diversion of property by a public official; trading in influence, abuse of functions, illicit enrichment by public officials; bribery and embezzlement in the private sector; money-laundering, concealment of criminal property and obstruction of justice.

Fighting corruption and communicating the company’s zero tolerance policy within your own business is essential. It is important for all companies to develop and implement an adequate, risk-based and effective anti-corruption programme within their own organization. However, such programmes will not necessarily shield the company from reputational, financial and, under some legislation, legal consequences if it does not address the risk of corrupt activities within the entire supply chain. It is therefore necessary to ensure that your organization has adequate policies, procedures and practices to prevent and address instances of corruption in the supply chain as well as to insist that your suppliers have also put in place such a system.

Corruption can take many forms that vary in degree, from the use of inappropriate influence to institutionalized bribery. One of the main risks of corruption in the supply chain is the occurrence of fraudulent practices in procurement, such as a corrupt action by a supplier conspiring with a purchaser’s employee at the company’s expense. Below are a few scenarios of corrupt behavior involving suppliers:

- A supplier offers a bribe to government officials or other public officials in order to receive public permits and/or carry out its business and provide products and services to your company.
- A supplier offers a small payment (facilitation payment) to a low-level customs official to speed goods through customs.
- A supplier offers a payment to a customs official to pass non-conforming goods through customs.
- A procurement manager awards a contract to a supplier only because of a personal/family relationship.
A supplier offers expensive gifts or entertainment to a procurement manager during a bidding round. What is “expensive” in this context may vary according to the circumstances and the country in which the corrupt act occurs. As a general principle, a gift is considered “expensive” if its value is more than modest and/or the gift may be perceived by others to unduly influence a decision maker.

A supplier offers a bribe to a contract manager to ignore problems with a contract.

A supplier offers a sum to the contract manager to pass a sustainability inspection/audit for approval of adherence to the Supplier Code of Conduct.

The UN Global Compact 10th Principle
The UN Global Compact adopted the 10th Principle against corruption: “Businesses should work against corruption in all its forms, including extortion and bribery”. Implementation of the 10th Principle entails avoiding bribery, extortion and other forms of corruption, as well as proactively developing policies and concrete programmes to address the risk and actual instances of corruption internally and within their supply chains.

3 THE BUSINESS CASE FOR ANTI-CORRUPTION IN THE SUPPLY CHAIN

For a company, there are many advantages to having a solid anti-corruption programme in place that encompasses the supply chain.

- **It improves and protects brand reputation**
  Clean business must be a precondition for doing business. It is important to emphasize the company’s zero tolerance on corruption, repeat the message and build the culture around this premise. Corruption including individuals or organizations that the company has a business relationship with can damage the company’s own reputation even if it is not directly involved.

- **It reduces financial costs**
  Corruption can add to the cost of doing business and the cost of public procurement. According to a survey conducted by Kroll’s 2011/2012 Global Fraud Report on 1,200 executives worldwide, companies have lost an average of 2.1 per cent of their earnings due to fraud over only one year. Twenty per cent of these companies suffered from vendor, supplier and procurement fraud, while 19 per cent suffered from corruption and bribery.
• **It reduces legal risks**
In recent years, stronger anti-corruption legislation has been put in place almost worldwide and many, if not all, of the relevant authorities adopt legislation that is extraterritorial in effect; meaning that it applies to instances of corruption committed outside its country. Based on existing or emerging legislation⁷, a company can now be held liable even for corrupt activities conducted by their suppliers. Companies may be legally liable for corruption or active or passive bribery committed by persons or business partners acting on the company’s behalf even though the company does not have operations or sourcing activities in the country in question. In some countries (e.g. UK Bribery Act 2010 and Italian Legislative Decree 231/01), a company’s implementation of adequate procedures to prevent bribery and corruption will serve as a complete defence against conviction, while in others (e.g. FCPA), it can reduce penalties in the sentencing phase.

• **It creates trust**
Effective compliance creates trust with employees, investors, Governments, customers, consumers and other stakeholders. The demand for doing business with a company that complies is increasing. Therefore, at the end of the day, compliance is good business — good compliance “pays”.

Further, if companies work together in collaborative action to fight corruption in the supply chain:

• **It sets the standard for honest business and increases certainty in commercial transactions**
Working together in collective action can provide the necessary support to strengthen a company’s position of zero tolerance for corruption. The adoption of common anti-corruption standards and practices among customers and suppliers can make the playing field more fair and efficient for all. Increasing awareness and demand from customers for clean and honest business will improve the overall standards and leave behind the companies that are tempted to take shortcuts for quick profit.

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1 See, for example, Section 7 of the UK Bribery Act. [For more information, see “2010 Bribery Act — How are Supply Chains Affected?”. Transparency International UK 2010, available at: http://www.transparency.org.uk/our-work/publications/10-publications/29361-uk-briefing-2010-bribery-act-how-are-supply-chains-affected]
4.1. START WITH YOUR OWN ORGANIZATION

Before starting to assess your suppliers, it is a pre-requisite that you start with your own company, take a proactive approach and make sure you have effective procedures and anti-corruption programmes in place proportional to the level of risk. Below are key areas to help address corruption risks (for further guidance, consult the UN Global Compact Guide “Reporting Guidance on the 10th Principle Against Corruption”).

Commitment and policy
- Publicly state your company’s commitment to work against corruption in all its forms, including bribery and extortion, and to be in compliance with all relevant laws, including anti-corruption laws.
- Adopt a publicly stated formal policy of zero-tolerance of corruption.
- Consider issuing a statement of support for the UN Convention Against Corruption or for a regional convention ratified by the jurisdiction in which you operate, such as the OECD Convention.
- Carry out risk assessment of potential areas of corruption and adopting detailed policies for the relevant areas of risk. (For guidance, see “A Guide for Anti-Corruption Risk Assessment”, the UN Global Compact guide on risk-assessment).

Implementation
- Translate the anti-corruption commitment into actions.
- Secure support by the organization’s leadership for anti-corruption.
- Provide communication and training on the anti-corruption commitment to all employees. (For training material, access the online learning platform “The Fight Against Corruption: E-Learning Tool”, jointly developed by UN Global Compact and UN Office Drugs and Crime).
- Establish internal checks and balances to prevent and detect corruption.
- Assign clear lines of responsibility and accountability to management in all parts of the organization for effective implementation of the programme and avoidance of omissions or errors.
- Adopt Human Resources procedures supporting the anti-corruption commitment or policy.
- Establish communications (whistleblowing) channels and follow-up mechanisms for reporting concerns or seeking advice.
- Establish internal accounting and auditing procedures related to anti-corruption.

Monitoring
- Monitor compliance and implement improvement processes on a continuous basis and consider leadership review of monitoring and improvement results.
- Devise a process that establishes the steps to deal with incidents of corruption.
- Consider reporting on public legal cases regarding corruption.
- Consider using an independent external assurance of anti-corruption programmes.
4.2. Preventing Corruption in the Supply Chain

The same standards that are implemented and continuously assessed in your organization should also be required from your suppliers. Key steps include:

**Identify your suppliers**
- Modern supply chains are complicated, multi-tiered, shifting networks which can involve thousands of suppliers. Establishing an effective responsible procurement programme to raise ethical standards is therefore challenging. It is recommended that you put systems in place to help you identify and categorize your supply chain partners. This should enable visibility of your supply chain beyond the first tier. This can either be done through your own internal systems or external online platforms. It is important that the systems operate on a continuous basis and that results serve to continuously improve key business processes and outcomes.
- Assess not only your direct suppliers’ risk, but also the risk further down the supply chains — and prioritize your efforts according to corruption risk. (For guidance, see Section 4 “Determining the Scope” in the UN Global Compact Guide “Supply Chain Sustainability — A practical guide for continuous improvement”).
- Irrespective of size, it is recommended to require a minimum set of measures in place from suppliers, including: an expressed and public commitment to work against corruption and to obey all relevant laws, including anti-corruption laws; the effective implementation of the anti-corruption programme; communication on the anti-corruption commitment to all employees; possibly internal training; internal controls to detect and prevent corruption; establishing monitoring and improvement processes.

**Develop your requirements**
- Develop a Supplier Code of Conduct that includes anti-corruption. Consider setting up a cross-functional task force with employees from several internal units (e.g. Sourcing, HR, CSR, Legal, Internal Audit, etc.) to develop the Supplier Code of Conduct. It is advisable to align your Code with industry or international standards to prevent administrative burden caused by suppliers trying to meet multiple supplier codes.
- Implementing and enforcing the Supplier Code of Conduct should be considered a primary responsibility of your company. It is preferable that a working group, composed of people from different functional units of the organization, as well as key external stakeholders, engage in this process rather than outsourcing the work to a third party.
- Integrate anti-corruption activities with other assurance activities, to the extent

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**Sedex, the Supplier Ethical Data Exchange**, a non-profit membership organization, provides an online collaborative platform, helping companies to understand, monitor and manage sustainability risk. Members can conduct multi-tier supplier assessments on a large scale across social, environmental, ethical and governance issues allowing companies to better understand where their supply chain risks lie and prioritize their resources and activities accordingly. Among their publicly available resources, the organization offers the Sedex Supplier Workbook, including a chapter devoted to anti-corruption, and the Sedex Member Ethical Trade Audit, an open source audit methodology derived from a compilation of best auditing practices. Both these tools are available in our list of Resources (see section 5 of the Guide).
that these exist and makes sense, e.g. on health & safety, labour rights, environmental issues, etc. It will normally make sense to have one integrated Supplier Code of Conduct and do supply chain monitoring activities in one integrated process.

- Review relevant anti-corruption legislation in the countries of operation, at domestic and international level — and support and develop local policies and procedures with specific language in contracts and codes of conducts. (For example, consult the “Addenda: Tools and Resources” of the UN Global Compact Guide “Fighting Corruption in the Supply Chain: a Guide for Customers and Suppliers”).

**Implement your Supplier Code of Conduct**

- Work out a programme to secure that your suppliers commit and adhere to the Supplier Code of Conduct.
- Engagement from executive management and line management is important as well as availability and knowledge about the Codes for all employees.
- Work with your suppliers to ensure they mirror your Supplier Code of Conduct requirements to their own suppliers (your sub-tier suppliers).

**Telenor**, a global provider of telecommunications services from Norway, has implemented preventive corruption activities in its supply chain together with its regular business assurance activities. In this regard, the Company has adopted a Supplier Code of Conduct which specifically demands compliance of the supplier with anti-corruption laws and regulations (among other areas) and a general prohibition to suppliers to offer gifts, entertainment and other expenses, unless of modest value, to the company’s employees. The company conducts corruption risk assessments pre contract and follows up the supplier’s anti-corruption programme together with other sustainability issues in inspections.

**Ricoh**, a Japanese technology company, developed a Supplier Code of Conduct based upon the company’s CSR Charter and Code of Conduct. The company explains its CSR policy and standards at a local conference inviting all suppliers and requests them to comply with the company’s Supplier Code of Conduct. RICOH requests that suppliers conduct yearly self-assessments to verify compliance with the Supplier Code of Conduct. The company reviews the results together with the suppliers and improves their CSR activities jointly. For example, occasionally the company requests suppliers to submit their improvement plan to the company.
**Adopt a risk-based approach, prioritize and monitor compliance**

- Make monitoring of your supply chain a focus area and adopt a risk-based approach. Prioritize while carrying out the monitoring activities.
- Check adherence to the Supplier Code of Conduct through sustainability inspections / audits of the suppliers. This may be carried out by your employees according to a written procedure or by hiring external consultants.
- Analyze your supply chain and decide if you need to focus on big volumes of suppliers, meaning you will have to keep it simple, or if you need to focus on the most critical suppliers with more comprehensive efforts.
- Be pragmatic. You cannot do a comprehensive Integrity Due Diligence (IDD) of all suppliers, but you can do a simple risk assessment on a high volume of suppliers.
- Small suppliers may be faced with different challenges than large multinational suppliers; one size does not fit all. Large multinational companies are expected to have a comprehensive anti-corruption programme in place – while small suppliers may have less advanced anti-corruption programmes.

**Siemens**, a global electronics and engineering company has a supplier management process that starts with a qualification assessment to identify the risk profile of suppliers. For suppliers with identified risks, a corrective action plan is defined. In the case a supplier is reluctant to improvement measures or in cases of repeated violations, the business relationship will not be initiated or will be terminated.

- A closer background check, IDD or similar process should be carried out in certain instances, for example: for joint ventures, agents, middleman and third parties acting on behalf of the organization towards public authorities.
- Where red flags arise, make sure to conduct more investigation and take extra steps to resolve the concerns.

**Establish a pro-active dialogue with suppliers**

- Find the right balance between preventive and reactive work, with highest focus on preventive work.
- Bring up anti-corruption during general sustainability inspections. For example, ask about understanding of the law, written policies and programmes in place — and whether policies are communicated and understood by all employees.
- It may further be useful to address anti-corruption together with other sustainability related issues to ensure a constructive and friendly atmosphere. Furthermore, it is important to raise issues and discuss solutions in an environment without fear of reprisal. Make clear this is normal procedure and not an investigation of misconduct.

**In addition to regular auditing to monitor compliance with its Supplier Code of Conduct, Reed Elsevier**, a publisher and information provider, works directly with suppliers, often SMEs, when issues around anti-corruption come to light. In one instance, the Company helped a supplier to integrate training and reporting procedures into its anti-corruption policy. In another instance, the Company provided assistance to a supplier in developing its own written anti-corruption policy.
Provide support with training

- Many companies, in particular smaller suppliers, may have limited capacity and appreciation of the importance of avoiding corrupt practices. Developing sustainable supply chain pro-active training and awareness programmes is a key way to support your suppliers. Such training should also take into consideration the supplier’s corruption issues, within the context of its location and sector-specific practices.
- There are different communication and education methods that companies can use and combine effectively to build awareness and understanding among supplier personnel on the negative impacts of corruption and the way to prevent it and/or respond to corrupt demands, such as in-person training/supplier conferences, web-based training, interactive web experiences (webinars and blogs) and one-way communication (e.g. flyers, e-mails, websites). For further guidance, consult the “Addenda: Tools and Resources” in the UN Global Compact Guide “Fighting Corruption in the Supply Chain: a Guide for Customers and Suppliers”.

Company response to corruption

Each case is different and will require careful consideration — and very specific guidance in this area is not within the scope of this guide. However, certain basic responses are relevant in most instances. Companies should:
- Have consistent and transparent processes and defined internal procedures for how to react.
- Politely refuse to pay when facing an attempt of bribery, no matter how small. Facilitation payments are illegal according to anti-corruption legislation in most countries.
- Speak up and confront suppliers or other business partners.
- Make sure to secure necessary evidence in cases of confirmed corruption.
- As a last resort, be ready to terminate an existing relationship.

For guidance on how to respond to corruption in the supply chain, consult Section 3 “Practical Guidance on Preventing and Responding to Corruption in the Supply Chain” in the UN Global Compact Guide “Fighting Corruption in the Supply Chain: a Guide for Customers and Suppliers”.

In order to prevent and identify instances of corruption, Safaricom, a Kenya-based network provider, has created a comprehensive ethics training programme that focuses on face-to-face interacting sessions supplemented with bulletin and e-mail communication. The company employs similar methods in its supply-chain with forums for open dialogue and collaboration in the implementation of their code of conduct.
4.3. TAKE COLLECTIVE ACTION

While customers clearly have a direct impact on their direct suppliers, the most significant risks will often occur a few tiers down in the supply chain. It is important to ensure that anti-corruption activities have influence throughout the entire supply chain. A joint effort by customers, suppliers and sub-tier suppliers to combat corruption helps create the conditions for a fair and equal market for all businesses. Although it may be more challenging to influence the activities of sub-tier suppliers, there are steps that companies can take together:

**The Global Compact Local Networks** undertake a variety of activities around the world to support the UN Global Compact’s Ten Principles. Local Networks can be used as a platform to bring suppliers together and receive relevant trainings or engage in dialogue.

In December 2010, the UN Global Compact Office launched the **Anti-Corruption Collective Action Project** in five countries, supported under the Siemens Initiative Project. Through this project, Global Compact Local Networks in Brazil, Egypt, India, Nigeria, and South Africa and the Global Compact Office are implementing high-impact collective-action platforms on anti-corruption by facilitating ongoing dialogue between the private and public sectors. The project offers an opportunity for a wide range of stakeholders to explore how collective action can create incentives for ethical business performance, and to discuss areas for further improvement. http://www.unglobalcompact.org/Issues/transparency_anticorruption/collective_action.html

**Training and awareness at industry level**

- An important measure in fighting corruption is pro-active training and awareness-raising activities for suppliers. Supplier training on anti-corruption, at a general level, can be carried out together with other companies in the industry. This can be done at an industry sector level or for the wider industry more generally, as applicable.
- Such industry training comes in many forms and may be carried out as yearly workshops involving a number of suppliers. The goal of any supplier education and communication programme is to build awareness and understanding among supplier personnel.

Telenor Hungary, the Hungarian subsidiary of the global provider of telecommunications services, has developed a local e-learning programme in Hungarian for SMEs together with Transparency International. The suppliers are encouraged to conduct the e-learning and the suppliers that fulfill this learning are registered.

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2 A description of all existing Local Networks is available at the following link: http://unglobalcompact.org/NetworksAroundTheWorld.
Stand Together Against Corruption

Compliance pacts:
- Businesses across the world are increasingly engaging in anti-corruption sector-specific or multi-industry initiatives. One example of such an initiative is a compliance pact. This is usually a group of companies within the same industry that publicly commit to well-defined compliance principles. Businesses remain aware of their actions and wary of violating their contractual obligations under the watchful eye of the general public and media.

Founded by a group of CEOs in 2004, the World Economic Forum Partnering Against Corruption Initiative (PACI) is a global, multi-industry, multi-stakeholder anti-corruption initiative set up to raise business standards and to contribute to a competitive, transparent, accountable and ethical business society. The initiative asks CEOs to sign a set of Principles, thereby committing to a zero tolerance policy towards bribery and corruption and agreeing to establish an internal anti-corruption programme. Today, more than 100 PACI signatories have joined the initiative, including industry leaders from multiple sectors and global locations. www.weforum.org/paci.

In 2011, PACI together with the Forum’s Risk Response Network, embraced a two year study on risks in supply chains. The Supply Chain Risk Initiative (SCRI) brought together a range of leading experts from across the Forum’s diverse communities to explore the most critical threats facing supply chain networks, and to apply new risk response tools that can promote efficient risk management, security and resiliency in the complex global trading environment. The link to the SCRI and its reports can be found at: http://www.weforum.org/issues/supply-chain-risk.

Diageo, a global alcoholic beverages company, gained Government sponsorship for an event focused on ways of tackling corruption. This platform brought together sixty other companies, NGOs and government bodies; who by signing up to an anti-corruption pact formed the Business Coalition against Corruption in Cameroon. The aim was to better develop the Government’s anti-corruption agenda and it was officially launched in 2011.
RESOURCES

- Sedex Members Ethical Trade Audit (SMETA), http://www.sedexglobal.com/ethical-audits/smeta/
The Ten Principles of the United Nations Global Compact

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

**HUMAN RIGHTS**
Businesses should support and respect the protection of internationally proclaimed human rights; and make sure that they are not complicit in human rights abuses.

**LABOUR**
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced and compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

**ENVIRONMENT**
Businesses should support a precautionary approach to environmental challenges; undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies.

**ANTI-CORRUPTION**
Businesses should work against corruption in all its forms, including extortion and bribery.