TRANSPARENCY INTERNATIONAL UK
fighting corruption worldwide

ESG GOVERNANCE AND RISK MANAGEMENT: COORDINATING ANTI-CORRUPTION AND SUSTAINABILITY IN PRACTICE

A GUIDE FOR BOARDS, ETHICS & COMPLIANCE, LEGAL AND SUSTAINABILITY TEAMS

Transparency International is the world's leading non-governmental anti-corruption organisation. With more than 100 chapters worldwide, Transparency International has extensive global expertise and understanding of corruption.

Transparency International UK is the UK chapter of Transparency International. We raise awareness about corruption; advocate legal and regulatory reform at national and international levels; design practical tools for institutions, individuals and companies wishing to combat corruption; and act as a leading centre of anti-corruption expertise in the UK.

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PROJECT SPONSORS

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Report 2: *Mapping Anti-Corruption Metrics in Sustainability Reporting and Benchmarking Initiatives* (May 2024).

Report 3: *Preparing for the Corporate Sustainability Reporting Directive: 'Corruption and Bribery' and 'Political Engagement' Disclosures* (May 2024).

Report 4: *ESG Governance and Risk Management: Coordinating Anti-Corruption and Sustainability In Practice* (this report, February 2025).

Report 5: *Driving Integrity in Sustainability Reporting and Communications* (provisional title, forthcoming).

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1. KEY TERMS

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ANTI-BRIBERY AND CORRUPTION (ABC) POLICIES AND PROCEDURES	Policies and procedures to detect, prevent and respond to bribery and other forms of corruption. This guide also uses the term anti-corruption.
ANTI-CORRUPTION DUE DILIGENCE	A process to screen third parties for bribery and corruption-related risks, including company ownership, management structure, and corruption risk mitigation controls, to enable the company to avoid an association with third parties carrying legal or reputational risk.[1]
BRIBERY	The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust.
CORPORATE GOVERNANCE	"The system of rules, practices and processes by which a company is directed and controlled."[2]
CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE (CSDDD)	The CSDDD (Directive (EU) 2024/1760), in its current form, requires large companies active in the EU to conduct due diligence to identify, prevent, cease or minimise adverse impacts on the environment and human rights.
CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)	The CSRD (Directive (EU) 2022/2464), in its current form, requires large companies active in the EU to disclose information on their material sustainability impacts, risks and opportunities from a double materiality perspective (see 'double materiality' below).
CORRUPTION	The abuse of entrusted power for private gain. Corruption is an umbrella term to describe a range of illegal and unethical conduct including bribery, inducements, bid rigging, kickbacks, embezzlement, extortion, collusion, cronyism, trading in influence, abuse of position, undue influence in political engagement and unmanaged conflicts of interest.
DOUBLE MATERIALITY	A concept which requires companies to consider both financial materiality – how environmental and social factors impact the company's financial performance – and impact materiality – how the company's operations affect the environment, economy and society.
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)	The term ESG covers diverse topics (including bribery and corruption, biodiversity, climate emissions, respect for human rights, child labour and modern slavery) which reflect how companies interact with the environment, economy and society. In this guide we use the terms ESG and sustainability interchangeably.
ESG GOVERNANCE	For this guide, ESG governance means the system of oversight and accountability and the related roles and responsibilities for the oversight and management of the company's sustainability impacts, risks and opportunities.
EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)	The ESRS (Regulation (EU) 2023/2772) provide the disclosure requirements for companies to report in line with the CSRD.

GREENWASHING	Conveying false or misleading information about activities, organisational procedures, products, or services as having positive climate or broader social credentials.[3]
HORIZON SCANNING	A process or technique for identifying insights on emerging trends, developments and other upcoming changes.
HUMAN RIGHTS DUE DILIGENCE	The process defined in the UNGPs through which companies "identify, prevent, mitigate and account for how they address impacts on human rights" through "meaningful consultation with potentially affected groups and other relevant stakeholders".[4]
HUMAN RIGHTS AND ENVIRONMENTAL DUE DILIGENCE (HREDD)	The process for identifying and addressing adverse human rights and environmental impacts codified in the CSDDD through: "(1) integrating due diligence into policies and management systems; (2) identifying and assessing adverse human rights and environmental impacts; (3) preventing, ceasing or minimising actual and potential adverse human rights and environmental impacts; (4) monitoring and assessing the effectiveness of measures; (5) communicating and (6) providing remediation."[5]
STAKEHOLDERS	The ESRS define "affected stakeholders" as "those who are actually or potentially affected by the company's operations and business relationships",[6] including employees, customers, communities and supply chain workers. This group can also be referred to as 'rightsholders'. Other company stakeholders could include third parties and investors.
SUPPLY CHAIN	The ESRS define the supply chain as "The full range of activities or processes carried out by entities upstream from the undertaking, which provide products or services that are used in the development and production of the undertaking's own products or services" including direct and indirect business relationships.[7]
SUSTAINABILITY LEGISLATION	For this guide, we use the term 'sustainability legislation' to refer to laws and regulations requiring companies to report on specific or diverse environmental, human rights and governance matters (sometimes termed 'non-financial' information[8]), as well as to laws requiring companies to undertake due diligence in their value chain, including HREDD.[9]
THIRD PARTY	Third parties (also referred to as vendors, direct suppliers, partners, contractors, and service providers) are companies, organisations or external individuals which have a direct business relationship with the company.
THIRD-PARTY RISK MANAGEMENT	A process "designed to give organisations an understanding of the third parties they use, how they use them, and what safeguards their third parties have in place."[10]
VALUE CHAIN	The ESRS define the value chain as "The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates [….]. Value chain includes actors upstream and downstream from the undertaking."[11]

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2. EXECUTIVE SUMMARY

The sustainability regulatory landscape is rapidly evolving. Companies will need to develop or expand their compliance efforts in response to sustainability legislation. This should involve re-assessing their governance system to ensure this supports their sustainability priorities and provides effective oversight of risk management and decision-making.

Navigating new sustainability legislation is challenging but companies have existing expertise and processes they can leverage, including as part of their approach to anti-corruption and integrity. Designing, developing and implementing a new or updated sustainability programme is an opportunity to coordinate anti-corruption and sustainability measures, which are interconnected areas of company practice.

This guide provides practical insights to help companies navigate evolving sustainability legislation by (1) setting up a system of oversight and management for priority sustainability topics (ESG governance) grounded on principles of accountability, integrity and transparency and (2) leveraging ethics & compliance, legal and sustainability expertise and processes to coordinate and strengthen corruption and sustainability risk management. It is informed by findings from interviews with over 45 ethics & compliance, legal, financial crime, risk and sustainability practitioners.

THE BUSINESS CASE: COORDINATING ANTI-CORRUPTION AND SUSTAINABILITY

No need to reinvent the wheel: adapt and improve: Ethics & compliance and legal teams already possess valuable insights into how to establish risk-based controls and foster a culture of compliance and integrity. These insights, supported by human rights and environmental expertise, can be leveraged to develop or update a sustainability programme which meets regulatory requirements and embraces the spirit of international standards.

Better prepared for the double materiality assessment: Working with sustainability teams helps ethics & compliance and legal professionals gain information on risk from an impact materiality perspective (how company activities impact society and the environment). This provides a more holistic picture of risk and supports an assessment of risk from an impact and financial perspective (known as double materiality) in line with the Corporate Sustainability Reporting Directive (CSRD).

More effective and proactive risk management: Internal processes such as risk assessments, third-party management and sustainability reporting benefit from breaking down internal silos to share expertise, information and tools. Cross-functional collaboration, for example by bringing ethics & compliance and/or legal teams into sustainability discussions, can help identify and mitigate integrity risks before they escalate.

Beyond 'tick box' compliance to strengthen organisational culture: Anti-corruption compliance should be more than a box-ticking exercise given rules-based controls cannot account for every scenario and prohibiting bribery alone does not address wider corruption risk. Promoting a culture of integrity as part of an anti-corruption programme complements rules-based controls by encouraging employees to 'do the right thing'. Navigating sustainability legislation is similarly an opportunity to go beyond 'tick box' compliance and embed sustainability commitments into the way a company does business. This further strengthens organisational culture.

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RECOMMENDATIONS FOR ESG GOVERNANCE AND RISK MANAGEMENT

Companies will need to ensure the right people are involved in decision-making on sustainability and that there is accountability, integrity and transparency around decisions made. Companies will also need to allocate clear roles and responsibilities for ESG/sustainability priorities.

Our research identifies four general ESG governance models: centralised governance, decentralised governance, network model and hybrid governance. Interviewees' reflections on each model show there is no ideal approach but rather opportunities and challenges within each. This guide also provides a snapshot of two companies' ESG governance system – Novartis International AG and Santander UK PLC.

Companies can adopt elements of the different approaches to define or update their governance roles and responsibilities and create an oversight structure appropriate for their circumstances.

Transparency International UK has developed nine ESG governance and risk management principles (see figure 1) to help companies promote accountability, integrity and transparency – the foundations for good governance – in their ESG governance system. More detail is provided in the body of this guide.

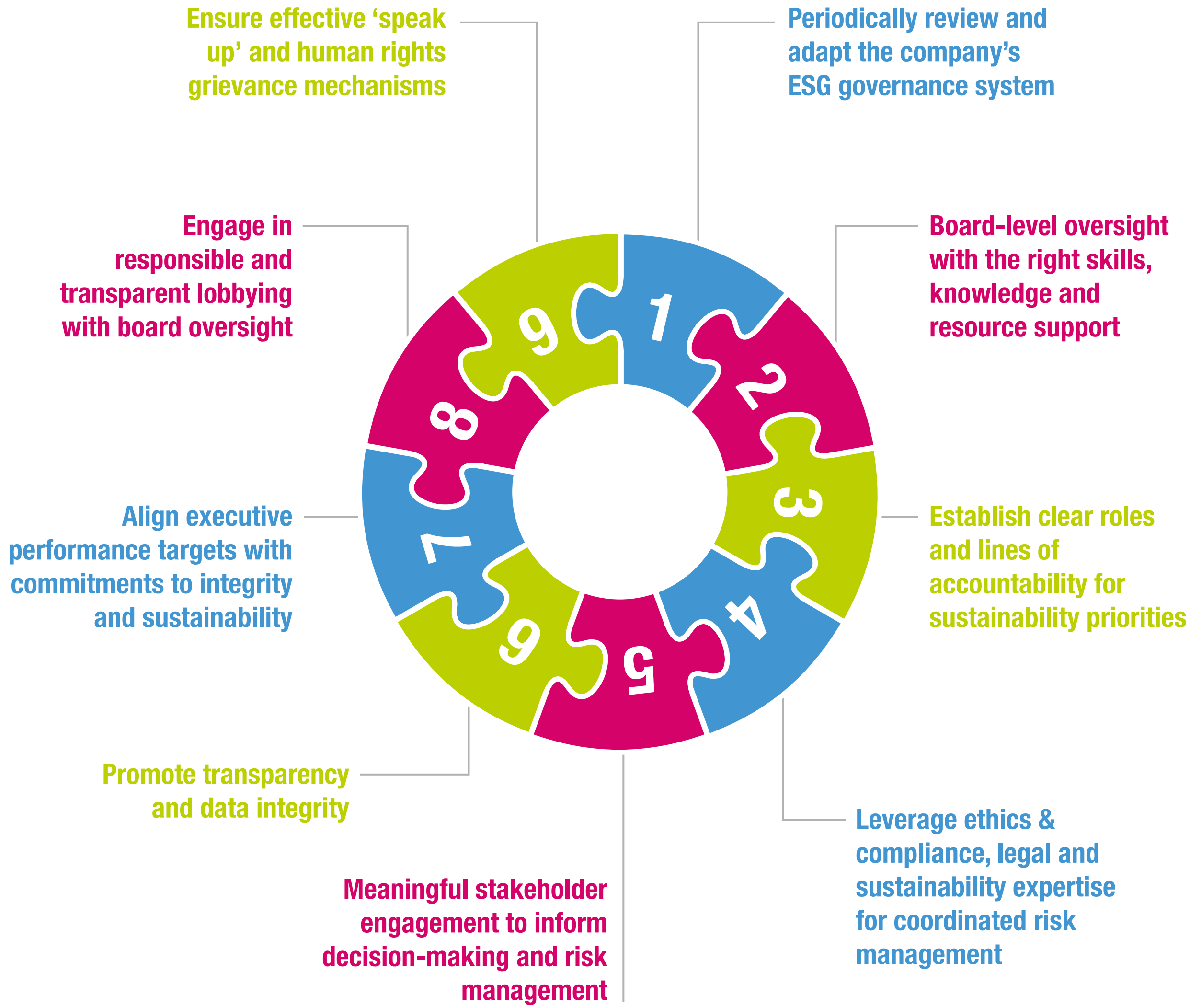

Figure 1: Transparency International UK's ESG governance principles

RECOMMENDATIONS FOR COORDINATION IN PRACTICE

During our 45 practitioner interviews, we found encouraging examples of internal teams sharing expertise, information and tools to strengthen anti-corruption and sustainability processes. Across these coordination touchpoints (summarised below), we heard that many of the tools, systems and learnings from anti-corruption programmes are proving useful in the context of managing other areas of ESG risk, while processes in the sustainability context, such as human rights and environmental due diligence (HREDD), can help inform assessments of corruption risk.

Developing a sustainability programme

Companies can leverage and adapt elements of their anti-bribery and corruption (ABC) programme to establish governance roles and responsibilities, a control framework and enabling environment for a new or updated sustainability programme. While there are distinctions between corruption and sustainability risk management, including the scope and nature of stakeholder engagement to identify and manage risks to people and planet and not only to the company, there are synergies and the process of HREDD is an opportunity to gain insights into corruption risk from a wider range of stakeholders.

Risk assessment and horizon scanning

By working together, anti-corruption experts and sustainability professionals can develop a more holistic and deeper understanding of risk, including from a double materiality perspective. Developing a common risk taxonomy and a centralised risk register can facilitate collaboration. Regular interaction between sustainability teams and ethics & compliance and/or legal teams and horizon scanning (identifying emerging trends and developments) are important for understanding upcoming regulations and operational risks.

Data and technology

Access to accurate data, though challenging, is crucial for effective ABC and ESG risk management. Emerging technologies, including artificial intelligence (AI) and machine learning, can help identify ABC and ESG risks more cohesively through collaboration and data reporting. Existing technologies used to map suppliers and customers for corruption risk could be adapted for the wider sustainability context, although these will need to account for the different risk frameworks, data sources, indicators and metrics. Companies should ensure their use of technology does not undermine integrity commitments and sustainability goals.

Supply chain management

Assessing and managing third-party risk on corruption and other ESG topics concurrently during due diligence and onboarding processes provide more efficient and cohesive third-party management. Companies should involve subject matter experts and relevant technical tools for each topic. Reactive processes such as negative news monitoring need to be supported by steps to identify and mitigate risks proactively. Supplier capacity-building initiatives, including training, can help cascade ethical standards, while engaging in collective action can help tackle systemic challenges, including corruption and human rights.

Culture and change management

Developing an organisational culture centred on integrity creates an enabling environment for the success of compliance and sustainability initiatives. Awareness and action at all levels of the organisation is key, and ambassadors and champions can help disseminate responsibility. Companies can include examples of how corruption intersects with human rights concerns into ABC training to build capacity on the interconnections between risk areas. Where sustainability targets are set, there should be alignment across departments to mitigate any risk of targets incentivising unethical or illegal conduct.

Sustainability reporting and marketing

There is increased regulator, investor and customer scrutiny of companies' sustainability data and marketing claims. Companies should engage ethics & compliance and legal expertise early in the 'green' marketing claims process to identify legal and reputational risks and ensure claims can stand up to scrutiny. Coordinating the data inputs from ethics & compliance and/or legal and sustainability teams, as well as an assurance system (verification), helps ensure reported information is accurate and aligned.

Investigations

Investigations are by their nature reactive and require a tailored approach, but the process used for ABC investigations can inform ESG investigations, such as the distinct phases and need to maintain a consistent framework. However, ESG investigations are more likely to focus on external impacts and require a more expansive look at the company's value chain and engagement with a wider group of stakeholders. While forensics tools used in ABC investigations remain useful in the ESG context, stakeholder interviews will play a more central role.

Monitoring effectiveness

Tracking the effectiveness of a company's anti-corruption programme is a complex yet important part of building a successful compliance programme. The Corporate Sustainability Due Diligence Directive (CSDDD) requires companies to monitor the effectiveness of their HREDD measures. As part of this, companies could draw on ABC initiatives, such as internal audit, to assess the performance of relevant internal controls. Seeking feedback from affected stakeholders is vital for assessing the effectiveness of HREDD measures and also valuable for monitoring ABC controls.

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3. ABOUT THIS GUIDE

This guide provides companies with practical insights as they navigate evolving sustainability legislation. It focusses on setting up an appropriate ESG governance structure and leveraging ethics & compliance, legal and sustainability expertise and processes to coordinate anti-corruption and sustainability measures, which are interconnected and reinforcing areas of company practice.

Drawing on company insights and practices, we explore:

- the business case for coordinating corruption and sustainability risk management
- ESG governance principles and models
- how companies are leveraging and coordinating internal expertise and processes in practice – particularly looking at opportunities for leveraging ABC expertise, tools and processes

This guide is informed by findings from our interviews with over 45 compliance, legal, financial crime, risk and sustainability practitioners in 22 companies across eight corporate sectors, one non-governmental organisation (NGO) and three academic institutions.

This report is for those in:

- **Leadership positions –** to assess how the company's governance structure, including the allocation of roles and responsibilities, can help achieve its sustainability priorities and promote accountability, integrity and transparency.
- **Ethics & compliance and legal positions –** to assess how they can leverage existing processes and where the evolving regulatory framework benefits from collaboration with ESG/sustainability colleagues to take the company's approach to sustainability beyond a tick-box exercise.
- **ESG/sustainability –** to understand that there are existing tools and processes can be leveraged and adapted when developing or updating a sustainability programme.

4. INTRODUCTION

The sustainability landscape for companies in the UK and worldwide is evolving at pace due to regional and national sustainability legislation and growing demand from companies' stakeholders including consumers, employees, investors and local communities.

At the time of publication, the CSRD and the CSDDD are under review.[12] However, the expectation on companies to conduct HREDD is rooted in international standards, including the UN Guiding Principles on Business and Human Rights (UNGPs), while various national initiatives already require companies to conduct HREDD and disclose ESG information, including on climate change, corruption and human rights.

As the sustainability regulatory landscape evolves, we can expect a growing number of businesses globally to be impacted directly (if in-scope of the legislation) and/or indirectly as requirements affect suppliers in larger companies' value chain.

Adapting to sustainability requirements is challenging but essential with new regulatory risks on the horizon and new pressures on company functions including ethics & compliance, legal and sustainability.

However, this offers commercial and reputational opportunities for companies which can leverage synergies between sustainability and anti-corruption and promote cross-functional coordination by sharing expertise and processes.

In a similar vein, sustainability compliance is an opportunity to embed sustainability into the way the company does business and embrace the letter of the law and the spirit of the UNGPs and other international standards in which laws are rooted.

The value of cross-functional coordination is not a new conversation,[13] but sustainability and ethics & compliance and/or legal functions have remained quite siloed.[14] This is a missed opportunity.

> **"I've been baffled by the complete lack of interaction between the ethics & compliance community and the ESG community, because to me they're really the same thing."[15]**
>
> Alison Taylor, Clinical Associate Professor at NYU Stern School of Business and former Executive Director of Ethical Systems.

While the financial and human resource implications of coordination cannot be overlooked, implementing joined-up strategies underpinned by good ESG governance facilitates more proactive and effective risk management. It also safeguards stakeholder interests and the company's reputation, as well as capitalising on the strategic advantage of strong ESG performance.

Changes in company practice are just one part of achieving the ambition of sustainability goals. It is company practice that this guide focuses on.

HOW DOES CORRUPTION ENABLE NEGATIVE HUMAN RIGHTS AND ENVIRONMENTAL IMPACTS?

Bribery and corruption incidents are deeply connected with human rights and environmental harm by enabling contexts in which abuses are more likely to occur and exacerbating existing inequalities.

- Bribes paid to circumvent or manipulate the results of safety audits contribute to unsafe working conditions[16] and non-compliance with environmental regulatory requirements.[17] One interviewee noted that corrupt practices during human rights impact assessments have resulted in inaccurate findings that, "communities had not been impacted by certain negative human rights or environmental impacts when in fact they had".[18]
- In the illegal logging trade, "bribes can be paid to public officials for timber concessions or to allow illicit timber to pass through checkpoints".[19]
- Power dynamics in the workplace can translate into corruption risk. As one interviewee noted, "I have seen examples of women having to pay tea farm managers to get a better patch of land."[20]
- Corruption can inhibit equal access to health care and the attainment of the human right to health. One interviewee explained, "In our experience in the health sector, we have seen that fraud and corruption can undermine the ability of ordinary people to obtain medicines."[21]

Corruption undermines the rule of law and the protection of human rights[22]

- Corruption erodes the legitimacy of institutions and processes designed to protect human rights and can reduce access to justice for victims of rights violations.[23] It can also cause social fragilities which, in turn, create an environment in which it is difficult to realise human rights.[24]
- Corruption diverts funds from public services intended to address inequalities in areas such as health, education and employment. Women and other marginalised groups tend to need to access these services more frequently[25] and are therefore more likely to be negatively affected.[26]

Corruption undermines the integrity and success of climate initiatives

- Bribery and corruption can jeopardise climate solutions through, for example, the misuse and diversion of funds intended for climate sequestration projects, and by undermining affected communities' 'free, prior and informed consent' where individuals managing projects have conflicts of interest.[27]
- In our interviews, we heard about companies', "exposure to fraud or corruption in the purchase of carbon offsets"[28] and the high risk of corruption in some carbon credit schemes.[29]
- Reports increasingly highlight the challenge of greenwashing through misleading environmental credentials, 'green' marketing and carbon credit claims.[30]

Corruption enables Illicit Financial Flows (IFFs) from environmental and social crimes

Bribery and corruption enable crimes such as wildlife trafficking, illegal logging, illegal land conversion and human trafficking, usually perpetrated by organised crime networks.

- In the mining industry, "rampant corruption facilitates the illegal flows of Mozambique's rubies. Because informal miners are unable to obtain a certificate of origin, rubies mined by unlicensed miners and later sold abroad leave the country illegally."[31]
- In the illegal wildlife trafficking trade, corruption takes place at multiple steps along wildlife trade value chains.[32] A 2020 study found that, "bribes can make up 4-10 per cent of the final (wholesale) sales value of ivory in Asia."[33] According to that study, "In 2012, along the Vietnam-China border, there was an estimated US$18,000 to US$30,000 a day given out in bribes to border officials."[34]

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HOW DOES ASSESSING CORRUPTION RISK SUPPORT SUSTAINABILITY COMPLIANCE?

Various national and international sustainability laws require companies to report on anti-corruption matters or highlight the interplay between corruption and social and environmental harm.

Sustainability reporting

- The Corporate Sustainability Reporting Directive (CSRD) requires companies in scope to disclose information on their material (from a double materiality perspective) sustainability matters across their value chain (upstream and downstream) in line with the European Sustainability Reporting Standards (ESRS). This entails assessing the potential materiality of corruption-related topics under ESRS G1: Business conduct including "corruption and bribery", "political engagement" and "whistleblowing".[35]
- The EU Sustainable Finance Disclosure Regulation requires financial market participants to disclose "adverse sustainability impacts" for certain products covering "environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters".[36]

Sustainability due diligence

- The Corporate Sustainability Due Diligence Directive (CSDDD) highlights: "Adverse human rights and environmental impacts can be intertwined with or underpinned by factors such as corruption and bribery. It may therefore be necessary for companies to take into account those factors when carrying out human rights and environmental due diligence, in a manner that is consistent with the UN Convention against Corruption".[37]
- The EU Deforestation Regulation (EUDR) (Regulation (EU) 2023/1115) (not in force at the time of publication) would prohibit the import or export of certain commodities unless they are "deforestation free". The EUDR requires commodities in scope to be produced in accordance with relevant national legislation, including "tax, anti-corruption, trade and customs regulations".[38]

Proceeds of crime and money laundering

Companies can be exposed to financial crime risk from IFFs linked to criminal activity deep in the supply chain (for example, illegal mining, illegal logging, forced labour and human trafficking).

- The Financial Action Task Force (FATF) has published two reports on the links between money laundering and environmental offences: (1) the illegal wildlife trade[39] and (2) environmental crimes[40] including illegal forestry, illegal mining and waste trafficking. FATF highlights how these crimes rely on corruption, trade-based fraud and offshore corporate structures.
- Under the EU's 6th Money Laundering Directive (AMLD6: 2020) all EU member states must treat human trafficking and environmental crime as a predicate offence in the definition of "criminal activity" for the purposes of money laundering offences.[41]
- The UK Proceeds of Crime Act 2002 (POCA) enables the recovery of property and assets obtained through illegal activity. In 2024, the UK Court of Appeal ruled (in a case brought by the World Uyghur Congress) that anyone who imports or sells goods in the UK "knowing or suspecting that they are the product of forced labour" could be subject to a criminal investigation and prosecution under POCA and cannot rely on the "adequate consideration" exemption.[42]

Marketing claims

- The EU Green Claims Directive (Directive (EU) 2024/825) prohibits companies from making misleading claims about the environmental merits of their products and services.
- The UK Government's guidance on the "failure to prevent fraud offence" under the Economic Crime and Corporate Transparency Act 2023 (ECCTA) explains that the offence will cover cases where: "An investment fund provider promotes investment in a "sustainable" timber company, knowing that, in fact, this company's environmental credentials are fabricated, and that the timber is harvested from protected forest."[43]

5. THE BUSINESS CASE: COORDINATING ANTI-CORRUPTION AND SUSTAINABILITY

NO NEED TO REINVENT THE WHEEL: ADAPT AND IMPROVE

As a result of decades of global anti-corruption laws, including the US Foreign Corrupt Practices Act (FCPA) and UK Bribery Act 2010 (UKBA), many companies have a well-established ABC programme and ethics & compliance professionals have developed expertise in establishing risk-based anti-corruption controls and developing an organisational culture of compliance and integrity. These insights, together with sustainability expertise on human rights and environmental standards, can help develop effective sustainability policies and procedures which meet regulatory requirements and embrace the spirit of the international standards in which laws are rooted.

A key responsibility of management is identifying any overlap between the different risk management processes, ensuring no duplication in efforts, and that the right people are working together efficiently and effectively. No team or function can hold all the expertise to comply with the fast-evolving regulatory landscape. Leveraging existing expertise and resources builds on existing good practices and drives efficiencies as companies grapple with current and emerging issues.

> **“It’s really important that you do not go and reinvent the wheel and start trying to think about sustainability risks in isolation. It all needs to come together.”**
>
> Hentie Dirker, Chief ESG & Integrity Officer, AtkinsRéalis

> **“We also just want to be an ethical company. I mean, sometimes the law gets pushed down to the lowest common denominator and that’s not what we set out on this journey to do. I mean, we have to comply with the law, but we also want to be ethical and we think that requires doing a little bit more.”**
>
> Peter Nestor, Global Head of Human Rights, Novartis

BETTER PREPARED FOR THE DOUBLE MATERIALITY ASSESSMENT

The CSRD requires companies in scope to identify and assess priority sustainability topics, including corruption, from a financial materiality perspective (how environmental and social factors impact financial performance) and an impact perspective (how the company’s activities affect people and the environment) including by consulting with affected stakeholders.

The impact perspective is likely to be a new consideration for the ethics & compliance and legal functions who typically focus on assessing and preventing risk to the company. Working with sustainability teams helps ethics & compliance and legal teams ensure the company has a holistic picture of its interactions with the environment and society and supports a double materiality assessment (assessing impact and/or financial materiality) for CSRD compliance.

> **“Not just ‘we didn’t pay a bribe’ but ‘how does corruption prevent us from respecting human rights?’”**
>
> David Hess, Professor of Business Administration and Business Law University of Michigan

MORE EFFECTIVE AND PROACTIVE RISK MANAGEMENT

Internal functions in companies have tended to be siloed with limited coordination which can lead to issues “falling between silos”.[44] Coordinating across relevant teams can help identify and address issues proactively before they escalate, thereby mitigating reputational and legal harm, improving ESG performance and protecting stakeholder interests. For example, bringing ethics & compliance and legal expertise into early-stage discussions can help identify legal and reputational risks within sustainability communications.

> **“A human rights perspective on issues of corruption should help to change the attitudes of corporate actors towards corruption. A human rights perspective forces corporate actors out of the view of corruption as a victimless crime.”[45]**
>
> David Hess, Professor of Business Administration and Business Law University of Michigan

> **"These kinds of silos between teams in practice mean that things fall between the gaps."**
>
> Themis

A recent study by PwC found that 48 per cent of companies see the benefit of CSRD compliance on risk mitigation,[46] and that the CRSD compliance process itself requires companies to "topple silos" to facilitate cross-functional communication and data sharing.[47]

> **"What we saw when we first started looking at this was really separate and somewhat siloed programmes around these issues. At least it was good that there were programmes, but sometimes it felt like people weren't necessarily communicating enough or leveraging all of the data that may otherwise be available to them for both purposes. And I think we've really started to see that shift to a more holistic approach to thinking about risk and about ESG."**
>
> Amanda Raad, Partner, co-head of global anti-corruption and international risk practice, Ropes & Gray

BEYOND 'TICK BOX' COMPLIANCE TO STRENGTHEN ORGANISATIONAL CULTURE

Anti-corruption compliance should be more than a box-ticking exercise given that risks change, rules-based controls, though crucial, cannot account for every scenario, and prohibiting technical bribery does not address the wider challenge of corruption. Leading companies' ABC programmes have adapted to not only prohibit bribery but also nurture a culture of integrity which encourages employees to 'do the right thing' even in the absence of legal requirements. This helps establish an agile, preventative approach to ABC which can better respond to evolving risks and protect the company's reputation.

In response to new sustainability laws (and increasing regulatory risk), some companies may adopt a 'tick box' approach when they meet regulatory requirements but do not embed sustainability into the way they do business. While a checklist can help get companies started, this approach is insufficient for building an agile sustainability programme. Navigating sustainability legislation is an opportunity to leverage existing efforts to strengthen the organisational culture and enable the right behaviours, which should position the company well to respond to evolving expectations.

> **"Having a tick-box exercise is meaningless if you want to change your culture or influence behaviour. It needs to be something that's real, genuine and people can see the advantages and the change."**
>
> Multinational company

> **"One interesting connecting point is the element of integrity. We're seeing a lot of chief compliance officers who are now in charge of integrity as a topic. When you focus on business integrity, then it's a lot easier to connect the dots with ESG because you go beyond rules and procedures, and you're really about 'how can we operate with integrity?', which is very similar in a way to respecting human rights and also respecting the planet."**
>
> Vanessa Hans, Head of Private Sector, Basel Institute on Governance

> **"In my view, companies which view compliance as benefitting the business and its people are ahead of the game. They've realised that doing more than the basic risk assessment, policy and training requirements are good for their business. Why? Because it protects reputation and makes the business more attractive to investors, potential employees and other stakeholders. In that way, it helps grow the business."**
>
> Ramsay Hall, White Collar Crime & Investigations Partner, BTO Solicitors LLP

6. ESG GOVERNANCE AND RISK MANAGEMENT

A company's governance structure defines the roles and responsibilities of its board of directors, executive committee and management, the lines of accountability, including to stakeholders, and the oversight system to ensure the company is run effectively in the interests of its stakeholders.[48] The values of accountability, integrity and transparency are foundational for good governance.[49]

ESG governance refers to the company's board and management structure and procedures for supporting the effective management of sustainability priorities. The ESG governance system should ensure there is accountability, oversight, responsible owners, informed decision-making and an appropriate control framework.

Some sustainability reporting standards include metrics on companies' approach to corporate governance (see page 22), including on ESG governance. Conceptual frameworks on enterprise risk management[50] (a company's approach to identifying and managing risks) (see page 22) can help companies embed or integrate ESG responsibilities into existing or new governance roles.

This section draws on insights from our interviews, supported by desk research, to identify nine governance principles (see section 6.1) to help companies take a principles-based approach to ESG governance[51] and set up a system which promotes accountability, integrity and transparency.

This section also outlines four ESG governance models and two company examples of ESG governance, which companies can draw on to adapt to their own circumstances (see section 6.2). We identify interviewees' reflections on the four ESG governance models, however, it is not the aim of this guide to identify an ideal approach.

WHAT ABOUT SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)?

SMEs are likely to have less complex governance structures and responsibility for compliance and sustainability may sit with one individual or a small number of people. Nonetheless, aspects of these governance principles and example governance models can still help SMEs strengthen coordination, governance and accountability.

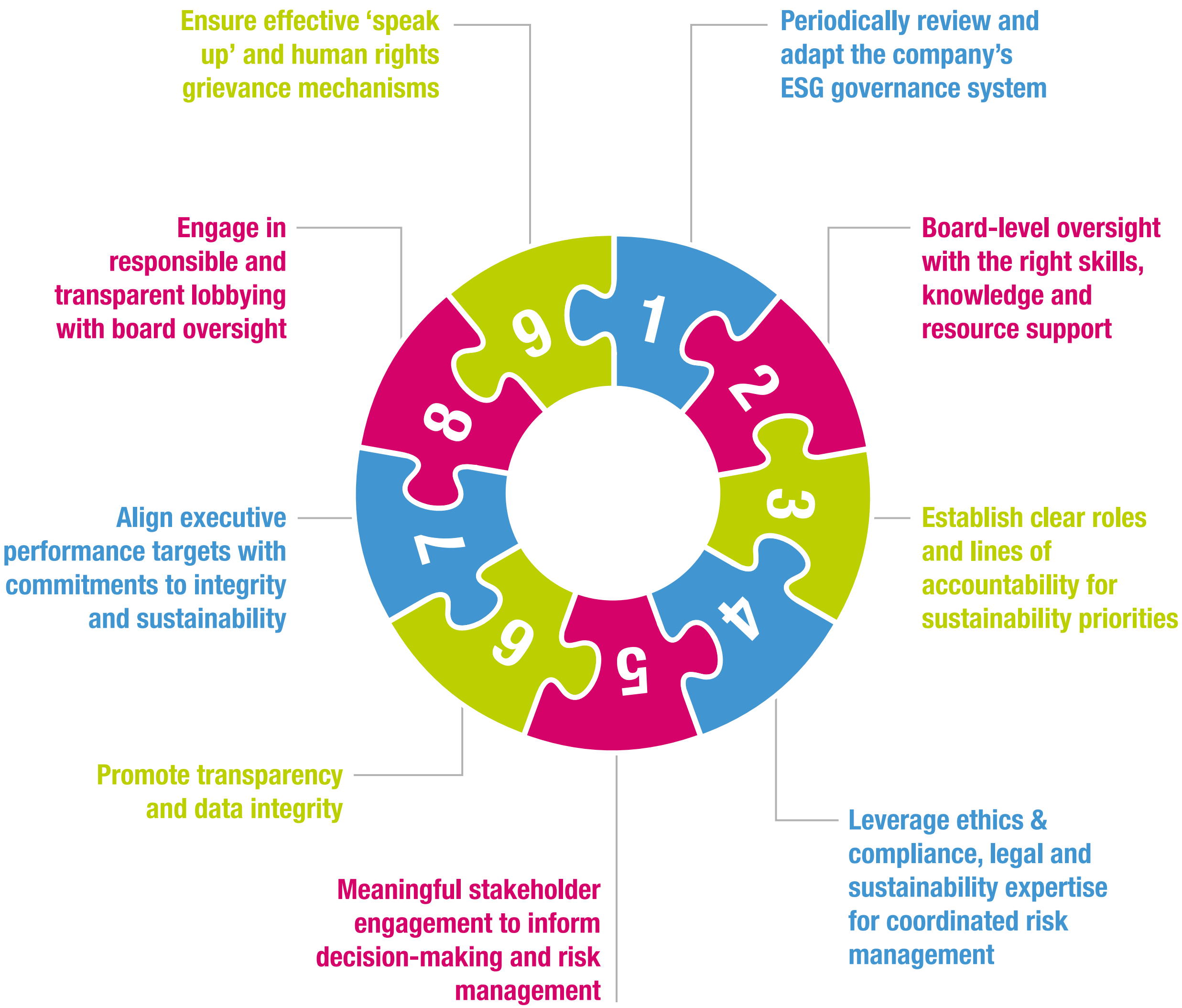

Figure 1: Transparency International UK's nine principles to help companies promote accountability, integrity and transparency in their ESG governance system.

6.1 ESG GOVERNANCE AND RISK MANAGEMENT PRINCIPLES

Transparency International UK has developed the following nine principles to help companies promote accountability, integrity and transparency – the foundations for good governance – in their ESG governance system.

PRINCIPLE 1

Periodically review and adapt the company's ESG governance system

Companies differ in their risk profile, level of maturity, size (whether an SME or large multinational), operating jurisdictions, organisational structure and strategic objectives. A company's ESG governance system should not be static but an evolving approach that is reviewed periodically and adapted as factors change to develop a governance system appropriate to their circumstances.

> **"Strategy always follows structure."**
>
> Katharina Weghmann, Global ESG Leader and Forensic & Integrity Services, Ernst & Young

PRINCIPLE 2

Board-level oversight with the right skills, knowledge and resource support

The board plays a critical governance role, including by overseeing the company's strategy and risk management system.[52] Good ABC practice is for the board, typically through the risk or audit committee, to oversee bribery and corruption risk and the effectiveness of the ABC programme,[53] with the design and implementation of ABC policies and procedures tasked to management.[54]

As with a commitment to prohibit corruption and act with integrity, embedding sustainability into the way the company does business needs to be led from the top. Boards need to integrate sustainability priorities into decision-making and oversee the management of sustainability risks. This requires members to have the right skill set and support. Good ABC practice is to provide training to board members to equip them with the necessary skills and knowledge so they understand the regulatory framework and can provide 'tone from the top'.[55]

Alongside recruiting board members with the right ESG expertise, which may differ from company to company, companies should provide training and internal and external resource support to inform board decision-making.

> **"It's also important to look at board governance of ESG. It is important for the board to understand the material ESG issues for their company, the risks and value creation opportunities associated with those issues, and their strategic importance – as well as reviewing the firm's annual ESG reporting."**
>
> Tensie Whelan, Distinguished Professor of Practice of Business and Society, NYU Stern Center for Sustainable Business

PRINCIPLE 3

Establish clear roles and lines of accountability for sustainability priorities

It is essential to establish clear lines of accountability to ensure there is risk ownership, that appropriate action is taken, and the board is properly informed. This involves empowering the right individuals or teams with the authority to make decisions and act. Which individual/ role is accountable may differ depending on the legislative framework and organisational structure.

Good ABC practice is for the chief compliance officer, or equivalent c-suite role, to report directly to the board or a board-level committee to inform board decision-making on compliance risk.[56] This reporting line structure could be applied to the post holder responsible for ESG/ sustainability (for example, a chief sustainability officer) whereby those managing sustainability issues at a senior level have a voice at board-level through clear reporting lines to inform strategic decision-making and ensure the board has the information necessary to fulfil its governance role. This can also help address any gaps in technical expertise at board level.

Some companies are introducing a senior leadership position with a dual integrity and sustainability remit to support a joined-up strategy.[57]

> **"We've seen some compliance officers that have been given the dual role of dealing with compliance and ESG which translates in changes in some of the titles, chief compliance officers are now chief integrity and ESG officer."**
>
> Vanessa Hans, Head of Private Sector, Basel Institute on Governance

PRINCIPLE 4

Leverage ethics & compliance, legal and sustainability expertise for coordinated risk management

By establishing clear frameworks, policies and processes, companies can ensure that risks are managed effectively and consistently. Some companies may develop a separate compliance framework for each piece of sustainability legislation (for example, the CSDDD and EU Deforestation Regulation), while others may embed the specific sustainability risk management process into their wider compliance system.

Regardless of the management approach, designing, developing and implementing an effective sustainability programme benefits from the combined expertise of ethics & compliance, legal and sustainability teams, as well as other relevant functions. This helps ensure legal requirements are met and that measures are risk-based, enable the right behaviours and embrace the spirit of the human rights and environmental standards in which sustainability legislation is rooted.

PRINCIPLE 5

Meaningful stakeholder engagement to inform decision-making and risk management

As a general principle of corporate governance, boards should act in the interest of company stakeholders, which entails consulting with these individuals.[58] Good ABC practice is for the company to communicate its ABC programme to stakeholders to help them assess the company's performance. In turn, the company can learn how its ABC measures are perceived, hear suggestions for improvement and detect emerging trends and issues.[59] Stakeholder engagement should not be seen as a bolt-on exercise to provide content for public reporting but rather managed as a genuine exercise used to inform the way the company plans and operates.

Meaningful engagement with rightsholders and other stakeholders to understand actual and potential adverse human rights and environmental impacts is the foundation of HREDD.[60] While sustainability and human rights practitioners more typically engage with rightsholders, these insights are also important for boards to oversee priority sustainability risks and related controls.

1 2 3 4 5 6 7 8

PRINCIPLE 6

Promote transparency and data integrity

Reporting publicly on the company's ABC programme can bring improvements in company performance since "if a company knows that it needs to disclose policies and procedures publicly, it will focus its attention on making sure that these policies and procedures are fit for purpose."[61]

However, for transparency to facilitate accountability, data integrity is required to ensure the information reported is accessible and accurate. Sustainability reporting rules and green claims legislation increasingly require ESG data to be substantiated and verified through external assurance. Disclosing reliable information helps build trust with the company's investors and other stakeholders who are increasingly monitoring sustainability performance.

Internal and external audits are important for assessing the efficacy of corporate ABC data and measures.[62] The internal audit process empowers the company to review areas of concern highlighted in previous audits while external audit can support internal auditors by providing an independent assessment of the company's ABC procedures.[63]

Internal and external audit will play a growing role in ESG reporting. Internal audit can verify the company's ESG data and test internal controls to ensure data "is collected consistently to guarantee confidence in the data collection process."[64] External auditors are increasingly asked to provide independent assurance of companies' sustainability disclosures.[65]

PRINCIPLE 7

Align executive performance targets with commitments to integrity and sustainability

Some companies use incentives (for example, bonuses, commissions, promotion and development opportunities) and set targets to encourage certain behaviours or increase profitability.

Remuneration linked to ESG targets, particularly at the board and executive level is an increasing trend to encourage delivery on sustainability goals.

Companies should ensure their approach to incentives is aligned with and does not inadvertently undermine their values and culture and should set targets which are achievable without resorting to illegal or unethical behaviour (for example, cutting corners or falsifying figures).

PRINCIPLE 8

Engage in responsible and transparent lobbying with board oversight

When carried out responsibly, corporate lobbying is a legitimate and beneficial activity, allowing companies to provide policy makers with expertise and stimulate or contribute to public debate.

However, when engagement is disproportionate and opaque, it can lead to undue influence on policy development. The effect of corporate lobbying, including through industry associations, on legislation aiming to combat climate change has given rise to particular concerns that companies are improperly influencing policy.[66]

Companies should publicly report their lobbying activities with board oversight of the company's political engagement strategy and should never provide gifts, donations or payments to influence policy makers.[67]

PRINCIPLE 9

Ensure effective 'speak up' and human rights grievance mechanisms

Whistleblowing and 'speak up' channels play a critical corporate governance role by helping staff and third parties raise the alarm about misconduct, raise issues to inform company risk assessments, and support accountability and corrective measures. They are also important for fostering a corporate culture of compliance and integrity.

While 'speak up' channels are distinct from human rights grievance mechanisms regarding the legal basis and objective,[68] there are synergies and elements of best practice for 'speak up' channels that are equally applicable to receiving and managing human rights grievances. These include building an enabling organisational culture, proper treatment (that those who speak up are not harassed or penalised) and dealing with concerns promptly.[69]

At the same time, ensuring 'speak up' channels are legitimate and accessible, and enable trust from intended users in line with the principles of effectiveness in the UNGPs,[70] is essential for these channels to support accountability and good governance.

1 2 3 4 5 6 7 8

6.2 ESG GOVERNANCE AND RISK MANAGEMENT MODELS

KEY TAKEAWAYS

- Companies can define or update their ESG governance system with reference to ESG governance models and companies' own approaches to ESG governance.
- Our research identifies four ESG governance models: centralised governance, decentralised governance, network model and hybrid governance. There is no ideal approach but rather opportunities and challenges within each.
- Some sustainability reporting standards include metrics on ESG governance, which companies can consider when assessing their governance structure and relevant roles and responsibilities.

This section outlines four general ESG governance models (see 1 to 4 below) and two examples of how companies are allocating ESG roles and responsibilities to governance functions in practice (see 5 and 6 below). Our aim is for companies to draw on elements of these models and approaches, as appropriate for their circumstances, but not to identify an ideal approach.

MODEL 1

Centralised governance model

Centralised governance means the decision-making authority is concentrated at the highest level of the company. In the context of ESG governance, this generally means that individual board members or a dedicated board-level ESG committee(s) are responsible for setting sustainability policies and strategies.

There are diverse approaches regarding the allocation of ESG priorities to board-level committees. Some commentators identify "six possible models" of board structure including: "fully integrated" (whereby all board members and board committees discuss sustainability priorities during meetings); a "dedicated committee" on ESG; where ESG is "added to an existing committee"; and models where ESG is a "multiple committee responsibility".[71]

> **"When ESG really started to become a big thing for us, when we started to see more and more of it move towards the need for corporate reporting, the need for the way that this is starting to fill out through government tenders…it was decided that having disparate business partners wasn't the way forward. We needed that centralised unit, so that's when we when the centralised unit really started and ESG now crosses all the functions in the same way that some compliance does."**
>
> Multinational company

Is this approach right for my company?

A centralised model can enable a cohesive approach to ESG with strategic decisions made and owned at the highest level of the company. We heard from one company which moved to a centralised model of ESG governance in response to the new ESG reporting landscape.

One challenge we heard is a potential skills gap where those overseeing the company's sustainability strategy and risk management may not have relevant ESG expertise. Another challenge we heard is where targets, particularly around net zero, are set to reach maturity beyond the board's tenure and implementation efforts may be deprioritised.[72] In which case, ensuring a commitment to integrity was proposed to help support implementation measures.

MODEL 2

Decentralised governance model

A decentralised governance model allocates responsibility for ESG to different business units within the company. Each unit would have its own sustainability strategy and policies, tailored to its priorities and context. This may mean that at the management level "there are often multiple rather than single executive leads – for example, there may be a chief sustainability officer for climate change, a VP for human rights, and a VP for supplier responsibility all leading different programs."[73]

> **"Through our governance approach as defined by the ABB Way, our Sustainability Agenda is fully embedded across our businesses. Our strong business model, with its decentralized set-up and sharp focus on performance management, ensures that our business areas and divisions are fully accountable for their sustainability performance."[74]**
>
> ABB Ltd

1 2 3 4 5 6 7 8

Is this approach right for my company?

A decentralised model can be more responsive to the operating context and sustainability priorities of the business unit.

However, one challenge we heard was where the company's headquarters have a different perception of sustainability risk and priorities compared to business units in different operating markets, making coordinated data collection more challenging. We heard that training, incentives and transparency can help to facilitate a cohesive approach.

MODEL 3
Network model

For this guide, a network model relies on committees or working groups meeting at regular intervals to develop and coordinate a strategy and specific action on ESG topics with relevant risks and opportunities reported to the board. Distinct from committees forming part of a 'centralised governance', the representatives involved in these committees or working groups include those outside the board and senior management.

> **"I've seen examples of ethics committees where there are representatives from different functional areas inside the organisation. You would have the sustainability manager or representatives from sustainability or ESG, someone from risk, internal audit and HR. When all of these people have a seat at the table of the ethics committee, the coordination and collaboration start to break down the silos."**
>
> Daniel Malan, Assistant Professor in Business Ethics and Director of Trinity Corporate Governance Lab, Trinity College Dublin

> **"The Group's management of modern slavery and human rights is guided by a cross divisional working group, the Modern Slavery and Human Rights Working Group. The working group has input from functions across the Group, convenes bi-monthly. It is an opportunity for key colleagues to discuss how to apply best practice to tackling modern slavery across financial services, support awareness-raising activities and explore how to support colleagues with additional resources and training opportunities on this issue, as well as hear from experts in the field of modern slavery."**
>
> – Lloyds Banking Group

Is this approach right for my company?

Interviewees highlighted how the network model can break down siloes between functions and leverage internal expertise and experiences to address complex risks.

However, we heard that regular committee or working group meetings do not themselves break down siloes. One interviewee also noted a resource challenge where the same individuals participate in multiple different committees, which can make meaningful participation difficult.

> **"[Committees are] one way of certainly coordinating and collaborating and starting to break down the silos. But as long as people still go back after the committee meeting to their silos, you know that's a step forward, but it's not yet the integration that you would like to see to really make sure that there's coordination at the highest level."**
>
> Daniel Malan, Assistant Professor in Business Ethics and Director of Trinity Corporate Governance Lab, Trinity College Dublin

MODEL 4
Hybrid governance

Hybrid governance combines elements of both the 'centralised' and 'decentralised' models (or other models). It typically involves a central body that sets overarching ESG goals and policies, while allowing individual departments or business units to adapt these to their specific needs.

Is this approach right for my company?

A hybrid model enables companies to select elements of different governance models. While boards need to be accountable for the company's ESG strategy and the effectiveness of ESG control frameworks, giving ownership to business units can be beneficial where these have different ESG priorities and risks by nature of their commercial activities and operating market. The appropriateness of this model will depend on the company's business model and strategy.

Novartis international AG

Novartis International AG (Novartis), a Swiss multinational company, has five organisational units, namely Biomedical Research, Development, Operations and the two commercial units, US and International, focused on their respective geographic areas.[75] Figure 2 provides a snapshot of some of the functions, roles and responsibilities within Novartis' ESG governance system.

Novartis has also combined the company's Ethics, Enterprise Risk Management and Compliance functions[76] into an integrated "Ethics, Risk and Compliance (ERC)" function to create an "integrated assurance" model.[77] The legal department is a separate function from the ERC.[78]

The aim of Novartis' "integrated assurance" model is explained as follows:

> **"The aim is to get the often isolated and fragmented risk and compliance functions out of their organisational and process silos, thereby providing executive management and supervisory boards with an integrated solution for how to address and manage regulatory and reputational risks across the enterprise … Integrated assurance means a comprehensive and consistent taxonomy and accountability across the four dimensions of governance, risk management, compliance and internal controls. This is because these four areas are interconnected."[79]**
>
> Klaus Moosmayer, Executive Committee Member & Chief Ethics Risk and Compliance Officer, Novartis

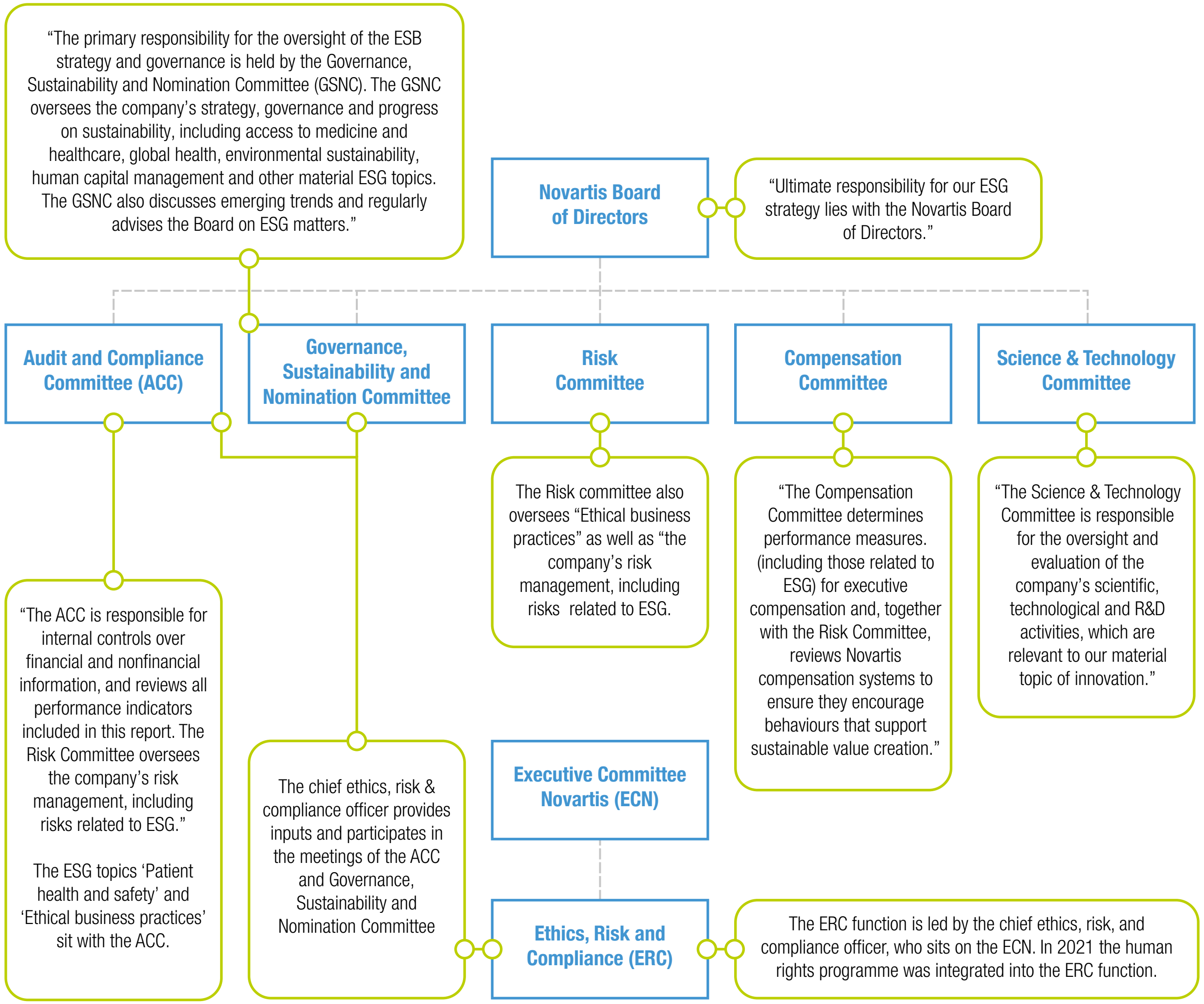

Figure 2: A snapshot of Novartis' ESG governance system. Source: Transparency International UK with reference to Novartis, *Novartis in Society - Integrated Report 2023*, 2023

Santander UK PLC

Santander UK PLC is a large retail and commercial bank based in the UK and a wholly owned subsidiary of the major global bank Banco Santander.[80] While Santander UK is a subsidiary of the Santander Group, it has a distinct corporate governance structure".[81] Figure 3 provides a snapshot of some of the functions, roles and responsibilities within Santander UK's ESG governance system.

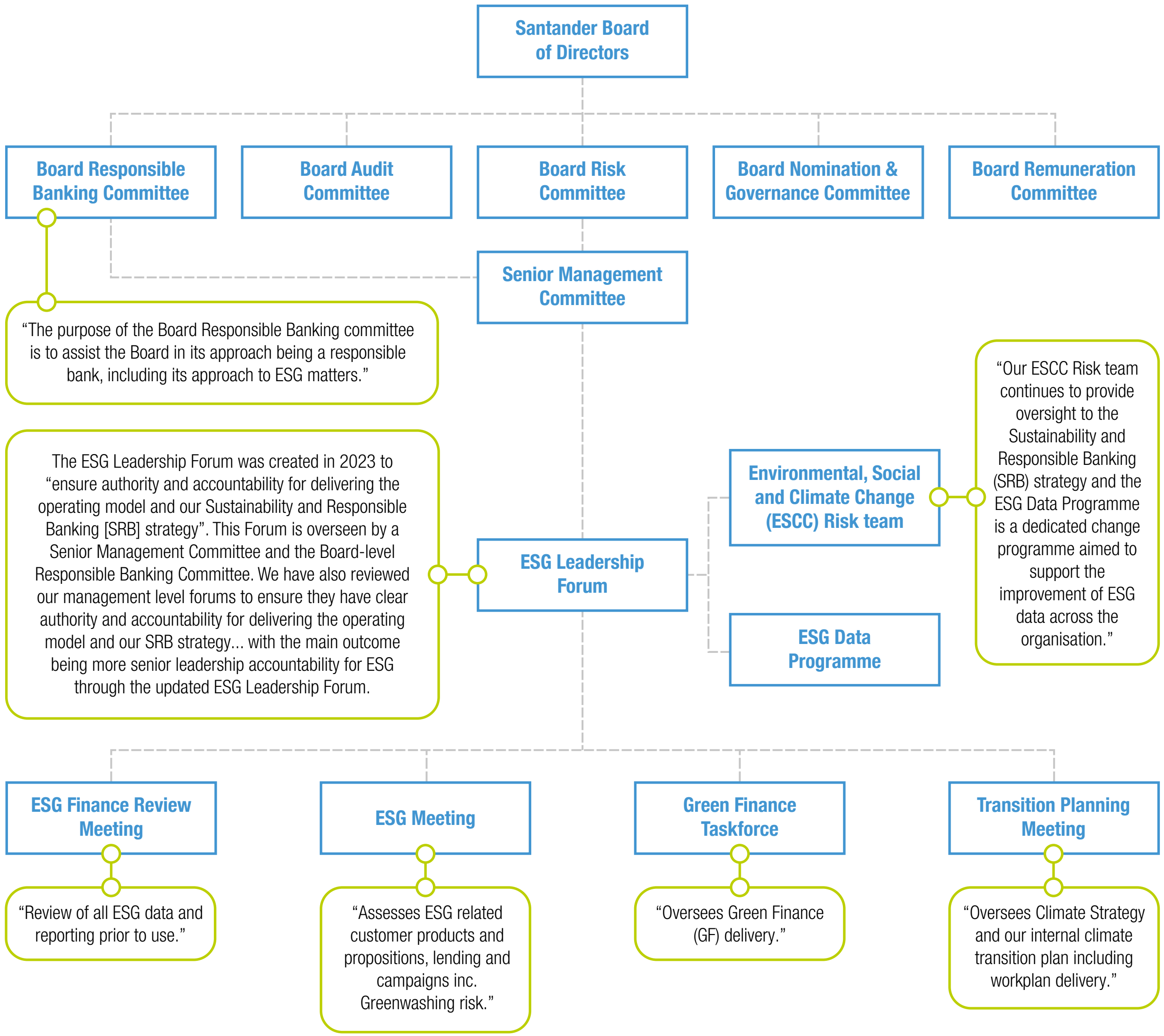

Figure 3: A snapshot of Santander UK's ESG governance system. Source: Transparency International UK with reference to Santander UK, Corporate governance and *Helping people and businesses, 2023*.

CONCEPTUAL ENTERPRISE RISK MANAGEMENT FRAMEWORKS FOR EMBEDDING ESG

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) enterprise risk management framework

COSO and the World Business Council for Sustainable Development (WBCSD) have published guidance on how COSO's updated framework for enterprise risk management[82] can help companies "integrate" ESG into a company's own risk management processes.[83] The framework aims to complement COSO's framework on internal controls,[84] which covers five interconnected components: governance and culture; strategy and objective-setting; performance; review and revision; and information, communication and reporting. [85] According to COSO and WBCSD, setting up a governance structure for risk management supports the effectiveness of integrating ESG into the company's enterprise risk management processes.[86]

The Institute of Internal Auditors' (IAA) 'three lines of defence' and 'three lines model'

The IAA's 'three lines of defence' model proposes a framework for defining the roles and responsibilities of the three functions involved in risk management.[87] The IAA's alternative model, termed the 'three lines model',[88] promotes a principles-based approach to governance organised around three roles: governing body, management and internal audit.[89] According to the IIA, this new model allows for innovation and flexibility to create as well as protect (in other words, defend) enterprise value.[90]

The IAA and the WBCSD have published a framework, based on the three lines model, for "embedding ESG" across the three governance roles in the context of risk assessment, assurance and reporting. [91] For example, the governing body "[oversees] ESG reporting strategy"; management "[undertakes] materiality assessment to inform ESG risk management"; and internal audit "[tests] internal controls and assures accuracy of ESG data".[92]

WHAT DO SUSTAINABILITY REPORTING STANDARDS SAY ABOUT GOVERNANCE?

Companies' corporate governance performance is covered in various sustainability reporting standards. Governance-related metrics may include general information on the corporate governance structure, the governance of material ESG matters and/or specific information such as board diversity, board training, executive compensation levels and CEO pay ratios.

Under the European Sustainability Reporting Standards (ESRS), for example, "ESRS 2 General Disclosures" requires companies to disclose "the composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters".[93] Additionally, the standards have a specific disclosure requirement under ESRS G1 Business conduct regarding "how the undertaking establishes, develops, promotes and evaluates its corporate culture."[94]

The Global Reporting Initiative (GRI) under "GRI 2: General Disclosures" contains a dedicated governance section which outlines disclosures on 13 different governance matters such as governance structure and composition, the nomination and selection of the highest governance body, conflicts of interest, as well as the collective knowledge of the highest governance body.[95] Additionally, "GRI 103: Management" asks for an explanation of the management approach for each of an organisation's material sustainability topics, including the purpose, responsibilities and resources behind this management approach.[96]

Some providers of ESG ratings include a focus on corporate governance. One example is S&P Global's Corporate Sustainability Assessment (CSA) which provides a basis for including companies in the S&P 500 ESG index.[97] The CSA questionnaire contains a dedicated 'corporate governance' section containing questions on 15 different areas of governance, including "CEO compensation – success metrics", "board independence", "board effectiveness", and "board diversity policy".[98]

It is beyond the scope of this guide to explore these specific elements of corporate governance, but companies may want to take these expectations into account when assessing their governance structure and the relevant roles and responsibilities.

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7. IN PRACTICE: COORDINATING ANTI-CORRUPTION AND SUSTAINABILITY

7.1 DEVELOPING A SUSTAINABILITY PROGRAMME

KEY TAKEAWAYS

- Companies' ABC programmes can inform the building blocks of a sustainability programme to create governance roles and responsibilities, a control framework and an enabling environment.
- Meaningful stakeholder engagement, which is a core element of HREDD, can inform ABC programmes by providing insights into corruption risk from a wider range of stakeholders.
- There are, however, distinctions between an ABC programme and a sustainability programme, including the scope and nature of stakeholder engagement and that company procedures must identify, prevent or mitigate risks to people and the environment, and not only to the company.

Don't reinvent the wheel: adapt and improve existing systems

When developing ABC policies and procedures, companies may look to the UK Government guidance on the Bribery Act,[99] which has influenced guidance on laws in other jurisdictions,[100] and guidance from the US Department of Justice (DOJ) to develop a programme in line with the FCPA.[101]

The process of human rights due diligence was developed to be comparable to financial due diligence,[102] while recognising there are key distinctions. Whereas an ABC programme typically aims to detect, prevent and manage risk to the company, the purpose of HREDD is to identify, prevent, mitigate and account for risks to people and the environment. The due diligence methodology will need to be adapted to the area of risk, whether human rights, environmental or corruption.[103]

> **"We were able to leverage several existing elements of our ABC programme when we began building a human rights programme, for example, on third-party engagement and assessments. We are now doing cross-training on human rights and ABC across the respective teams and actively looking for more ways to harmonise the two programmes so findings and analysis from one team can inform the other".**
>
> Peter Nestor, Global Head of Human Rights, Novartis

Nonetheless, elements of a company's ABC programme (see figure 4) can inform the building blocks for designing, developing and implementing a new or updated sustainability programme.

Stakeholder engagement is an opportunity to inform corruption risk management

Consulting with affected stakeholders is the foundation of HREDD and will be a new undertaking for many companies. The process of HREDD and related stakeholder engagement is out of the scope of this guide but is an opportunity for companies to gain insights into corruption risk from a wider range of stakeholders.

Whereas the stakeholder scope for an ABC risk assessment is relatively narrow (generally covering entities with which the company has a direct relationship such as suppliers, employees, agents, intermediaries and joint ventures), when conducting HREDD companies should consult with a far wider stakeholder group including rightsholders in a company's value chain (for example, workers in factories in lower supply chain tiers), local communities and other value chain participants as well as relevant experts including academics and NGOs.

Through stakeholder engagement, there is also an opportunity for companies to identify structures of power and influence in their operating market to contextualise corruption risk factors.[104]

	Prevent	Detect	Manage
	Continuous effectiveness testing and improvement		

Senior ownership

Oversight – the board formally approves the programme and senior management have formal responsibility and oversight for the programme. The ethics & compliance function reports to senior management regularly on the programme.

Tone from the top – senior leadership formally sign off on the company ABC policy, which features a commitment against all forms of corruption and adhering to standards of integrity. This is supported by public statements from the CEO/chairman. Internally, leadership share consistent and regular communications on ABC topics and support the ABC programme through their behaviour and actions.

Organisational compliance focus – the Ethics & Compliance function is a respected, well-resourced function within the business. Clear compliance key performance and risk indicators are in place and followed.

	Prevent	Detect	Manage
Operating frameworks	• Risk assessment – which covers third parties and the supply chain • Training and communications • Policies and procedures • Code of conduct • Managing third parties • Financial controls • HR controls	• Monitoring and reviews • Audits • Self-assessment and benchmarking • Third-party due diligence • Transaction monitoring • ABC programme reviews by senior leadership • Whistleblowing policy	• Investigating incidents • Disciplinary procedures • Lessons drawn from incidents and used to prevent them in future • Internal and external reporting on confirmed incidents
Enabling environment	• Incentives and remuneration • Stakeholder engagement • Collective action • Culture and values of integrity embedded throughout organisation • Regular and risk-based ABC training, with reminders to ensure maximum completion rates	• Anonymous and confidential whistleblower reporting channels • Site visits • Engagement with third parties and business partners, including risk-based audits and training	• Transparency around results of investigations • Disciplinary action for non-compliance • Communication of lessons learned from confirmed incidents of corruption

Figure 4: Components of an ABC programme or framework. Source: Transparency International UK.

7.2 RISK ASSESSMENT AND HORIZON SCANNING

KEY TAKEAWAYS

- Periodic risk assessments are a critical component of a company's control framework.
- Working together, different functions can develop a more holistic understanding of risk, also from a double materiality perspective, and pre-empt risks better.
- Regular interaction between sustainability, ethics & compliance and/or legal teams is key to understanding upcoming changes and the regulatory and operational risks a company faces.
- Teams need to speak the same risk language. Developing a common risk taxonomy and centralised risk register is helpful.

Coordinating ABC and ESG data inputs for a holistic and proactive risk assessment

Risk assessments support strategic decision-making, ensure compliance with legal obligations, and help companies seize opportunities that come from a dynamic risk landscape. Working together, different functions can develop a deeper understanding of the diverse risks that recur across different geographies and business segments to be integrated into the company's enterprise risk management framework.

Companies will have different approaches to assessing risk at an enterprise level, whether a consolidated risk assessment process encompassing different risk areas or separate processes covering specific topics, such as human rights, climate and corruption. Consolidating risk assessment findings, pulling together data inputs from diverse risk sources, helps provide a holistic view of the risk landscape.

> **"Third parties who score poorly on ABC topics are likely to also score poorly on human rights topics. We are moving toward building a system where we can identify those companies in our system and put a bigger red flag on that particular company and ask, "are we sure that we've got all of the right risk mitigation in place for this supplier?" Because they're coming up pretty high on these two risk areas."**
>
> Peter Nestor, Global Head of Human Rights, Novartis

Companies' exposure to risk in one area may also be indicative of risk in another. Our interviewees shared examples of where, by recognising a risk in one area, risk managers can extrapolate potential impacts on other areas and implement mitigation controls before the risk materialises into a significant issue.

> **"[We have a cross-functional committee that] allows the members to assess emerging risks and trends and allows us to look across the risk functions to see if we identify an issue bubbling up in one area with implications for other functions or geographies."**
>
> Multinational company

Developing a double materiality perspective

While the data collection process is out of the scope of this guidance, companies in the scope of the CSRD need to conduct a double materiality assessment to understand material risks from a financial and impact perspective.[105] This is an opportunity for those in different functions to understand the interplay between different risk areas and for ethics & compliance and legal professionals to view corruption risk through an impact materiality lens.

There is also an opportunity to align the company's enterprise risk assessment with its materiality risk assessment findings to see what has been missed.

> **"Our board asked us about our ESG risks and our risk group identified different ESG risks. I suggested we look at the enterprise risks that we currently have as a company and overlay these with our materiality assessment to see if we are covering any of these impactful areas that we've already identified in our current risk process."**
>
> Hentie Dirker, Chief ESG & Integrity Officer, AtkinsRéalis

Horizon scanning is an important exercise and needs adequate resourcing

Organisations need to keep on top of this dynamic risk landscape by horizon scanning. Those we spoke with highlighted the importance of regular interaction between functions, such as sustainability, ethics & compliance and legal, to understand what regulation and operational risks are coming down the line and what this means for different teams.

It will depend on the characteristics (size, industry, structure and so on) of each organisation whether it is more efficient to have one team performing the horizon scanning for all topics or separate teams for their area of expertise. The former will require investment from the business in upskilling the team in the various subject matter areas, whereas the latter requires investment in training more employees on the process and tools used.

> **"Horizon scanning is critical to anticipating legal and regulatory changes. It enables us to anticipate emerging risks and opportunities for both our business and our customers. By staying ahead of these trends we can respond accordingly, manage risk appropriately and seek to create long-term value in an evolving environment."**
>
> UK company

For ESG risk, the link between an organisation's risk assessment and horizon scanning is critical. Sustainability is an emerging area and companies are still grappling with the challenge of having a holistic view of relevant ESG risks. The link between risk assessments and horizon scanning therefore needs to be circular. The risk assessment informs the risks that are monitored by the horizon scanning and new risks identified through horizon scanning are factored into a risk assessment.

Teams need to speak the same risk language

Developing a common risk taxonomy and a centralised risk register is helpful to give a comprehensive view. Such tools help the organisation categorise and track risks consistently, ensuring all departments speak the same risk language and share information effectively.

> **"Having consistency in terms of the common risk language and taxonomy helps our senior leaders have a common understanding of enterprise risks, and enables more consistent reporting of risk trends, data, and KPIs across the risk functions and up to senior leadership. That then makes it easier for senior leaders and members of the board to prioritise risk management efforts and make informed, strategic decisions."**
>
> Multinational company

7.3 DATA AND TECHNOLOGY

KEY TAKEAWAYS

- Having access to insightful, accurate data is pivotal, though challenging for effective ABC and ESG risk management. Companies need systems that can handle the volume of data and validate its authenticity.
- While technology is unable to offer a quick solution, it can help companies identify and manage ABC and other ESG risks more cohesively through collaboration and data reporting.
- Technologies used to identify and manage ABC risks can be applied to the wider ESG context but need to account for new metrics, frameworks and data inputs, including from stakeholders.
- Companies will need governance guardrails to ensure that their use of technology does not interfere with or undermine integrity commitments and sustainability goals.

Existing ABC technology can help identify other ESG risks but needs to adapt to the specific framework and data source

Technology has long been used to enhance ABC risk management. There are various technologies to help businesses map their suppliers and customers to detect bribery and raise corruption red flags, such as high-risk business activities, conflicts of interest and sanctioned/high-risk entities.

New technologies, including artificial intelligence (AI) and machine learning, could help to identify and manage corruption, climate, human rights and other ESG risks more cohesively. Technology can help enhance transparency, efficiency and accountability for meeting ESG commitments.

However, while there is a degree of overlap between ESG and ABC data sets, alignment is not straightforward. Each domain has its unique set of indicators and metrics, and the technologies deployed must be carefully configured to address the nuances of each and may require adapting.

The challenge lies in ensuring that the technology is designed so that it can differentiate between risk areas, when necessary, while also recognising where they intersect. For instance, a bribery incident may have significant social and governance adverse impacts, and the technology must be capable of linking these. Achieving this level of sophistication requires a deep understanding of both ESG and ABC risk factors and frameworks.

Identifying and assessing sustainability impacts, risks and opportunities should also consider data inputs from affected stakeholders.

Monitoring ESG performance through data monitoring

Monitoring ESG performance is a complex task that requires the tracking of numerous indicators over time. In the ABC space, real-time data is used to immediately detect suspicious activities or transactions. This enables organisations to respond quickly to potential bribery or corruption incidents, minimising the risk of further damage. Continuous monitoring of financial transactions, employee activities and third-party interactions also helps ensure that all actions comply with ABC policies.

Using the appropriate ESG data, this approach can help monitor ESG performance. For example, instead of tracking financial transactions, environmental sensors can track emissions or resource usage, helping businesses monitor net-zero progress.

The data challenge

The sheer volume of ESG data that organisations must process presents a significant challenge. This quantity of data can be overwhelming, making it difficult for organisations to discern which data points are critical for their risk assessments and decision-making processes.

The reliability of this data is essential, though itself challenging to ensure given, for example, the inherent difficulty assessing and verifying qualitative information on human rights impacts. Data management systems and analytical tools must be able to handle the volume, pinpoint relevant data and validate its authenticity.

Sophisticated software and analytics tools can sift through vast amounts of often unstructured and disparate data to detect potential risks and red flags associated with environmental malpractice, social misconduct or corruption, whether related to ABC or ESG risk. This capability can also help with accurate ESG reporting, where data can be qualitative and difficult to quantify, and support the standardisation of reporting formats.

Weighing risk and reward is not straightforward

The financial and resource implications of integrating technology for ESG and ABC risk management are substantial. There is often considerable upfront investment to acquire the technological infrastructure, software and expertise. Organisations must also allocate funds for ongoing maintenance, updates and training to ensure systems remain effective and current.

Need for governance guardrails

IT governance (policies, procedures and controls) has always played a crucial role in managing ABC risks within a company. It ensures the effective and efficient use of technology in achieving the company's objectives, and this approach should be no different when thinking about ESG risk.

At the same time, companies need to ensure that their use of new technologies does not interfere with or undermine integrity commitments and sustainability goals. For example, operating the data centres on which AI runs is highly energy intensive.[106] Companies should consider the emerging risks associated with AI and build integrity and governance guardrails around its use.

> **"AI is the new toy, if you like, and everyone wants to run towards it…[but] sometimes you have to say we need to take a more measured approach because of the governance risks and the ESG concerns."**
>
> Multinational company

7.4 SUPPLY CHAIN MANAGEMENT

a. Third-party risk management

KEY TAKEAWAYS

- Some companies are assessing ABC and ESG risks concurrently at the third-party due diligence or onboarding stage for more efficient and cohesive third-party management. Assessment questions should be informed by subject matter experts in the relevant risk area.
- Reactive processes such as adverse media screening tools are useful to identify ESG controversies but should not replace processes to identify risks proactively, and companies will also need to take steps to assess and mitigate identified risks.
- Companies should build a constructive relationship with key suppliers and support capacity-building, particularly with SMEs, to help cascade ethical and sustainability standards.

Supply chains are complex – there is an opportunity for a joined-up approach, but there are differences in ABC and other ESG processes.

Understanding and monitoring third parties' risks, practices and operating standards are key for companies to assess risk and check suppliers meet their standards. However, the diversity and scope of companies' third-party relationships make it challenging to "identify, understand and mitigate the truly relevant risks".[107] This provides an incentive and need to draw on existing good practices and for information sharing across relevant functions.

> **"We've seen a couple of companies who've started piloting a due diligence system that would include all of those different [ESG] topics. Trying to put that together from a process standpoint was very interesting … we thought it was quite innovative to try to build a system that would enable all of these different aspects to feed into something bigger and then give all of this information to the people in leadership positions in charge of risk management."**
>
> Vanessa Hans, Head of Private Sector, Basel Institute on Governance

Third-party due diligence on bribery, corruption and financial crime risk is typically well established and we heard that companies are assessing how to use ABC compliance and third-party tools to prepare for new sustainability laws including the CSDDD.

> **"There is a convergence around third-party risk management systems designed by legal, ethics & compliance functions. Those functions are putting their arms around both anti-bribery and corruption as well as ESG and sustainability … by setting up screening programmes and setting up workflows that capture data and risk points across all those issues."**
>
> Maria-Laure Knapp, risk and sustainability expert

> **"When firms are conducting due diligence ahead of engaging or entering into a relationship of a high-risk nature, there is often efficiencies that can be gained by taking both ESG issues and ABC issues together… corporates need to – in the same way that they map crime and corruption risks against the parties that they work with – map the various ESG type risks that those third parties might bring."**
>
> The Risk Advisory Group

Some companies we spoke with integrate ABC and sustainability commitments into their supplier code of conduct and questionnaires in recognition of the interconnectedness of these risk areas.

> **"We have a global third-party Code of Conduct, which is a policy that all our suppliers and third parties have to abide by. And within that document we are looking across the board at environment, human rights, ethics."**
>
> UK company

The importance of subject matter expertise

This is not to say that the same processes used in the ABC context should be followed in the context of identifying and assessing sustainability risks (including through HREDD), which require different methodologies and specific expertise. Interviewees highlighted the importance of involving subject matter experts in the different third-party assessments and onboarding processes given the range of issues from modern slavery to biodiversity protection which may be covered, and the distinctions between ABC due diligence and HREDD.

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"The dissonance of some of the terminology used by sustainability, human rights and ABC teams causes misunderstandings. For instance, the term due diligence means something very different to an ABC specialist than a human rights practitioner who will be following established HRDD regimes. Being very clear about language and taxonomy upfront to demystify that is necessary."

Maria-Laure Knapp, risk and sustainability expert

However, the foundations and learnings could be shared between those managing corruption risk and other teams. The aim is for risks to be managed concurrently, rather than treated in isolation, to make third-party risk management more cost-effective, efficient and cohesive.

"When we're building supply chain risk management programmes, it's typical to see some element of sustainability subject matter expertise either within the legal, ethics & compliance function, or working alongside but separate to that function, as well as procurement. The actual design of screening programmes and screening workflows, where it's working well, is happening with a joined-up approach between those functions."

Maria-Laure Knapp, risk and sustainability expert

Reactive tools such as adverse media monitoring should be supported by processes to identify and assess ESG risks proactively

Adverse media screening and controversy monitoring (processes for tracking negative news reports about third parties) are common monitoring methods in the context of ABC and anti-financial crime. We heard that these are also now, in some cases, applied to screen or monitor third parties for environmental and social concerns.

"Where we [the ABC and anti-financial crime team] undertake due diligence and negative news screening on our potential clients or within a renewal, if we identify an issue with, for example, a utility company where it's caught releasing refuse into natural water systems without licenses…we'll go to an internal [environmental] team and say, "this has been identified, what are your views?" And they then have access to separate third-party databases so they can go and scrutinise that particular entity purely from an environmental, social risk lens."

Multinational company

While adverse monitoring supports an assessment of third-party ABC and ESG risk, where red flags are raised, a company will need to take steps to assess and mitigate identified issues. Interviewees highlighted that such tools are by their nature reactive and should be supported by more proactive tools, such as supplier questionnaires, which are better at identifying vulnerabilities.

"Third-party screening tools have limited relevance in some cases to identify ESG and sustainability issues. The process is usually drawing from media and information published by the company, sometimes aggregated data from rating agencies, and so on. This will miss out on companies with a limited data footprint, can skew towards larger listed companies and omit significant data points. Controversy screening can be useful … but it isn't designed to assess potential negative impacts or potential positive impacts, or really identifying inherent weaknesses. For that, questionnaire models and assessments are more useful and sometimes essential."

Maria-Laure Knapp, risk and sustainability expert

"Often in the labour rights space, if you're just doing adverse media alerts you've missed the boat on the problem that's already happened."

Peter Nestor, Global Head of Human Rights, Novartis

Build a constructive relationship with key suppliers to cascade supply chain standards

Traditional tools such as policies and the supplier code of conduct are important third-party controls, and we heard how companies are giving greater attention to their suppliers' wider business and own business relationships to help maintain high operating standards in their supply chain.

"I think with things like supply chain, I've definitely seen there being a bigger focus over the last five years or so in terms of taking care to understand how our suppliers manage their business as well."

UK company

It can, however, be challenging for companies to enforce their code of conduct in jurisdictions where suppliers are not subject to the same legal requirements. A supplier's ability to cascade ethical conduct expectations to their suppliers will also depend in part on the supplier having the capacity to meet expected standards.

Good ABC practice is for companies to help build the capacity of key business partners, particularly SMEs, by providing tailored communications and training.[108] Capacity building also puts suppliers in a stronger position to cascade expectations to their own suppliers.

> **"Companies should also provide targeted and proportionate support for an SME which is a business partner of the company, where necessary in light of the resources, knowledge and constraints of the SME, including by providing or enabling access to capacity-building, training or upgrading management systems."[109]**

b. Beyond third parties

KEY TAKEAWAYS

- When conducting due diligence for adverse human rights and environmental impacts in their value chain, companies will need to consider risks beyond their third-party relationships.
- Like corruption, some human rights issues are systemic with complex root causes. Companies will need access to wider data sources and could benefit from engaging in collective action.

Sustainability issues often lie beyond third parties requiring extensive value chain information

Adverse human rights and environmental impacts can occur at any level of a company's value chain and third-party assessments alone are insufficient to meet HREDD expectations.

Under the CSDDD, in its current form, HREDD extends to companies' business partners in their 'chain of activities', including indirect business partners. In line with some sustainability legislation, such as, the EU Deforestation Regulation, companies need to conduct extensive due diligence to the level of raw materials, for example, to assess links to illegal deforestation. The human rights due diligence process in the UNGPs covers the full value chain.[110]

> **"Financial institutions are exposed to interconnected risks through the production of certain key commodities, mostly agricultural commodities, but also minerals, oil and gas, coffee, cocoa palm, soy products, things like that. Those are where most of the illegal land conversion activity takes place."**
>
> Themis

Interviewees stressed how companies will increasingly need full value chain visibility, requiring data inputs from different teams including the ethics & compliance and procurement functions.

> **"With some of the new legislation that is on the horizon, there is a real focus on understanding supply chains, it's not just the third party that companies are engaged with. It's understanding the source of the materials right from origin… that requires a very detailed understanding of the supply chain beyond what would have previously been expected…And so in terms of information sharing, you need really close collaboration between the compliance teams and the supply chain teams, the operations team, and manufacturing."**
>
> The Risk Advisory Group

Using collective action initiatives to tackle systemic challenges

As with combatting corruption, companies will be unable to address systemic challenges with complex root causes alone. Collective action is a long-established methodology for companies and other groups to collaborate to fight corruption and build integrity.[111] Similar collective action initiatives on human rights or environmental concerns could enable companies to gain information and work together to address systemic challenges.

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7.5 CULTURE AND CHANGE MANAGEMENT

a. Training

KEY TAKEAWAYS

- Training is an integral part of an ethics & compliance programme.
- To resonate, training should include simple messaging as relevant to the person's role and be linked to the company's values or purpose.
- Companies can include examples of how corruption intersects with human rights concerns into ABC training to build capacity on the interconnections between risk areas.
- Tying training back to company values can help boost its resonance.

Training is an invaluable tool for enabling compliance and building an ethical culture

ABC training is essential in providing the necessary knowledge to directors, employees and third parties on what constitutes bribery, improper practices, risk areas, and how to respond.[112] It also helps embed the values of the company into its way of doing business.[113]

Similarly, providing training on relevant environmental and social risks for employees' roles can help better manage issues, meet targets, and emphasise that sustainability is everyone's responsibility.

Build examples of environmental and social impacts into ABC training, and vice versa, for holistic capacity building

Typically, ABC training portrays corruption as a legal and business risk and does not tend to convey the environmental and societal impacts of corruption.

> **"How much more interesting would ABC training be if you actually talked about impacts, including human rights impact? […] So that is an area of convergence (between ABC and other ESG issues) which could be really powerful."**
>
> Maria-Laure Knapp, risk and sustainability expert

By working with other teams, we heard how some ethics & compliance teams are incorporating human rights considerations into their ABC training programme to build capacity on assessing risk holistically and the interconnections between risk areas.

> **"We provide training on human rights for the ABC team and ABC training for the human rights team. The idea is that as both of the teams are going through various third-party questionnaires, conducting audits, interviewing companies, that they can at least help keep an eye out for potential problems on both topics and flag them to the other team to avoid siloed risk assessment and monitoring."**
>
> Peter Nestor, Global Head of Human Rights, Novartis

One organisation explained how they integrated issues of modern slavery into their anti-financial crime training to convey real-life scenarios that staff may see in their day-to-day work.

> **"All colleagues are required to undertake core level Economic Crime Prevention training annually. Economic Crime Prevention training continues to include scenarios of human trafficking and modern slavery to support colleagues in their understanding of this topic and the associated red flags."**
>
> Lloyds Banking Group

Similarly, training materials on environmental, human rights or other sustainability topics could be linked to ABC or anti-financial crime topics to show how these issues can be enabled or catalysed. These interconnected issues could also be built into a broader set of training modules and workshops on "responsible business conduct" or ethics for new employees and suppliers.

Avoiding topic overload

The range of compliance and sustainability updates and topics on which employees have to conduct training can be overwhelming. To avoid training fatigue, interviewees highlighted the importance of "simple, easy messaging".[114]

> **"I often have sympathy for the client-facing teams who have to remember all of these things. You know, you've got AML, you've got ABC, you've got ESG, you've got compliance with something else and it's just one part of the job."**
>
> Professional services company

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This could also help to improve engagement levels with ABC training.

> **"It's about…people being aware of what's the risk and what's the real-life harm that can be caused and being able to bring those things to life often helps the message land."**
>
> UK company

Tying it back to values

Another way to bolster the resonance of training is by tying it back to organisational values:

> **"When you're developing an ESG literacy or learning programme for your people, it can be very effective to link this to any broader set of values or purpose that business has. This can give it more resonance for employees, helping them understand how their individual actions feed into the organisation's wider goals and values."**
>
> Sarah Barrie, Associate, Regulatory Group, RPC

b. Culture and internal communication

KEY TAKEAWAYS

- Developing a culture of integrity creates an enabling environment for the success of ethics & compliance and sustainability programmes. There is a new spotlight on corporate culture as part of sustainability reporting developments, notably the CSRD.
- Setting the 'tone from the top' (at c-suite and board level) and 'mood from the middle' (management level) helps nurture an ethical culture, while champions and ambassadors can help disseminate responsibility across the company.
- Developing a code of ethics can help staff navigate legal grey areas and encourage a culture of 'doing the right thing'.

More than a buzzword – corporate culture creates an enabling environment for compliance

Developing an organisational culture centred on integrity creates the enabling environment in which the ethics & compliance and sustainability programmes successfully operate. Without such an environment, these programmes will operate in isolation without an ethical compass of corporate values or impetus for action.[115]

There are a range of existing approaches to instilling a culture of integrity, which could be applied to sustainability programmes, where the rulebook is still relatively new.[116] In recent years there has been a noticeable shift from tick-box and reactive approaches to compliance towards a more preventative approach, which relies on the organisational culture.

> **"Culture and employee awareness raising are really important […]it makes sense to have a core group of people dedicated to sustainability and driving this forward within the organisation. However you also need to ensure that everyone is aligned and takes ownership for ESG internally because it touches on all areas of the business. Empowering employees to understand how ESG intersects with their day-to-day work, and how this feeds into the organisation's broader sustainability programme helps to accelerate progress and prevent teams accidentally undermining good progress that's happening elsewhere in the business."**
>
> Robert Semp, Associate, Regulatory & Financial Crime, RPC

Further reading: Transparency International UK, *Values added*.

In 2022, Transparency International UK released this report, which provides guidance and case studies to highlight how companies can use values to enhance their anti-corruption approach.

New spotlight on corporate culture through regulation and guidance

The CSRD notably includes a disclosure requirement for companies in scope to report their "policies with respect to business conduct matters and how it fosters its corporate culture".[117]

Companies in regulated sectors like financial services may also look to guidance from their regulator. For example, in the UK the Financial Conduct Authority has "in the last

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couple of years been focused on having healthy cultures within the financial services industry … which means that firms will likely need to consider non-financial misconduct in terms of assessing fitness and propriety.”[118]

> **One of the drivers that is making people focus more on culture more broadly… is the regulatory focus on that area now.”**
>
> Eve Ellis, Partner, Ropes & Gray

Awareness and action at all levels are key to the success of sustainability and integrity initiatives

In the anti-corruption context, ‘tone from the top’ and the middle— board and management support — have been used to embed principles of integrity and to show that values are lived throughout the organisation. How those in leadership positions behave – that is, that they ‘walk the talk’ – is a key indication of whether commitments made are lived out in practice.

> **Organisations can use thoughtfully implemented cultural assessments to understand how employees perceive culture and the complex web of factor that drives decision-making – for example, how P&L targets, incentives and social norms affect the risk of bribes to solicit new business. Existing data, such as exit interviews and speak-up reports, can be used to triangulate whether sustainability commitments are encouraging the right behaviours as well as surfacing employees’ perception of leaders’ conduct – this can inform the direction of travel for any change process.”**
>
> Nitish Upadhyaya, Director of Behavioural Insights, Ropes & Gray

Increasingly, companies are emphasising the need to disseminate responsibility across the organisation to emphasise that upholding the culture of integrity, including on anti-corruption and wider sustainability issues, is everyone’s responsibility.

> **Tone at the top is old news. If you can’t say ‘tone from the top’, you shouldn’t be in business. We want groundswell growth.”**
>
> Multinational company

One way to do this is through designating champions or ambassadors in areas such as ethics, human rights or sustainability. In some cases, champions go beyond the usual role of acting as ethics ambassadors but are also leaders and experts on their individual topics.

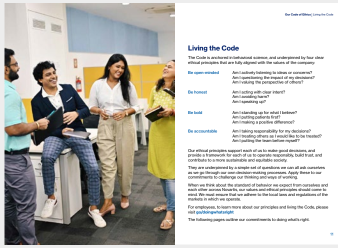
> **We’re also seeing more use of ethics ambassadors and environmental ambassadors. In addition to modelling behaviour, they are a first point of call for employees to raise issues more generally about whether the company is doing what it needs to do from a mission and values perspective. Integrated within the business, they provide a new channel to keep a pulse on employee sentiment.”**
>
> Nitish Upadhyaya, Director of Behavioural Insights, Ropes & Gray

Build a code of ethics that helps staff navigate the grey areas

While an ethical culture is about staff being empowered to ‘do the right thing’ in the absence of rules, a company’s code of ethics should signpost the right direction, particularly in legal grey areas.

> **The 70-page compliance manual is not particularly behaviourally optimised… we need to equip people in a functional sense to deal with the grey areas, to flag the red flags, to speak up when something is going wrong, to use their ethics & compliance teams as a guidance mechanism and as an advice piece.”**
>
> Nitish Upadhyaya, Director of Behavioural Insights Ropes & Gray

Example: Novartis’ Code of Ethics and Decision Explorer Tool



Novartis’ Code of Ethics includes ethical guidance on areas from human rights to environment and corruption, and is built around the company’s values and commitments. It was created with the input of thousands of Novartis employees and anchored in behavioural science. “Because making difficult decisions isn’t always black and white, we’ve created an online, interactive decision-making tool to guide our people towards better decision-making. It consists of a series of questions that have been carefully designed, tested, and aligned with our ethical principles to help employees and teams to think clearly and impartially about their ethical situation.”[119]

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c. Incentives

KEY TAKEAWAYS

- Incentives and targets are commonly used to promote certain behaviour or increase profitability. A similar trend is emerging in the ESG space.
- Collaboration across the departments which set incentives can help ensure targets do not promote unethical or illegal conduct and align with the company's ESG commitments.

Implement ethical and ESG incentives

Some companies use incentive schemes to elicit the right behaviours – to improve service quality or drive profitability. However, when incentives cause immense pressure to meet targets, or lead to staff taking shortcuts, this can result in various forms of corrupt and unethical behaviour (for example, not disclosing conflicts of interest, cutting corners or falsifying figures).

> **"Incentives are usually focused on financial performance over everything else – and you are penalised if you don't hit your numbers – that aggressive bottom-line focus to the exclusion of all else is often behind the unethical behaviour we see in the headlines."**
>
> Tensie Whelan, Distinguished Professor of Practice of Business and Society, NYU Stern Center for Sustainable Business

In the ABC context, for example, some companies require employees to set at least one objective related to ethical behaviour. We heard that similar trends are emerging in the sustainability space.

> **"Small steps like putting a cap on air miles and ensuring that annual appraisals and KPIs include measurable compliance objectives, can make a big difference."**
>
> Ramsay Hall, White Collar Crime & Investigations Partner, BTO Solicitors LLP

Incentives should be aligned with the company's values and compliance programme

We are increasingly seeing management incentives linked to ESG performance and targets (for example, net-zero targets) which could result in the manipulation of ESG reporting.

A joined-up approach between the relevant departments setting incentives (such as sustainability, sales and compliance) will help ensure that the right behaviour is incentivised, and targets do not undermine the company's ESG commitments, values and compliance requirements.[120]

Further reading: Transparency International UK, Incentivising ethics

This guide helps companies manage incentives to deter bribery, corruption and other unethical conduct and to encourage good behaviour. The guide also considers how incentive schemes can actively encourage ethical behaviour using non-financial targets that reflect and drive the right behaviour.

7.6 SUSTAINABILITY REPORTING AND MARKETING

KEY TAKEAWAYS

- With increased regulator, investor and customer scrutiny on companies' sustainability data and marketing claims, coordination between teams and involving different skill sets is crucial.
- Companies should designate coordinators to ensure an aligned approach to data management and mitigate the risk of conflicting claims and disclosures.
- Bringing in legal and/or ethics & compliance early in the process can help identify and manage any legal or reputational risks associated with marketing claims and sustainability disclosures, ensuring claims stand up to legal scrutiny.

Sustainability reporting is an opportunity to draw on and coordinate the inputs of different teams

Sustainability reporting legislation, most notably the CSRD in its current form, moves the needle considerably in terms of the scope and level of granularity of disclosure requirements.[121] This will also encourage stakeholder scrutiny of companies' sustainability performance.[122]

> **"CSRD disclosures and the breadth of different stakeholders that need to be brought into that and how many different departments you need to provide metrics shows what a massive area [sustainability reporting] is, because it's new and being refined."**
>
> Multinational company

The range of topics covered under the reporting standards will require higher levels of coordination between teams. While the ethics & compliance and legal professionals we spoke to said they have been feeding into sustainability reporting for some years (for example, by providing relevant data points on anti-corruption and related topics) the reporting requirements of the CSRD will call for higher levels of coordination and disclosure.

> **"There's not a one-stop shop of 'this is where you get all your data and information', you do often need to rely heavily on other teams… As an example, if you wanted to know information around gifts and entertainment and how much was spent in the year per region, that's a separate team to the one who could give you information around the number of breaches that have come through on a particular policy or process versus how many people completed the training and who were sanctioned for not doing the training. All those types of things are from different teams and it takes a level of coordination to be able to produce the metrics."**
>
> UK company

Designate data coordinators and develop a governance and assurance system

Given the complexity of sustainability reporting requirements, some companies have a designated reporting coordinator or team. Otherwise, there is a risk of conflicting claims and no aligned approach to data management. Data coordinators can also bring the information together so that it works as a cohesive story.

There will be variation in company approaches to coordinating sustainability reporting depending on the reporting standards or frameworks the company is complying with. However, most of the companies we interviewed said their ESG reporting is coordinated by the sustainability function, which collects the relevant information across teams and functions.

> **"We have a sustainability reporting team who coordinates our reporting. Across our organisation there are about 70 stakeholders who contribute to our sustainability report."**
>
> Lloyds Banking Group

Once this information is compiled, the report may go through internal checks from compliance and external verification (for assurance), before governance checks from the board and the c-suite, which could include the chief ethics & compliance officer and/or chief financial officer.

> **"Compliance teams can help ensure rigorous, legally defensible disclosures with regard to material risks."[123]**

This process is likely to involve many internal stakeholders (see figure 5) and may be time-consuming and expensive. However, in the long-term a coordinated approach is likely to save costs, as it will boost stakeholder confidence and avoid legal fines associated with non-compliance.

Bring in ethics & compliance and legal expertise early in the process to ensure integrity in marketing claims

Companies are facing increasing legal and reputational risk associated with their marketing claims.[124] This is an opportunity for ethics & compliance and/or legal teams to support the communications and marketing functions by providing a lens of legal and integrity scrutiny. Legal

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and ethics & compliance teams may have extensive experience in establishing reasonable procedures to identify and manage risk to help protect the brand, including risks associated with unsubstantiated sustainability claims (known as greenwashing).

One interviewee highlighted how aligning teams early on and bringing in compliance and legal expertise can help ensure that green claims and communications stand up to scrutiny:

> **"Green claims typically start life in the marketing team, however, it is important to involve the legal and compliance teams at the outset. As a rule of thumb, always start with the facts first (for example, 'what are we doing around carbon emissions or water usage?') and build the messaging around that. This helps to ensure the claim is robust, evidence-based and less ripe for legal challenge. Key 'watch-outs' are broad, absolute claims like 'sustainable', 'green' and 'recycled' which consumer regulators have found to mislead consumers. Instead, sustainability messaging should be specific and any limitations of the claim should be clear."**
>
> Sophie Tuson, Senior Associate and Environment and Climate Change Practice Lead, RPC

While companies' risk profile and approaches to managing risk related to sustainability marketing will vary, engaging with legal and ethics & compliance teams early in the process can provide beneficial scrutiny to help identify and manage legal and reputational risk.

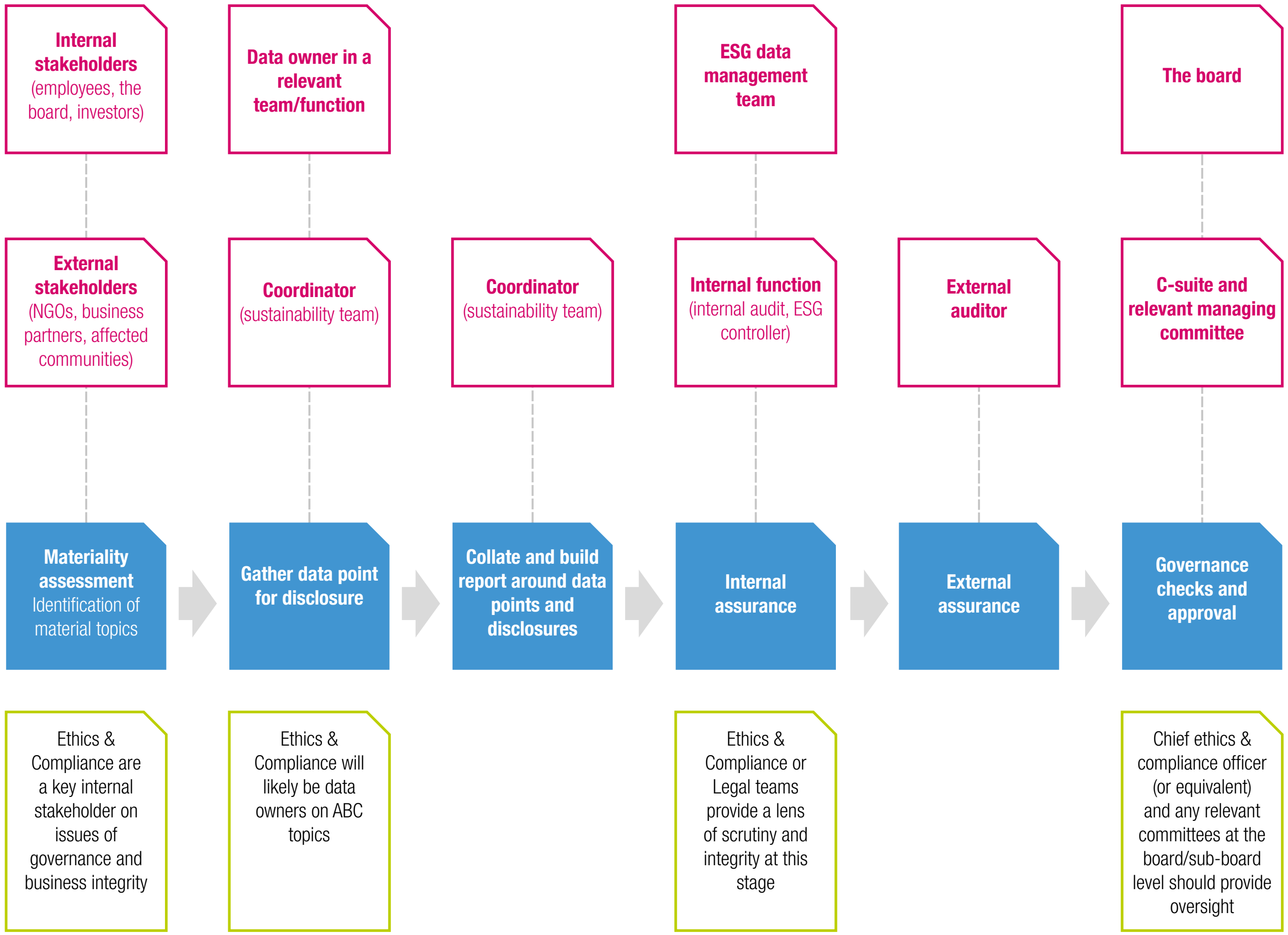

Figure 5: internal processes and stakeholders involved in sustainability reporting (insights from various interviews). Source: Transparency International UK.

7.7 INVESTIGATIONS

KEY TAKEAWAYS

- ESG investigations have synergies with existing ABC investigations, but there are some differences, including the scope, the forms of evidence and the range of stakeholders engaged, which should be reflected in the investigation methodology.
- Bringing together supply chain, sustainability and legal teams with ethics & compliance helps ensure a joined-up approach to investigations. The key to ensuring a good outcome is working together with impacted teams and communities.
- Existing ABC investigation techniques such as email review remain useful, and companies should consider how they can adapt and expand existing procedures rather than reinventing the wheel.

Leverage synergies between ABC and ESG investigations

Investigations are by their nature reactive and require a tailored approach, but this does not mean we cannot take productive learnings from ABC investigations into ESG areas. Indeed, there are clear synergies between ESG and ABC investigations. Corruption is also a social and governance issue, and teams should consider how these intersections might be built into their process from the start.

A good ABC investigation requires four key phases: 1) incident response, 2) mobilisation and planning, 3) execution, and 4) reporting and remediation.

This same approach serves ESG investigators well. Maintaining a consistent framework, while allowing for the flexibility the subject matter requires is best practice and ensures the investigation's conclusions can withstand scrutiny.

Key differences: a wider range of stakeholders and more focus on lower supply chain tiers

Despite the many synergies, there are some differences. Integrating these differences into the methodology is the key to success. ESG issues are likely to have a wider impact across the business, people and the environment, and potential users of these reports are often far broader than ABC investigations. Our interviewees also stressed the impact on individuals and communities affected by the targets of the investigation.

> **"With ESG investigations, there's a far stronger emphasis on the local political, economic, social context. We often seek to talk to those that are directly impacted by the issues under investigation, whether that's environmental or labour practice issues."**
>
> The Risk Advisory Group

ABC investigations traditionally focus on internal risk and how internal processes were subverted, whereas ESG investigations are more likely to focus on external impacts and lower supply chain tiers.

This means taking a more expansive look down the value chain to identify failings early, and effectively. This also means bringing together supply chain, sustainability and legal teams with ethics & compliance to ensure a joined-up approach. The key to ensuring a good outcome is working together with impacted teams and communities.

> **"An ESG investigation requires looking down and around, rather than up, a business' supply chain and corporate structure. A traditional ABC-focussed due diligence or investigation mostly examines ownership and control, reputation, specific allegations, and other such directly relevant questions for evidence from within business records. While this can apply to ESG (especially governance) concerns, ESG focuses on a wider set of ground-level stakeholders. Many of the issues at stake may affect a business from outside. So, ESG investigations should go further down the supply chain."**
>
> Will B Jenkins, Director, Control Risks

An evolving ESG regulatory framework

A traditional ABC investigation will likely operate under a clear and familiar regulatory framework, this might be the UKBA or the FCPA or any other established form of bribery regulation. This creates legal certainty and helps support a single point of reference. ESG investigations are often broader and less predictable. They may respond to multiple pieces of relevant legislation, which vary widely in terms of enforcement and voluntary standards. This lack of consistency emphasises the importance of a clear investigation plan.

Investigations will also need to adapt their processes to new sustainability legislation. A consistent theme we heard was recognising how to use and adapt existing tools and allowing flexibility in the company's strategy to ensure they can adapt to the changing legal environment.

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New tools and forms of evidence

We heard how ESG investigations will be more "human-led and human-centric" than traditional ABC investigations and require investigators to engage with a wider group of stakeholders. Items such as 'Scope 3' (indirect) emissions were also raised as areas requiring investigators to interact more with third parties.

> **"Investigators looking into ESG matters must stay aware of a wider range of stakeholders in and around a business and consider additional forms of evidence or intelligence gathering to conduct an effective investigation. Rather than simply conducting interviews of employees, interviews with and research around community stakeholders such as NGOs and unions, and possibly a thorough review of commercial partners within a business' supply chain may be crucial to achieve a clear picture in an ESG investigation. This applies whether reactively examining whistleblower allegations or proactively conducting risk assessments."**
>
> Will B Jenkins, Director, Control Risks

Interviewees expressed scepticism about traditional forensic tools, such as email review. Partly this was driven by the risk sitting further down the supply chain, and being less likely to have direct evidence and interaction, and partly by the complex nature of ESG violations. Having said that, interviewees highlighted that traditional forensics tools still have their place in an ESG investigation, especially when combined with more context-specific tools. For example, using email review to look at how management responded and/or who from management knew about the issues.

7.8 MONITORING EFFECTIVENESS

KEY TAKEAWAYS

- Monitoring the effectiveness of ABC and sustainability measures is a complex yet important part of improving controls and crucial for the success of a compliance programme.
- The CSDDD brings the evaluation processes into focus and companies could look to leverage initiatives from ABC compliance to monitor the effectiveness of some sustainability measures.
- Seeking the feedback of affected stakeholders is critical for monitoring the effectiveness of HREDD measures. Stakeholder insights are also useful for evaluating ABC controls.

A crucial but complex area of compliance practice

Leading companies should be familiar with the importance of monitoring the effectiveness of their ABC compliance programme.

> **"If you don't take the time [to measure the effectiveness], then you are failing as you don't know if there is improvement or not."[125]**
>
> Anti-corruption expert at a multinational company

The U.S. Department of Justice Criminal Division Evaluation of Corporate Compliance Programs (updated September 2024) explains, "One hallmark of an effective compliance program is its capacity to improve and evolve… Accordingly, prosecutors should consider whether the company has engaged in meaningful efforts to review its compliance program and ensure that it is not stale."[126]

Companies should also look to assess the performance of their sustainability programme. According to the CSDDD, for example, companies need to "monitor the implementation and effectiveness of their due diligence measures."[127] As part of their monitoring, companies could leverage learnings from ABC initiatives to assess some sustainability-related processes, for example, supplier on-boarding and internal training.

> **"[One of the biggest learnings between setting up a programme for integrity and one for ESG] is how to think about governance and controls and making sure that you don't just put controls in place, but you also put a process in place to test those controls on a regular basis to make sure that they are actually effective and working."**
>
> Hentie Dirker, Chief ESG & Integrity Officer, AtkinsRéalis

However, as with monitoring ABC controls, this can be a complex undertaking. Like ABC controls, sustainability measures aim to be preventative, which by their nature makes their effectiveness more difficult to evaluate as it means measuring the absence of risk or harm.

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Measuring the outcome of internal controls: learnings for ABC and sustainability

While this is an emerging area of practice, leading companies are beginning to monitor ABC controls beyond simply the activity such as a training occurrence. While this is useful data, good practice is to measure the outcome as well, in other words, whether the training produced the intended change, which could be behaviour change.

Applied to sustainability controls, in addition to monitoring the completion rate of modern slavery training, companies could consider evaluating any changes in employee behaviour, such as measuring an increase in employees flagging labour exploitation risk during supplier due diligence.

The need for feedback from affected stakeholders

While outside the scope of this guidance, monitoring HREDD measures requires companies to go beyond assessing the effectiveness of internal controls from the company's perspective. Companies also need to consider the views of affected stakeholders (rightsholders). The stakeholder engagement process is also valuable for evaluating ABC controls.[128]

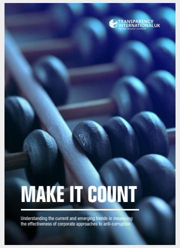
> **"In order to verify whether adverse human rights impacts are being addressed, business enterprises should track the effectiveness of their response. Tracking should […] Draw on feedback from both internal and external sources, including affected stakeholders."**[129]

Monitoring the use of 'speak-up' channels and human rights grievance mechanisms provides a good metric for evaluating the company's enabling environment (for example, its 'speak-up' culture).

Don't forget the role of internal audit

Internal audits have a role to play in identifying areas of improvement and recommending corrective action to enable the continuous improvement of a compliance programme. Internal audit can apply similar principles that have been established for ABC to assess the effectiveness of some sustainability-related measures.

> **"To that end, internal auditors should view ESG holistically, assessing the feasibility and credibility of the company's strategy and objectives, screening its due diligence procedures, evaluating the quality of the ESG policies and procedures, and in particular, verifying whether the ESG culture of the organisation is sufficient to successfully implement all of the aforementioned elements."**[130]



Further reading: Transparency International UK, Make it Count, 2021.

This guide explores why and how a company ought to measure the effectiveness of its approach to anti-corruption. It explores what is understood by measuring effectiveness, highlights practical considerations, and provides examples of metrics that are proving useful for companies.

8. CONCLUSION

Anti-corruption and sustainability are interconnected areas of law and company practice. Adapting to the sustainability landscape is an opportunity for companies to re-assess their governance system to ensure there are clear roles and responsibilities for ESG/sustainability priorities, that there is accountability for decisions made, and effective oversight of risk management and decision-making.

Through our research, we identified different models of ESG governance, both general governance models and companies' own approaches. These can be adapted to develop an appropriate ESG governance system. Our nine principles will help companies promote accountability, integrity and transparency in their approach to ESG governance.

Designing, developing and implementing a new or updated sustainability programme is an opportunity to draw on the building blocks of the company's ABC programme and on existing internal expertise and processes to coordinate corruption and sustainability risk management.

Overall, we found encouraging practices of internal teams sharing expertise, information and tools to support risk assessments, sustainability reporting, supply chain management, organisational culture initiatives and investigations. Across these coordination touchpoints, we heard that many of the tools, systems and learnings from ABC programmes are proving useful. Increased coordination also enables companies to align data management and communications, identify and manage risk more holistically and proactively, and better utilise existing resources and expertise.

We would, however, highlight the differences in the scope and methodology of some anti-corruption and sustainability procedures, particularly HREDD. Coordination should not come at the expense of promoting specialism and subject matter expertise and ensuring the methodologies used are appropriately adapted to the area of risk, such as corruption, climate and human rights.

Cross-functional coordination, particularly where resources are limited, can be challenging in practice, but companies are already using internal mechanisms such as committees and working groups to facilitate collaboration and promote a more aligned approach to manage risks. Another challenge identified was the different language and risk taxonomies used across teams, and various interviewees stated the importance of breaking down language siloes and creating common taxonomies for more meaningful coordination.

Despite challenges, our research shows that, if carefully managed and well-resourced, cross-functional coordination, underpinned by good governance, offers a strategic advantage that enables helps companies to strengthen their approach to both anti-corruption and sustainability, and navigate the complexities of the business world with agility and integrity.

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