

RESPONSIBLE BUSINESS CONDUCT



UK BUSINESS ARE WELL PLACED TO LEAD ON INTEGRITY AND RESPONSIBLE BUSINESS CONDUCT AS WE BUILD BACK BETTER

Businesses in the UK generate billions in turnover every year, with operations ranging in size from micro businesses to large multi-national enterprises. As a key player in the global economy with an independent voice at the World Trade Organization, the UK is well equipped to lead the integrity agenda, not only because of its progressive anti-bribery legislation, but also because many UK businesses now recognise the strategic advantage responsible business conduct offers to the country's dynamic economy.

Environmental, Social and Governance ("ESG") strategies and metrics guide the private sector on building up a future aligned to the UN Sustainable Development Goals (Global Goals) and broader business integrity. Whereas, sustainability and climate change tend to be at the center of most discussions, issues related to human rights, anti-corruption and integrity, and ultimately sound governance, are also paramount to the implementation and delivery of any of the Global Goals. By addressing and mitigating corruption factors and increasing governance transparency, the private sector is better equipped to tackle environmental and social issues.

KICK-STARTING INVESTOR CONFIDENCE

Recent studies by Morningstar and MSCI show that investments with an ESG focus have outperformed others over the course of the last decade and have been more resilient during the current economic recession. Because of these results, it is evident that investors are increasingly considering ESG factors as a prerequisite for investment growth and that there is not a financial penalty associated with doing business responsibly.

As the UK came out of the Global Financial Crisis, a sign of the rebounding economy was an increased number of mergers, acquisitions, and other types of investment transactions. In Transparency International UK's Open Business report, we found that investor confidence is built through transparency, as only through transparency can investors truly assess the risks they are taking on in these transaction. Ethical investors, like Norges and EOS at Federated Hermes will typically analyze how enterprises manage financial and non-financial risks, including bribery and corruption, before making an investment. When a company has an effective corruption prevention programme and is transparent about how this programme works and the issues identified in its risk management processes, it is more likely to raise confidence with potential investors. By providing investors with increased confidence through transparency, UK companies will be more attractive to investors at this critical time of the investment cycle.

INTEGRITY WITHIN GLOBAL VALUE CHAINS

As businesses continue to deal with disruptions to their global value chains due to the pandemic, many businesses have been forced to adapt - changing their operations, suppliers and business partners.

With sudden changes, comes increased risk as proper comprehensive due diligence and other risk mitigation procedures require time and adequate consideration prior to approvals. As noted in the International Chamber of Commerce (“ICC”) Guidance Integrity for a resilient response and rebuild after COVID-19, especially when there are changes in operations and the business environment, businesses must “uphold the highest standards of integrity in business transactions and [...] continue to act responsibly with respect to human rights, good governance, and integrity rules.”

Businesses across sectors and sizes should work to mitigate their changing bribery and corruption risks by understanding who they are doing business with and how business is being done in the current environment. Even with previously vetted third parties, businesses should consider if there has been a change in corruption risk in certain locations, countries or industries based on what has transpired arising from the economic and logistical changes we all face owing to COVID-19. Many companies will have faced other significant changes as a result of the pandemic such as a change of leadership, in which markets they are active or their financial resilience, all of which could also impact their risk rating.

The use of third parties in supply or distribution chains can lead to increased bribery and corruption risks. Given the economic situation that many industries and countries find themselves in, third party agents or consultants may be willing to engage in corrupt actions in order to secure a contract or a shipment to better a company’s financial situation. It is critical that businesses stand firm in their ethical standards at this time and communicate this with their business partners and third parties working on their behalf.

Transparency amongst business partners is a key element to building trust and long-lasting, meaningful relationships. UK businesses should demonstrate active and repeated top level commitment to corruption prevention, disclose their bribery and corruption policies, use anti-corruption clauses in their contracts, and explain how they mitigate corruption risks of third parties acting for or on behalf of their company. This type of disclosure allows for businesses to have confidence in their business partners, knowing that certain risks are actively being mitigated and managed.

TRANSPARENCY IN PROCUREMENT

Over the course of the past several months, governments across the globe have increased their spending in order to contend with the pandemic. As noted by ICC, the need for an urgent response can lead to an increased risk of procurement fraud, particularly price gouging and/or counterfeit products. Businesses must respect transparency and competition principles during this time. If they have not done so already, businesses which are responding to government tenders, especially those in the healthcare sector, should endeavor to be as transparent as possible with their contracting and contract fulfillment operations. Transparency in this case will allow third parties to detect corruption red flags more easily and will create a more even playing field for businesses who act with integrity.

TRANSPARENT POLITICAL ENGAGEMENT

As part of the various COVID-19 relief schemes, many companies have received government support. Responsible businesses are proactively disclosing this information to investors, consumers and business partners. With this upfront disclosure, companies are more likely to be accountable to these stakeholders, demonstrating ethical behavior and encouraging it in others. Further with this information, these stakeholders will be able to hold the company to account and thereby further encourage ethical conduct.

Companies should also seek to be ethical and transparent with their political lobbying practices in order to build consumer confidence in their business. Even during normal times, political scandals have a hugely detrimental effect on the reputations of businesses, but companies that are implicated in lobbying scandals during the pandemic are likely to see this impact amplified. By putting clear governance structures in place surrounding political engagement (e.g. board approval of all political activities) and disclosing this governance to their investors and consumers, businesses can mitigate reputational risks related to political engagement.

Doing business with integrity makes business sense by reducing risk and making companies more attractive to investors. As noted by the United Nations Global Compact (UNGC), if companies do not have sufficient governance, their environmental and social goals will not be achieved. With the pandemic continuing to take a huge toll on economies around the globe, it is more important than ever for the private sector to act with integrity and transparency to maintain trust and build confidence with investors, business partners and consumers now and in the months to come.

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¹ <https://researchbriefings.files.parliament.uk/documents/SN06152/SN06152.pdf>

² <https://unfccc.int/news/strong-institutions-are-essential-for-effective-climate-action>

³ www.ft.com/content/733ee6ff-446e-4f8b-86b2-19ef42da3824 ; <https://www.ft.com/content/7a945219-bd89-450d-9ec8-fdeb8ba3a0da>

⁴ <https://hbr.org/2020/05/the-case-for-ma-in-a-downturn>

⁵ Transparency International UK, Open Business, (London: Transparency International, 2020), p.17

⁶ The elements of an effective anti-bribery programme can be found in Transparency International UK's Global Anti-Bribery Guidance portal: www.antibriberyguidance.org/.

⁷ ICC Guidance – Integrity for a resilient response and rebuild after COVID-19, <https://iccwbo.org/publication/icc-guidance-integrity-for-a-resilient-response-and-rebuild-after-covid-19/>

⁸ An integrated approach for performing due diligence with fewer resources can be found in the ICC Anti-corruption Third Party Due Diligence: A Guide for Small- and Medium-sized Enterprises.

⁹ Transparency International UK, Open Business, (London: Transparency International, 2020), p.18

¹⁰ Example anti-corruption clauses for use can be found in the ICC Anti-Corruption Clause.

¹¹ Transparency International UK, Open Business, (London: Transparency International, 2020), p.23 - 28

¹² ICC Guidance – Integrity for a resilient response and rebuild after COVID-19, <https://iccwbo.org/publication/icc-guidance-integrity-for-a-resilient-response-and-rebuild-after-covid-19/>

¹³ www.transparency.org.uk/business-protect-health-coronavirus-covid19

¹⁴ See Transparency International UK's best practice in Wise Counsel or Dark Arts? Principles and guidance for responsible corporate political engagement (2015)