

2C.1 The power of joining forces — The case for collective action in fighting corruption

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“Collective action offers an effective way to create a level playing field.”

All too often, business leaders take the view that although it would be desirable to exclude all forms of corruption from their operations, it is a problem they cannot do much about. There is a perception that corruption—from petty bribery and facilitation payments to state capture—is so much part of accepted business practices or local custom that there is no remedy for the individual company if it is to remain competitive in local markets. Although business managers increasingly recognize that corruption is a serious business challenge, they may not always accept that they have a responsibility and key role in changing practices that have become endemic. The dilemma is to balance doing what is right against putting business operations at a competitive disadvantage. This is not to suggest that there are any circumstances in which corruption is acceptable, merely to acknowledge that business managers may perceive that promoting a change in accepted local business practices could jeopardise their business interests. It is often relatively easy to get business managers to acknowledge that it would be beneficial to both them and their competitors if corruption were eliminated. What is more difficult is for them to take the first steps to act together in combating corruption, for fear of losing out to each other.

Understanding the need for collective action

In practice, collective action with other companies offers an effective way to create a level playing field on which to compete and increases the impact on local business practices beyond the capacity of any one company. Knowing that other companies in your sector or location are committed to good practice helps to build mutual confidence and the sustainability of changes in behaviour.

The Extractive Industries Transparency Initiative (EITI) is possibly the most high-profile example of collective action by companies, in this case in cooperation with non-governmental organizations and Governments, to improve transparency and fight corruption (<http://www.eitransparency.org>). At the same time, there are a good number of examples from around the world where local businesses or business associations have combined to tackle particular aspects of corruption that were proving to be a barrier to business development. However, if the fight against corruption is going to result in noticeable improvements of business practices, many more of these local initiatives will be needed. This chapter provides a brief review of how companies can best join forces to improve business practices.

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“Unless there is coercion or some other special device to make individuals act in their common interest, rational, self-interested individuals will not act to achieve their common or group interest. In other words, even if all of the individuals in a large group are rational and self-interested, and would gain if, as a group, they acted to achieve their common interest or objective, they will still not voluntarily act to achieve that common or group interest.”

— Mancur Olson

The Logic of Collective Action

From the outset it should be appreciated that corruption manifests itself in a myriad of ways depending on local customs and practice, economic forces and industry sectors. It follows therefore that there are no “one size fits all” solutions that can be applied universally. Experience shows that when business leaders are brought together to address specific challenges and circumstances, they are themselves best at identifying what needs to be done in practice, so the early challenge is to convince them that they have a mutual interest in addressing the issues and can best do so collectively. Nevertheless it is possible to identify some of the mechanisms that can provide frameworks for action, for example:

- The use of integrity pacts when bidding for and executing public contracts;
- The application of codes of conduct to all public tenders;
- Ensuring transparency in all business transactions so that all parties have the information they need to make informed decisions;
- Establishing common rules about revenue transparency in business relations with national and local Governments (along the lines of the EITI);

- The collection and sharing of data about the existence of corruption and how it manifests itself in practice;
- Identifying and agreeing on the key priorities for action;
- Presenting a cohesive and collective voice of business in addressing the issue of corruption with public agencies and non-governmental organizations who can and should play a role in building improved practices;
- Creating neutral platforms, forums or other “safe haven” mechanisms through which discussions between companies and other organizations can be conducted, sensitive information shared and allegations addressed;
- Sharing examples of successful practice against corruption to reinforce and encourage sustained initiatives;
- Organizing training on ethics and anti-corruption processes that can be applied in each company and collectively. (There is real value to be gained when staff from competitors attend seminars and workshops about responsible business practices together and then take their learning and experience back to the workplace.)

Recognizing the need for facilitation/convening

The increasingly widespread recognition that it often takes companies working together to tackle corruption has led to a growing body of experience and examples of companies joining forces in different ways, in different places and in different business sectors. A common thread running through

these kinds of initiatives appears to be the importance of some kind of external facilitation—a business organization, Government body or non-governmental organization to act as an intermediary. Such an intermediary organization can act as a convenor and provide a neutral platform or “safe haven” from which collective action initiatives can be built. Any such initiative needs to be jointly owned by those involved, but the intermediary provides “coordinating energy.” Often there are already locally represented organizations that can provide this facilitation, for example Transparency International's national chapters, local business chambers and the United Nations Global Compact's local networks.

Auditing firms and larger consultancies can also play an important role in facilitating this collective action by working with clients who have encountered similar corruption issues. They often have extensive knowledge and experience of the impact and manifestations of corruption and malpractices as a result of the work they do with their clients. If they have a large enough client base, they will be able to draw on practical examples for discussion and reinforcement without having to identify the companies or Government institutions involved. There are few other business sectors that are in a similar position to share insights gained locally.

A challenge for any company considering a collective approach is to recognize that corporate cultures normally prepare management for unilateral action, whereas a collective approach demands something quite different. The more traditional way of companies unilaterally adopting codes of conduct, managerial procedures and taking the necessary steps to prevent malpractices will have to be combined with a set of practice norms agreed to as part of the collective effort.

Supporting environment

Although much of the effective action against corruption has to take place at a local level, a number of overarching support mechanisms are available to raise awareness and to provide frameworks for sustainable improvement.

Global initiatives

These include:

- The United Nations Global Compact's 10th Principle;
- Transparency International's Business Principles;
- The World Economic Forum's Partnering Against Corruption Initiative (PACI);
- The Extractive Industry Transparency Initiative (EITI).

Each of these has emerged from quite a different genesis but each has provided a valuable foundation on which to build sectoral and local initiatives, which can then accommodate particular needs and priorities. Some initiatives, such as the EITI, have come about through a multistakeholder dialogue facilitated by one or several Governments. Others, for example the PACI-principles, have been largely business-led without official Government involvement. These global initiatives have gained considerable attention, have become high profile and have begun a process leading to the relatively quick development of new international standards. A challenge with international processes of this kind, however, is that it may be difficult to obtain genuine local buy-in in the countries where they need to be implemented. An emerging international standard may need to be adapted to suit local requirements, laws and cultures, and it may take time before international commitments translate into local action.

Local initiatives, on the other hand, tend to emerge in response to specific needs and challenges. They often have a high degree of local relevance and are driven by the individuals or companies that have encountered a particular problem. Transparencia por Colombia's efforts to collaborate with a number of textbook publishers in establishing commonly accepted standards for relationships with schools and other relevant purchasing authorities are an example of this. Unfortunately, without international backing, many such promising initiatives do not get the profile they deserve nor are they always able to create a momentum that attracts the attention of business leaders and leads to replication and taking to scale.

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Sector-specific initiatives

Some collective initiatives are sector-specific, focused on the specific challenges a particular group of companies or business sector have encountered (again, EITI is a good example). These initiatives have the obvious advantage that they can be tailor-made and focused in terms of the issues and the outcomes expected. The fact that they may emerge out of needs identified by a group of competitors contributes to ensuring that they remain relevant and address real issues of concern.

Business-led v. multistakeholder

Through the involvement of a wide range of actors, companies, non-governmental organizations and Governments, initiatives such as the United Nations Global Compact can quickly obtain a high degree of legitimacy and authority. Other multistakeholder initiatives, such as the EITI, have come about because of the campaigning of non-governmental organizations. The Initiative created an important forum for businesses, non-governmental organizations and Governments to come together to discuss issues of joint concern. A potential drawback with multistakeholder initiatives is that they often grow rapidly and consequently may become cumbersome to manage. Also, it may be difficult to turn aspirations into tangible action. As the number of participants increases, the early dynamism and confidence of the original smaller group of participants can be dissipated. On the other hand, business-led initiatives that are focused on solving specific business challenges can often be more results-driven, but they may not satisfy the expectations of other stakeholders.

In practice, it is important for business-led initiatives to engage with and seek support from other stakeholders. Governments and multilateral institutions can play an important role by promoting and facilitating initiatives that are essentially voluntary for companies to adopt. Again, the EITI can serve as an example. The British Government’s convening has been critical in building the international support for the initiative. At the same time the OECD Guidelines on Multinational Enterprises high-

light how a multilateral organization can use its authority and outreach in promoting responsible business practices to add legitimacy to a wide range of initiatives around the world. At a local level, adoption by procuring Government agencies of the Integrity Pacts that Transparencia por Colombia has been developing to achieve transparent bidding processes is another example of how Government institutions in a voluntary way can initiate a process that lowers the risks of corruption.

What it takes to make collective business action happen

If we accept that making a significant impact on corruption demands more than companies adopting stringent standards on their own, that collective action is often required to reinforce and achieve real progress, and that such joint solutions need some kind of facilitation, then we need to explore what it takes to get such joint actions off the ground. Why are some initiatives more successful than others? Are there some success factors that, if we were more aware of them, would help us in replicating successful initiatives? The following are some of the experiences that have emerged so far:

Local practical relevance

Local collective action initiatives flourish best when they are addressing locally relevant issues. Some initiatives, such as Transparencia por Colombia’s collaboration with a group of textbook publishers, have emerged from needs identified locally. In cases like this, there has been a relatively limited input from elsewhere. Other times, organizations such as the United Nations Global Compact, Transparency International, the World Economic Forum, the International Business Leaders Forum and the Ethics Resource Center have joined forces with local companies with the aim of initiating local projects. In these circumstances, it is critical that the agenda is “localised” early on and adapted to the challenges encountered locally. The relevance of a general international policy initiative may not always seem

obvious to daily work in a particular country, unless it is adapted and developed into a detailed local project.

Driven locally—The case of the China Business Leaders Forum

In 2003 the International Business Leaders Forum started exploring issues of corporate governance and corruption with a group of Chinese and foreign business leaders and other appropriate institutions in Beijing in the expectation that, drawing on a wider international experience, a basis for collective action could be developed. The result has been the launch of the China Business Leaders Forum (CBLF) in partnership with the Renmin University in Beijing. CBLF provides a “safe haven” for business leaders to meet around an agenda of business standards challenges, including governance, transparency, tendering and procurement, recruitment and employee development, setting and meeting expectations on product and service delivery, improving joint venture relationships and the like. It also serves as a network of communication on other corporate governance initiatives taking place in China and will publish appropriate materials and research. CBLF has a three-year action programme funded jointly by the Global Opportunities Fund of the UK Foreign and Commonwealth Office and a group of multinational companies. For further information, see www.cblf.org.cn

Facilitation

Experience suggests that having a neutral party bring key stakeholders together to determine local priorities is often critical for progress. Facilitation is largely about managing the process and providing a framework of internationally recognized principles and ambitions within which the

practical realities can be addressed. It is clearly important for the facilitating organization to have an understanding of both worlds—of basic international research and what has emerged internationally as best practice and, on the other hand, what challenges a local businessman encounters. Facilitation is about providing examples of how forces can be joined to stimulate local business leaders to identify local priorities and initiate efforts.

Building confidence

It takes time to build confidence amongst groups of business leaders who may initially be sceptical about what can be achieved and concerned at the implications of working with competitors and others outside their normal set of relationships. Focusing on issues that have important current impacts on business and the community and then conducting a series of individual and group meetings to explore the opportunities and barriers to cooperation are essential steps leading to the formalisation of any initiative. These steps take time, but it is time well spent. Having someone who has previously been a business executive to act as a coordinator may give participants the confidence required to ensure that a process gains momentum.

Funding of collective initiatives

If it is concluded that some kind of facilitated initiative is required, funding of course needs to be raised to pay for such a joint effort. The costs will normally arise from the coordination of the initiative, research, meeting arrangements, translation, access to expertise, facilitation, travel and the like. It is important to recognize that if facilitation as outlined here—helping to steer and guide companies to jointly address some needs for improvement—is essential, it is largely dependent on external organizations with experience and capacity and with the necessary understanding of both the local business environment and joint efforts to fight corruption. Given the relatively recent development of collective action initiatives, there are not yet many persons and organizations that have the experience and competence to provide facilitation of this kind. Thus, the main challenge

“The fight against corruption will be more effectively fought by companies acting together.”

may not be cost but rather finding an appropriate organization and person to coordinate an initiative.

Current experience suggests that there are many advantages in sharing the costs among the companies, not-for-profit organizations, multilateral or bilateral agencies and Government agencies involved. Organizations that make a financial contribution are always more likely to remain engaged, take a project seriously and demand practical results.

The role of leaders

The successful initiation and building of collective business action often depends on identifying one or a small group of companies to take the lead and to act as a champion for the project. This reinforces the importance of ensuring that the issues being addressed are priorities for the business community and are likely to deliver tangible results for the participating businesses and the communities within which they are operating.

Conclusion

The fight against corruption will be more effectively fought by companies acting together to reinforce and enhance the impact of the application of codes, policies and processes within their own operations, supply and distribution chains. Businesses, often competitors, have a mutual vested interest in improving the environment within which they operate, and by acting together they can also be a stronger influence on other sectors in reducing corruption.

There is a growing body of experience of how companies, sometimes with other actors, have acted collectively to address a range of social, economic and environmental challenges. Tackling corruption and improving business standards lends itself particularly well to the collective approach.

Collective action requires careful preparation and facilitation, must address locally relevant issues and must be developed within the framework of accepted international standards. It is vital that these initiatives focus on achievable results and improvements to provide the foundations upon which to build more challenging initiatives.