



# **FIGHTING CORRUPTION IN THE SUPPLY CHAIN:**

**A GUIDE FOR CUSTOMERS AND SUPPLIERS**

**SECOND EDITION**



**United Nations**  
Global Compact

### **About the United Nations Global Compact**

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks. [www.unglobalcompact.org](http://www.unglobalcompact.org).

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## Executive Summary

Global business is accomplished through the elaborate networks of the supply chain — the persons, entities and infrastructure that transform materials and human capital into intermediate and finished products and services for customers and consumers. The problem of corruption affects every business in the supply chain and every aspect of business in the supply chain. However, it can be tackled when all actors work together.

This guide for reducing corruption risk in the supply chain has been created by the United Nations Global Compact 10th Principle Working Group. The guide is intended for both customers and suppliers. Businesses of all sizes should find helpful guidance and practical tools, although multinational companies (MNCs) may find more information that is of immediate use.

The guide contains an introduction, followed by three sections and addenda. The introduction and first two sections outline the business case for fighting corruption in the supply chain, and provide a framework for customer-supplier engagement on these issues. These sections will be of interest to both strategic executives and to programme administrators and technical personnel. The final section and addenda offer detailed guidance on (i) common supply chain corruption scenarios; (ii) the hallmarks of an effective anti-corruption compliance programme; and (iii) a set of tools for fighting corruption. These sections are directed toward programme administrators and technical personnel.

### The Business Case

The global public is increasingly demanding transparency, accountability and trust in business. This is particularly true in the age of hyper-transparency and super-connectivity where business misconduct is identified and broadcast on a global basis within hours and even minutes of its discovery. The risk of corruption has taken center stage in the minds of

Boards of Directors, CEOs and business leaders who are concerned now more than ever about maintaining the sustainability of their business while protecting the reputation of their organizations. Indeed, reputation risk acts as an accelerator and amplifier of the underlying supply chain corruption risk. Leaders are increasingly aware of the dangers of reputation risk associated with such underlying risks and the importance of meeting stakeholder expectations concerning their mitigation and effective management.<sup>1</sup> These amplified concerns can only be effectively addressed if all stakeholders work together.

The very significant corruption risks in the supply chain include procurement fraud perpetrated by suppliers, often in league with the customer's own employees, and suppliers who engage in corrupt practices involving governments and other public actors. The direct costs of this corruption are considerable, but are often dwarfed by the indirect costs related to management time and resources dealing with the issues, such as legal liability and irreparable damage to a company's reputation with both tangible financial and intangible long-term stakeholder consequences. Firms that engage their supply chain through meaningful anti-corruption programmes can:

- Improve product quality
- Reduce fraud and related costs
- Enhance their reputations for honest business
- Build internal resilience to meet and manage inevitable crises
- Improve the environment for business
- Create a more sustainable platform for future growth

Suppliers will see parallel advantages from the fight against corruption. Those who engage honestly with their customers and with public actors benefit their own reputations, which is to their ultimate advantage.

1. Andrea Bonime-Blanc. *The Reputation Risk Handbook: Surviving and Thriving in the Age of Hyper-Transparency*. Oxford: DÖ Sustainability 2014.

## Customer-Supplier Engagement

### ASSESSING RISKS

Fighting corruption in the supply chain, like any business decision, requires an assessment of risks, a balancing of costs and benefits and tailoring the programme to fit the risk profile. To help with an assessment of these risks, the guide offers a series of questions with accompanying commentary and links to tools and resources. These questions concern the customer's own business and the steps it has taken to fight corruption; the supplier and the nature of its business and reputation; the nature of the engagement, including location and other risk factors; and the cost of corruption in the engagement.

### COOPERATION AND EDUCATION

In attempting to prevent corruption in the supply chain, it is important for customers to go beyond simply trying to dictate compliance and move toward comprehension and capacity building. Ideally, suppliers will adopt their own programmes and systems for preventing corruption. Suppliers should come to understand, if they do not already, why preventing corruption and doing business with integrity is in their interest. Customers should look for continuous improvement from suppliers. They should also try to educate suppliers and help them fix problems. At the same time, customers must be ready to terminate a relationship where necessary. When dealing with suppliers who are unsophisticated on these issues, customers should consider training supplier personnel in much the same way that they train their own employees.

### THE VALUE OF COLLECTIVE ACTION

Customers can expect a variety of responses from suppliers when confronted with customer expectations concerning control measures and education. Some suppliers may see these efforts as too costly. Customers must understand the true risks of corruption in each situation in order to determine the costs to impose on suppliers and themselves.

Many suppliers who provide goods and services to multiple large customers will have genuine difficulty with multiple standards and practices that may be inconsistent or, at a minimum, disruptive and redun-

dant. However, efficiencies can be achieved if customers are willing to accept training or auditing conducted by other customers, and if there is a standard code of conduct to which all customers agree. The path to this efficiency is Collective Action, particularly industry-specific and regional anti-corruption organizations.

### SYNERGY: INTEGRATING CORRUPTION CONTROLS WITH EXISTING SUPPLY CHAIN CONTROLS

MNCs typically are quite sophisticated about supply chain management. Unfortunately, in most organizations these efforts are poorly coordinated. A coordinated supply chain management effort can provide a clearer and more comprehensive understanding of the strengths and weaknesses of the supply chain. Information sharing across the organization will help ensure that each supplier is in compliance with all applicable standards. It is important to ensure supply chain integrity at every level, across departments and geographical borders. Supply chain integrity should be monitored through all aspects of a company's supply chain relationship. Ultimately, companies need to see supply chain management as a unified process with a common set of policies and practices that include corruption prevention as well as the more traditional elements of cost control, quality monitoring and logistics management.

### PRACTICAL GUIDANCE

This section of the guide addresses common supply chain corruption scenarios. The guidance is organized around a series of good practices. The discussion begins with general guidance then moves to a series of specific scenarios. In each section, guidance is organized into two major themes: how to prevent corruption and how to respond to corruption demands or acts of corruption when they occur.

### ADDENDA

The addenda contain a series of tools for fighting corruption in the supply chain:

- Resources
- Tools
- Sample Documents
- Supplier Education

## Introduction

Through the 10th Principle of the United Nations Global Compact, businesses around the world have committed themselves to “work against corruption in all its forms, including extortion and bribery.” (See accompanying side note — “The UN Global Compact 10th Principle.”) This guide is one such anti-corruption effort. It presents a framework for reducing corruption risk in the supply chain — the interaction between customers (the purchasers of goods and services) and suppliers (those who provide goods and services). To provide practical assistance, the guide contains a set of tools and case studies, as well as guidance for preventing and dealing with common supply chain corruption scenarios.

The global public is increasingly demanding transparency, accountability and integrity in business. This includes the supply chain.

Purchasers — particularly large MNCs — are increasingly being held responsible, both legally and in the court of public opinion, for the activities of their suppliers. As the news media regularly reports, the misdeeds of suppliers can directly affect a customer’s product and service quality. At the same time, suppliers— who may themselves be large MNCs, but in many instances are small- and medium-size enterprises (SMEs) — must attune themselves to the problems of corruption in order to protect their own products, services and reputations. Global business is vastly more complex than the simple act of selling a product or service to a consumer. Business is accomplished through the elaborate networks of the supply chain — the persons, entities and infrastructure that transform materials and human capital to intermediate and finished products and services for customers and consumers. The problem of corruption affects every busi-

ness in the supply chain, so all must work together to tackle this problem.

This guide to fighting corruption is intended for customers and suppliers. Indeed, virtually all businesses are both. Businesses of all sizes and scope should find helpful guidance and practical tools for dealing with corruption both among its suppliers and as a supplier. MNCs — with large, interconnected supply chains and greater resources—likely will find more here than is immediately of use.

For both customers and suppliers, this guide offers resources to:

- Reduce costs associated with corruption
- Reduce legal liability and risks to reputation
- Improve product and service quality
- Promote stable and long-term customer-supplier relations
- Promote free and open competition
- Promote economic development.

It is important to place this guide in context. For all companies, fighting corruption in the supply chain must be part of a larger anti-corruption programme that addresses corruption risks throughout the firm. This includes assessing corruption risks, establishing policies and procedures to control corruption, educating the workforce and business partners on the risks of corruption and monitoring and auditing for compliance. Ultimately, it means promoting a culture where corruption is simply unacceptable. (The UN Global Compact Anti-Corruption Tools Inventory, accessible at: <https://www.unglobalcompact.org/library/156>. It contains reference and links to several excellent sources of guidance on developing and implementing a complete anti-corruption programme.) Businesses should see this guide as one set of tools among a broader arsenal aligned against the corruption problem.

## The UN Global Compact 10th Principle

At the first UN Global Compact Leaders Summit on 24 June 2004, the UN Global Compact – the world’s largest corporate sustainability initiative – adopted a 10th Principle against corruption: “Businesses should work against corruption in all its forms, including extortion and bribery.” The adoption of the 10th Principle sent a strong worldwide signal that the private sector and other non-state-actors share responsibility for eliminating corruption and stand ready to play their part. The 10th Principle urges UN Global Compact participants not only to avoid bribery, extortion and other forms of corruption, but also to develop policies and concrete programmes to address it. Companies are challenged to join governments, UN agencies and civil society to realize a more transparent global economy.

The 10th Principle was the response of the business community and other non-state actors to the adoption of the United Nations Convention against Corruption. The UN General Assembly adopted the Convention in October 2003, and it entered into force on 14 December 2005. As of April 2015, more than 140 States (140 signatories; 176 parties) have ratified the Convention. As the sole global, legally binding anti-corruption instrument, the Convention provides a unique opportunity to prevent and fight corruption in both public and private sectors.

With this in mind, the UN Global Compact Leaders Summit in 2004 designated the UN Convention against Corruption as the underlying legal instrument for the new 10th Principle. Although the Convention is legally binding only on countries that have ratified it, its values and principles are applicable to the widest spectrum of society, including the business community. The principles enshrined in the Convention can serve as an inspirational tool for companies adopting or reviewing internal anti-corruption policies, strategies and management initiatives. For additional information on Article 12 (UN Global Compact’s Management Model and Risk Assessment Guide), see Tools.

Following adoption of the 10th Principle, the UN Global Compact established a multi-stakeholder working group to provide strategic input to the UN Global Compact’s work on anti-corruption and to define the needs of the business community in implementing the principle. The Working Group on the Implementation of the UN Global Compact’s 10th Principle also aims to contribute to greater coherence by supporting the alignment of existing initiatives and avoiding the duplication of efforts.

The Working Group has established several task forces to develop various tools and resources to help businesses achieve the goals of the 10th Principle. This guide is the result of one such effort.

### AGENTS AND CONSULTANTS

The focus of this guide is on the relationship between customers and traditional suppliers of goods and services, not on the use of agents or consultants who may be hired specifically to deal with governments to, for example, help secure government business or legislation. There are brief references to these relationships in this guide, but they raise very particular and serious risks of corruption beyond the scope of this document.

# Section 1

## The Business Case for Fighting Corruption in the Supply Chain

Corruption, broadly defined, is the single greatest obstacle to economic and social development around the world. Corruption distorts markets, stifles economic growth, debases democracy and undermines the rule of law, thus, contributing to conflict and instability. It has been estimated, for example, that the cost of corruption equals more than 5% of global GDP (US \$2.6 trillion), with over US \$1 trillion paid in bribes each year.

The risk of corruption in the supply chain has taken center stage on the minds of business leaders and boards of directors. Aside from the pervasive destruction that corruption visits upon world populations, it is imperative that businesses and leaders understand the adverse reputational impact that corruption can have on their organizations, institutions, brands and share price. In recent years, enforcement of anti-corruption laws has risen sharply, with improved cooperation among various governments and, in some cases, the imposition of massive fines against companies and prison sentences for offending corporate executives. In addition, international financial institutions and export credit agencies increasingly are barring or penalizing companies involved in corruption. Ultimately, corruption makes business far more costly by imposing extraordinary obstacles to growth and undermining shareholder value.

For a more complete discussion of these issues, see **Clean Business Is Good Business**, in the **Resources** Section.

### The Impact of Corruption in the Supply Chain

To fully appreciate the impact of corruption in the supply chain, one must first understand how it can manifest itself. Examples of corruption in the supply chain are:

- Procurement Fraud (sometimes with the assistance of one's own employees)
  - Kickbacks
  - Fraudulent billing
  - Various purchasing and sales schemes
  - Corrupt practices involving governments and other public actors
  - Suppliers who corruptly bypass health and safety requirements
  - Suppliers who evade legitimate law enforcement
  - Suppliers who avoid necessary licensing
  - Suppliers who pay bribes to customs officials or licensing authorities
  - Suppliers who pay bribes to government officials to bypass taxes

These corrupt practices have the potential of causing devastating harm to communities and societies whether via harmful product quality or deadly safety and environmental disasters.

The direct impact of this corruption in the supply chain, as significant as it is, often is dwarfed by the indirect impact of:

- Management time and resources addressing the issues
- Legal liability
- Damage to reputation

### What Customers Can Do

Recent emphasis on anti-corruption enforcement on a global scale — not only with renewed enforcement of the US Foreign Corrupt Practices Act, but also the adoption of anti-corruption legislation in the UK, Brazil, and Mexico, etc. — has brought business leaders to the realization that dealing with corruption should be a part of good supply chain management, generally. Moreover, customers (large MNCs) typically have in place very sophisticated supply chain management processes focused on such issues as supplier identification, cost control, logistics, and

supply quality. Therefore, it behooves these customers to integrate corruption risk into their day-to-day processes so that a typical supply chain management program includes, but is not limited to, the following:

- Supplier Principles
- Due Diligence
- Supplier Education
- Contract Enforcement
- Auditing
- Additional Anti-corruption controls

It is also important to note that customers can, under certain circumstances, be held liable for the corrupt acts that their suppliers commit on their behalf. Indeed, under the UK Bribery Act, this legal liability attaches whether or not the customer is aware of the supplier's corrupt conduct.

Engaging the supply chain about corruption can reap even greater benefits. Firms that engage their supply chain through meaningful anti-corruption programmes can:

- Improve product quality
- Reduce fraud and related costs
- Enhance their reputations for honest business
- Improve the environment for business
- Create a more sustainable platform for future growth

## The Supplier's Perspective

Suppliers will see parallel advantages from the fight against corruption. Suppliers that establish effective programmes to combat corruption in their organizations will improve product quality, reduce costs and avoid liability. These actions also will ease relationships with existing and new customers who will have more trust and feel less need to mandate their own standards and to insist on disruptive monitoring and enforcement activities. Perhaps most important, suppliers who engage honestly with their customers and with public actors enhance their reputations and obtain a competitive advantage by becoming the preferred supplier of choice of ethically concerned customers.

## The Value of Collective Action

Each firm's first priority in this area should be to prevent corruption in its own business and to engage suppliers directly on these issues.

But there is also much that businesses can do through Collective Action. Appropriately structured cooperation among purchasers can level the playing field for all, and help provide the necessary conditions for honest business. By adopting common supplier standards and monitoring procedures, customers can improve efficiency because suppliers will not face conflicting requirements. By acting together, customers also can improve their leverage in the fight against corruption because suppliers will not be able to reject tough standards from any single customer.

Cooperation among suppliers will also make the playing field fairer and more efficient. By adopting common standards and practices and monitoring compliance, suppliers can minimize and restrain those who may be tempted to act corruptly for short-term gain or quick profit.

For a useful compendium and framework on fighting corruption through "Collective Action", see the **Resource** Section.

### THE DEFINITION OF "CORRUPTION" AND THE UN GLOBAL COMPACT

Corruption often is defined as "the misuse of entrusted power for private gain." This convenient and short definition, encompassing myriad illegal and illicit acts, recognizes the breadth of the concept, but does not attempt to enumerate acts or precisely delimit their scope.

Therefore, the UN Convention against Corruption calls for ratifying States to outlaw, at a minimum:

- Bribery of public officials;
- Embezzlement;
- Trading in influence;
- Abuse of function;
- Illicit enrichment by public officials;
- Bribery and embezzlement in the private sector;
- Money laundering; and
- Obstruction of justice.

However, it is also important to note that each Member State is free to go beyond the minimum standards set forth in the Convention.

These corrupt actions are spelled out under the chapter of the Convention devoted to criminalization and law enforcement, which explains that corruption is a crime that is wider than bribery and extortion. In accordance with this approach, the 10th Principle of the UN Global Compact calls for companies to work against corruption in all its forms, including extortion and bribery.

# Section 2

## Customer-Supplier Engagement

Preventing corruption in the supply chain requires a clear-headed view of the hazards and a strategic approach to engaging suppliers. The task begins with an assessment of risks.

### Assessing Risk

The overall process of assessing the likelihood of fraud and corruption in the supply chain is complex, and it should be noted that not all customer-supplier relationships present the same level of risk. For example, buying office supplies from a large office supply chain in a developed country presents very different risks and necessitates a different level of controls than the purchase of key food ingredients from a medium-sized supplier in a developing country. Fighting corruption in the supply chain, like any business decision, requires an assessment of risks, a balancing of costs and benefits and tailoring the programme to fit the risk profile.

### Questions about the Customer's Business

An assessment of corruption risk should begin with an appraisal of what internal controls the business already has in place to fight corruption. A business that does not take adequate care to prevent corruption is in a poor position to make such demands of its suppliers.

### Questions the Customer Should Ask About the Supplier

The risk of corruption is unique to the particular business, and the level of corruption risk presented by any given supplier will vary in relation to a number of variables, such as the size of the supplier, its geographic location, the nature of the goods and services, etc.

#### KEY QUESTIONS THE CUSTOMER SHOULD ASK ABOUT ITS OWN BUSINESS

- What internal controls are in place to prevent, detect, and respond to internal fraud?
- What internal controls are in place to prevent, detect, and respond to procurement fraud, including cash and petty cash management?
- What due diligence processes are in place for vetting suppliers for potential conflicts of interest?
- What internal controls are in place to prevent, detect, and respond to supplier fraud?
- What mechanisms are in place to monitor suppliers?
- What internal controls are in place to monitor spending limits and documentation review, including multiple levels of management review?
- Do you have contractual audit or inspection rights?
- If yes, do you exercise these rights? How effective are they?
- Does the overall anti-corruption programme meet applicable standards?

*See section 3 for additional guidance*

## KEY QUESTIONS THE CUSTOMER SHOULD ASK ABOUT THE SUPPLIER

- How large is the supplier?
- Where is the supplier located?
- What are the goods or services to be produced/delivered?
- What are the corruption risks in these locations?
- What is the supplier's reputation for integrity and ethical conduct?
- How was the supplier identified?
  - Through a trusted source?
  - Through use of a pre-qualification or certification service?
  - Is the supplier a friend or relative of an employee?
- What controls does the supplier have in place to prevent corruption?

*See section 3 for additional guidance*

## KEY QUESTIONS ABOUT THE ENGAGEMENT

- What is the nature of the goods or services to be supplied?
- What is the size of the contract?
- What is the importance of the contract to the supplier's business?
  - What is the likelihood of kickbacks?
  - What is the likelihood of procurement fraud?
- Does the engagement require multiple invoices and payments over time, such as for construction work?
- What are the possible points of contact with government corruption?
  - Is the supplier subject to government inspection?
  - Does the supplier require government licensing?
  - Are the goods subject to VAT or other taxation?
  - Is the supplier responsible for dealing with customs officials?
- Is the supplier being engaged as an agent specifically to deal with the government, for example, to obtain licenses or permits or to deal with customs or tariffs?
- What is the supplier's relationship to the government?
  - Is the supplier government-owned?
  - Does the supplier have a family relationship to a government official?

*See section 3 for additional guidance*

## KEY QUESTIONS REGARDING THE IMPACT OF CORRUPTION IN THE ENGAGEMENT

- How costly would supply chain disruption be if the supplier engaged in corruption?
- What are the operational risks of such disruption?
- What are the risks to a company's reputation if such disruption occurs?
- What are the possible remedies if there is a problem with the supplier?
- How will you control the damage in each case?
- Do you have alternative sources of supply?
  - How many alternative suppliers are there?
  - Is this a "strategic supplier"?
  - Who has the leverage in the relationship?
- If commercial claims, regulatory investigations or charges are brought against the customer because of its supplier's corrupt activities, are there additional consequences?

*See section 3 for additional guidance*

## What Customers Can Expect

### THE IMPORTANCE OF COOPERATION

In attempting to prevent corruption in the supply chain, it is important for customers to go beyond simply trying to dictate conformity, and move toward comprehension and capacity building. In many instances, the customer will not have the leverage to mandate compliance in any event, and taking advantage of your customer or supplier is not in either party's long-term interest, even if the immediate deal is attractive. The key is to build trust and a common vision.

Ideally, suppliers will adopt their own programmes and systems for preventing corruption. Suppliers should come to understand, if they do not already, why preventing corruption and doing business with integrity is in their interest. Clean business is good business for the supplier — which is looking for other customers and who likely is a customer itself — not just a contract term that a particular customer is demanding.

Customers should look for continuous improvement from suppliers; they should educate them and work together to fix problems. At the same time, customers must be ready to terminate a relationship where necessary. It is worth noting again, to minimize the potential disruption from a termination decision, customers must evaluate their suppliers to the extent possible prior to entering into a relationship.

To be meaningful and effective, anti-corruption measures must be credible, and not simply boilerplate in a contract. Where there is significant risk of corruption, doing business with integrity must be emphasized as critical to the engagement from the outset.

### SUPPLIER EDUCATION

Customers should consider training supplier personnel in much the same way that they train their own employees. Many MNCs have sophisticated programmes for preventing human rights and labour abuses in the supply chain and train suppliers on programme requirements. Most of these same companies have written policies against corruption in the supply chain and many have adopted supplier codes of conduct. Indeed, with the increase in anti-corruption enforcement activities, many MNCs are now, routinely, providing supplier education in the area of anti-corruption.

Supplier education can come in many forms and will be dependent upon the risks and costs involved. Face-to-face interaction, which provides opportunity for supplier personnel to ask questions and provide feedback, is preferable, but when in-person training is not cost-effective or practical, web-based training is a useful alternative. Additionally, leaflets and handouts may be useful in many cases. However it is done, it is important to help suppliers understand the consequences of corruption.

To maximize efficiency when dealing with many suppliers who may need such training, and to help level the playing field, customers may consider bringing key personnel from multiple suppliers together for joint education sessions. Ultimately, suppliers should run their own education programmes for their employees.

For additional information regarding supplier education, please see “Supplier Education” in the **Addenda**.

## RESPONDING TO SUPPLIER OBJECTIONS

It is important that customers understand the true risks of corruption in each situation in determining the costs to impose on suppliers and themselves. Many suppliers who provide goods and services to multiple large customers will have genuine difficulty with multiple standards and practices that may be inconsistent or, at a minimum, disruptive and redundant. They may object to having to sign on to several standards of conduct. They may be asked to attend training from multiple customers, or may face audits and other monitoring activities from many customers. These are legitimate concerns to which customers must be sensitive and willing to engage.

Efficiencies can be achieved, for example, if customers are willing to accept training or auditing conducted by other customers, and if there is a standard code of conduct to which all customers agree. The path to this efficiency is “Collective Action” and is particularly effective for industry-specific and regional anti-corruption organizations.

For additional efficiencies in supplier training or auditing, please see the **Resources** Section.

There is great value to standard contract language for all suppliers; however, supplier requests to modify, or be excused from, contractual terms and codes of conduct should be carefully considered within the context of the customer’s own supplier risk assessment. Indeed, objection to anti-corruption contractual provisions may be a red flag that the supplier is a particularly high risk for corruption. Nonetheless, many suppliers will have their own codes, and it may be possible to allow their language to stand in for the customer’s if the customer is otherwise confident about

the supplier. One indication that a supplier takes fighting corruption seriously is if it is a signatory to the UN Global Compact.

## A HOLISTIC APPROACH TO SUPPLY CHAIN MANAGEMENT

MNCs typically are quite sophisticated about supply chain management. This includes complex systems and programmes for supplier selection, cost control/oversight, logistics management, inventory control and quality assurance. Many MNCs also have robust programmes for dealing with human rights, labour and environmental issues among suppliers.

In recent years, more emphasis on the part of MNCs has been placed on risk-ranking its suppliers in a manner that is coordinated with the organization’s risk assessment. Just as companies take into consideration the variables that inform their compliance risk assessments (e.g., size of the business, location of operations, products and services, business strategy, etc.), so too do they analyze the variables that help inform which suppliers may present a higher corruption risk than others (e.g., geographic location, reputation of the business, products and services, etc.). To assist in this analysis, many companies utilize a “risk matrix” that ranks suppliers in accordance with the level of corruption risk that they pose for the customer. Once the supplier is ranked, the customer then applies an appropriate level of vigilance and due diligence, accordingly.

For a sample Risk Matrix, please see the **Sample Documents** Section.

It is important to note here that organizations have adopted comprehensive, well-coordinated and integrated approaches to supply chain management. Instead of poorly coordinated, separate groups within the organization, with little connection to one another, recent developments among MNCs include a more unified, holistic and integrated approach, relying on risk assessment outcomes that dictate the appropriate levels of due diligence with respect to specific companies in the supply chain.

For example, a coordinated supply chain management effort can provide a clearer and more comprehensive understanding of the strengths and weaknesses of the supply

chain, reduce control redundancies and support unified compliance reporting. Assessing suppliers outside of, or across, departments enables the organization to better identify those suppliers who might excel in some areas but fail to meet minimum standards in others. Information sharing across the organization will ensure that each supplier is more efficiently managed for compliance against all applicable standards. MNCs that free themselves from the segregated management framework will realize the synergies of cost savings and improved supply chain performance as a result. Most organizations can become more efficient in their supply chain management by implementing common risk assessment processes, common information systems and the increasing use of automation.

Coordinated Supply Chain Management includes communication and cooperation amongst:

- Procurement (including sourcing, selection, tenders, bidding)
- Quality
- Legal
- Operations (including logistics management, inventory control)
- Audit (including cost control, oversight)
- Contract Management
- Human rights or CSR
- EH&S
- Human Resources

Ensuring supply chain integrity is a commitment that must be undertaken at every level, across departments and borders. Supply chain integrity should be monitored through all aspects of a company's supply chain relationship. In a typical MNC, supply chain professionals engage in evaluation and control at each stage of the supply chain

process from initial sourcing through post-performance supplier evaluation, but often do not attend to the corruption risk inherent in various mileposts. Corruption risks, including kickbacks and other forms of procurement fraud, as well as bribery and other forms of government-related corruption, are particularly great:

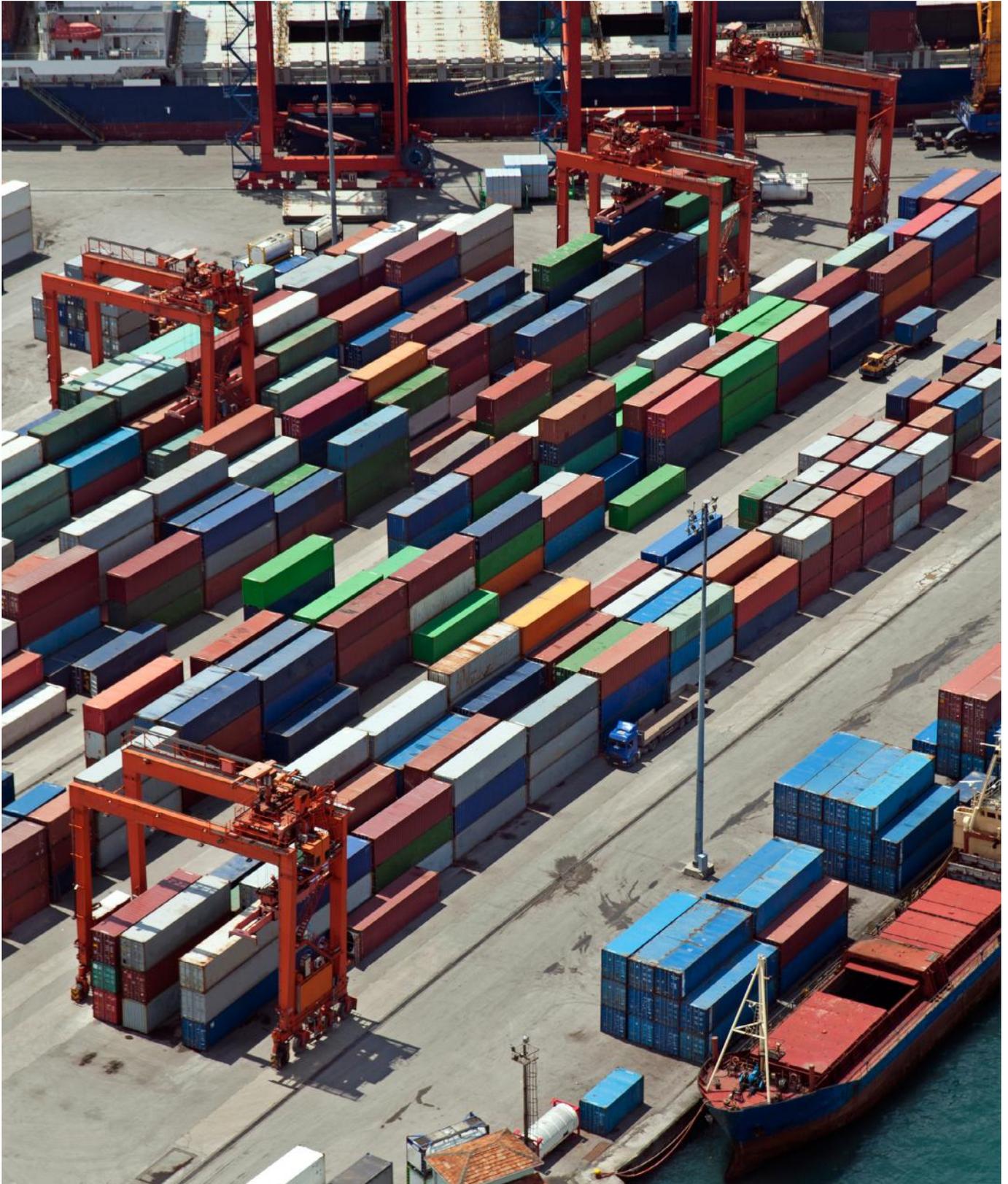
- When companies are evaluating suppliers and offers
- When creating and managing contracts
- When approving contract performance

Suppliers will face heightened temptation and pressure to act corruptly:

- When responding to a tender
- When sourcing materials
- When in production

A commitment to ensure the ethical practices of the supply chain requires a company-wide effort to root out corruption at all stages.

Ultimately, companies need to see supply chain management as a unified process with a common set of policies and practices that include corruption prevention as well as the more traditional elements of cost control, quality monitoring and logistics management.



# Section 3

## Practical Guidance on Preventing and Responding to Corruption in the Supply Chain

In this section of the guide, we present practical guidance on confronting common supply chain corruption scenarios.

The guidance is organized around a series of good practices specific to particular corruption scenarios. Not all practices will be applicable to all companies. Each scenario addresses the appropriate response to the corruption demands or acts of corruption when they occur.

We close this section with general guidance on anti-corruption practices related to the supply chain, specifically, as well as the hallmarks of an effective anti-corruption compliance programme, generally.

This entire section is designed to parallel RESIST (Resisting Extortion and Solicitation in International Transactions), a tool jointly developed by the International Chamber of Commerce, Transparency International, the UN Global Compact, and the World Economic Forum, available at <https://www.unglobalcompact.org/library/157>. We have copied directly much of the general guidance available in RESIST, modifying and adding guidance related to the supply chain, and making reference to the model tools that accompany this guide. As with RESIST, the guidance in this section may be used as a training tool for employees who are exposed to the relevant risks.

### General Guidance on Anti-Corruption Practice Related to the Supply Chain

#### CORRUPTION PREVENTION: HOW TO REDUCE THE PROBABILITY OF CORRUPTION OCCURRING

##### General Company Anti-Corruption Policies

- Implement and enforce a publicly-available company-wide code of conduct, including a zero tolerance anti-corruption policy
  - The code of conduct should address the corruption issue as a whole. The company should provide specific examples so that employees can learn how to respond to common corruption scenarios. Some companies provide a separate “anti-corruption handbook” for guidance, while others include examples right in the code
- Recruit, hire, develop and promote employees whose ethical values are consistent with the company’s values. Provide additional screening for employees with higher corruption-risk exposure (e.g., procurement, sales, meeting planners, etc.)
- Require employees to acknowledge understanding of and compliance with the code of conduct
- Set up clear company anti-corruption directives and related sanctions for non-compliance
- Establish and promote reporting mechanisms and encourage reporting of suspected bribery and other unethical business practices by the company and its suppliers and other business partners
- Establish initiatives that promote a culture of ethics and accountability

- Create an environment where employees feel safe speaking up without fear of retaliation
- Establish a reputation for zero tolerance for bribes by publicizing anti-corruption efforts
- Provide training to all relevant personnel on anti-corruption laws and policies, the consequences of bribery and corruption for the company and employee, how to respond to such demands and how to report such demands
  - Emphasize the possibility of criminal prosecution and the damage to reputation, for both the company and exposed employees
- Send regular reminders to exposed employees
- Provide competitive remuneration for employees at risk to reduce incentive to demand or accept kickbacks
- Provide periodic reports to senior management and the board on the status of the company's anti-corruption programme, including training initiatives, targeted supplier audits, possible red flags, reports of suspected bribery, etc.
- Train and discuss anti-corruption policies with personnel involved in purchasing and bidding processes before the start of the project (if possible):
  - Identify and openly address incentives to accept kickbacks or pay bribes
  - Train employees on the consequences of corruption (legal, financial, damage to reputation, etc.)
  - Train employees on standard bidding procedures and rules of interaction with suppliers and customers
  - Prepare employee guidance on how to respond to corruption demands, incorporating cultural, industry and function specific advice
  - Consider providing employees with appropriate incentives for reporting corruption demands
- Perform background checks on personnel involved in purchasing and bidding, including potential conflicts of interest, while respecting legal considerations and privacy rights
- Before, during and after the bidding process, prohibit or strictly regulate gifts, entertainment, sponsorship and donation activity
  - Establish thresholds appropriate to the local environment
  - Make it known that there is zero tolerance for parties directly or indirectly involved in the purchasing or bidding process

For more information on promoting a culture of “ethics and accountability” please see the Resources Section.

### Specific Policies for Company Representatives Involved in Purchasing and Bidding Processes

- Establish clear rules and procedures for selecting a supplier. General selection criteria should include objective requirements on costs, performance, transparency and integrity of the supplier such as:
  - Opening the tender to more than one supplier
  - Guidelines for the assessment of supplier bids, including: pricing, quality, logistics, financial standing, and qualifications of the supplier
  - Rules for establishing “preferred supplier” relationships that award large quantities to one supplier
  - Open bidding whenever possible
  - Compulsory review of supplier bids by a team of customer employees
  - Multiple levels of authorization, depending on the value of the contract
- Establish clear rules and procedures for acceptance of goods
  - Goods must strictly conform with contract specifications, with deviations accepted only through a written confirmation from customer employees
  - Acceptance of goods should require sign off from more than one customer employee, and should include an employee who was not involved in placing the order
  - Contract managers must maintain a professional relationship with supplier employees and avoid excessive familiarity
- Train relevant employees on rules and procedures for acceptance of goods
- Always operate as a team consisting of at least two employees, and do not meet with suppliers alone at key contract milestones

### Risk Assessment and Due Diligence

- Implement a process to evaluate corruption risk prior to entering into a customer-supplier relationship
  - Assess the risk that your potential business partner will engage in corruption
  - Assess the corruption risks of the particular purchase or sale, including cultural, industry and geography risks, as well as points of contact with possible government corruption
  - Gather relevant information from major enterprises, embassies, export credit agencies, banks and trade associations in order to make an informed decision and understand the business practices of the country in question
  - Consider the legal framework and implementation of existing anti-corruption policies and laws, as well as whether the country has signed and/or ratified the United Nations Convention against Corruption
  - Consult country profiles found on online tools such as [www.business-anti-corruption.com](http://www.business-anti-corruption.com)
  - Consider the worst-case scenario and various strategies that could potentially be deployed
- Perform due diligence on suppliers, customers and intermediaries involved in bids
  - Identify “red flags,” such as a reputation for corruption, family relationship with government officials, no registered office and refusal to reveal owners
  - Gather information from relevant embassies, chambers of commerce and trade associations, national anti-corruption bodies, third-party information providers and other companies
  - Do not establish business relationships with suppliers and customers that do not meet your standards
- Consider the presence of competing suppliers before entering a market or establishing a geographic supply chain
  - Where there is only one acceptable supplier in a region, or suppliers have reputation for corruption, explore alternative suppliers in other regions

### Additional Controls for Purchasing and Bidding

- Audit purchasing and bidding processes
  - Define an audit plan specific for the purchasing and bidding processes
  - Analyze contracts and contract process documents for gaps, inconsistencies and unusual transactions
- Review payments involving heightened risk
  - Pay special attention to agents, consultants and advisers used in the bidding process
  - Carefully review payments to bank accounts with financial institutions outside the project location and to tax havens or to countries maintaining banking secrecy above average standards
  - Scrutinize expenses of purchasing and bidding employees
- Implement a regular, independent internal monitoring function
  - Make sure a senior executive reviews high-risk payments to agents, consultants or financial institutions outside of the project location
  - Designate responsibility for regular, timely and detailed review of purchasing and bidding process documentation
- Use anti-corruption technology to increase monitoring effectiveness
- Use continuous control monitoring to identify higher risk transactions such as a large concentration of orders to the same supplier, large variations in item contract price within the same industry or with contracts prepared by other procurement managers
- Implement automated segregation of duties in the purchasing and bidding processes
- Limit authority for purchasing decisions
- Regularly rotate procurement manager assignments
- Regularly review the control matrix in the purchasing and bidding processes

### Supplier Management and Control Processes

- Customers should establish a code of conduct for suppliers, including expectations about corruption
  - Include provisions about bribery, kickbacks, conflicts of interest, gifts and entertainment and accuracy of business records
  - Require suppliers to agree in writing to abide by the code of conduct or to an equivalent code of its own
- Ensure that supplier personnel receive training on anti-corruption laws and policies, the consequences of bribery and corruption for the supplier and employees, how to respond to corruption demands and how to report such demands (See “Anti-Corruption Education and Communication for Suppliers” in the Addenda to this guide)
  - Emphasize the risk of criminal prosecution and damage to reputation for the supplier and for the exposed employees
  - Training may be provided by the supplier to its employees, by the customer or by a third-party such as an industry organization
- Monitor supplier anti-corruption efforts through questionnaires and audits (See “Supplier Questionnaire” in the Addenda to this guide)
  - Include questions about the state of the supplier’s anti-corruption policies, training and oversight
  - If practical, conduct regular on-site anti-corruption audits, perhaps in conjunction with quality audit visits; In the alternative, conduct an audit in any supplier that provides cause for concern.
  - Prioritize audits based on questionnaire results and other risk factors
  - Third-party auditors may conduct audits, perhaps in conjunction with audits related to human rights, labour policy, environment and other UN Global Compact principles
  - Ensure corrective action/remediation of risks discovered through questionnaires and audits
- Monitor supplier performance throughout the duration of the contract and look for signs of corrupt behaviour

### Contractual Precautions

- Include anti-corruption provisions in contracts with suppliers
  - Supplier agrees to abide by all applicable anti-corruption laws
  - Supplier agrees to abide by the customer’s code of conduct for suppliers or its equivalent
  - Supplier agrees to audits of its anti-corruption efforts and to submitting additional documents if necessary
- Supplier contracts should specify who is accountable for corruption-related liabilities
- If the supply contract includes requirements and penalties related to timely performance, the contract should exclude liability delays resulting from bribery demands from relevant government (e.g., customs) officials and require immediate reporting of such demands to customer

### Collective Action

- Work with other customers, suppliers, non-governmental organizations (NGOs), industry organizations, high ranking competent government officials and trade unions to build an empowered legal system that will enforce anti-corruption laws
- Work with industry associations and NGOs to establish
  - Mechanisms for common supplier anti-corruption training
  - Common supplier anti-corruption audit standards and mechanisms for common supplier anti-corruption auditing
  - The exchange of information about supplier anti-corruption practices and acts of corruption

For more information on “Collective Action,” please see the **Resources** Section.

## **CORRUPTION RESPONSE: HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS**

### **Immediate Response**

- Take time to think about the situation
- Seek guidance from responsible personnel before responding if possible
- Refuse, politely, the first request and emphasize the company's business principles. If the request is repeated, explain that accepting such a payment would violate the company's business principles and may violate applicable laws and could lead to the dismissal and criminal prosecution of the employee concerned
- Explain that the solicitation (direct or indirect) must be made in writing and needs to be reported to management

### **Document and Report Internally**

- Make a record of the relevant interaction
- Report, immediately, to management or the appropriate officer responsible for matters involving the code of conduct (e.g., compliance officer) and define an appropriate strategy

### **Investigate and Take Corrective Action**

- Establish a process to investigate potential issues of corruption, including a disciplinary body with authority to eliminate a supplier or customer relationship and take corrective action against employees who engage in corruption
- Investigate, perhaps in conjunction with supplier or customer management, whether the solicitation or act of corruption was an isolated incident or indicative of a systemic practice
- Develop a strategy to promptly assess possible legal, operational and reputational risks arising from the act of corruption
  - Conduct an independent audit to assess any actual risks to product or consumer health and safety that may result
  - Ensure that product recall and other contingency plans are up-to-date
- Investigate the entire engagement as well as past deals with the same supplier or customer
- Include legal, operational and risk management specialists

- Discipline all employees involved in acts of corruption, which in some cases may mean terminating employment
- Retrain relevant employees on policies against corruption, and the possible sanctions for non-compliance
- Critique due diligence and supplier auditing frameworks to determine whether any red flags may have been overlooked
- Identify opportunities for improvement in various controls and implement
- Review and improve supplier training
- Retain investigation results and document corrective action for both legal implications and future risk assessment
- Upon conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, etc.)

### **Discuss with Legitimate Representative of Supplier or Customer**

- Report the solicitation to the appropriate level of the supplier or customer's organization
- Convene a meeting of all parties and discuss potential challenges to a successful contract without specifying too many details, which should serve as a deterrent to the guilty party

### **If Suspicions are Substantiated, Consider External Disclosure to:**

- Government agencies charged with fighting corruption
- Trade associations and other industry initiatives:
  - Report solicitation in a collective manner to relevant authorities
  - Expose corrupt organizations to other companies
- Embassy or consulate representing home country to seek guidance and support
- Financing institutions, if any export credit financing or coverage is proposed
- Regulators
  - There may be a legal obligation to report corruption to a regulatory agency in the home or host country, but even if there is no legal obligation, disclosure may be the best course to minimize adverse effects
- Media/NGOs

### Eliminate Supplier from Consideration / Terminate Contract

- In a bidding process, eliminate from consideration any supplier who attempts to bribe or offer kickbacks, and increase scrutiny of the bidding process
- If corruption is detected in an ongoing contract, calculate the costs associated with exercising the termination clause in the supplier agreement
  - Consider sourcing and screening alternative suppliers to minimize interruptions to the supply chain in the event a supplier relationship is terminated

## Guidance on Anti-Corruption Practice Related to Specific Supply Chain Corruption Scenarios

Following is a series of supply chain corruption scenarios with guidance on how to respond to corruption in each case. This is not an exhaustive list and is not meant as definitive guidance, but it addresses some of the most common supply chain corruption scenarios.

The scenarios are organized into three groupings, reflecting categories of supply chain activity:

- Corruption During the Vendor Selection Process
- Corruption During Contract Performance
- Corruption Involving Bribery of Government Officials or Other Third Parties

## Corruption During the Vendor Selection Process

### Scenario 1: Procurement manager demands kickback from supplier to secure contract or provide inside information on bidding process.

**Description:** During a solicitation for bids, a procurement manager approaches one of the potential suppliers and offers to secure the contract in exchange for a payment (“kickback”). What should the Supplier do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

- Supplier should refuse to make the corrupt payment on the grounds that such payment violates the business principles of the company and may violate applicable laws, and could lead to dismissal and criminal prosecution.

*What more should a prudent supplier do? Please consult “Practical Guidance” (Section 3 of this Guide) for additional information*

### Scenario 2: Supplier offers kickback to procurement manager to secure contract or provide inside information on bidding process.

**Description:** A customer regularly receives bids for raw materials from multiple overseas suppliers. Prior to submitting its bid, one of the suppliers offers a kickback to one of the customer’s procurement managers, asking for information on bids already submitted by other suppliers. What should the Customer’s procurement manager do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

- The procurement manager should refuse the corrupt payment on the grounds that it violates the business principles of the company, may violate applicable laws and could lead to dismissal and criminal prosecution

*What more should a prudent customer do? Please consult “Practical Guidance” (Section 3 of this Guide) for additional information*

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### Scenario 3: Supplier offers gifts or entertainment to procurement manager.

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**Description:** During a solicitation for bids, one of the potential suppliers offers the procurement manager a gift. What should the procurement manager do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

- The procurement manager should politely refuse the gift and explain that such gifts violate the customer's code of conduct and could create the appearance of corrupt influence

*What more should a prudent customer do? Please consult "Practical Guidance" (Section 3 of this Guide) for additional information*

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### Scenario 4: Procurement manager selects supplier because of personal/family relationship.

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**Description:** Following a review of supplier bids, a procurement manager awards the contract to a supplier owned by his brother-in-law, ignoring other bidders. What should the customer do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

The customer should investigate whether contract award was based on legitimate criteria or influenced by a family relationship:

- Assign investigators to review all bids and interview the procurement manager
- Review previous contracts approved by the procurement manager and previous contracts awarded to the supplier
- If there has been a selection for personal/family reasons:
  - Terminate the contract and re-open the tender(s)
  - Preclude the supplier from future contracts

*What more should a prudent customer do? Please consult "Practical Guidance" (Section 3 of this Guide) for additional information*

## Corruption During Contract Performance

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### Scenario 5: Monopoly supplier demands that purchaser pay bribe or kickback to secure goods or services.

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**Description:** A company is sourcing a critical component in country X, and it appears that there is only one supplier in country that can provide the component with sufficient quality and reliability. Other companies purchase the same component from this supplier. As a result, the demand may exceed the supplier's ability to produce the component. During a meeting with a company procurement manager, the supplier's representative accompanies the manager to a local shopping mall and suggests that purchasing expensive watches for the supplier's representative and his wife would guarantee the company an adequate supply of the component. What should the customer do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

The customer should say no politely to the first request and emphasize the company's business principles. If the request is repeated, explain that any solicitation violates the company's business principles and may violate applicable laws and could lead to the dismissal and criminal prosecution of the employee concerned.

- Record the interaction and report it to company management or the appropriate officer responsible for matters involving the code of conduct
- Determine with company management whether or not to continue with this supplier. If yes, then work with company management to apply the appropriate "risk-ranking" to this supplier, and to implement additional monitoring/auditing of this supplier
- Go back to the supplier representative with at least one witness and reaffirm willingness to sign a contract and ignore the solicitation

- If the solicitation is reiterated, inform the representative that this business practice is not acceptable and could expose all the parties (individual or company) to prosecution not only in the country where the deal occurs but also in other countries with competent jurisdiction
- Report the solicitation to the appropriate level of the supplier's organization
- Source the component from another supplier outside the region
- Report the solicitation to the appropriate government agency, perhaps through an industry trade association

*What more should a prudent customer do? Please consult "Practical Guidance" (Section 3 of this Guide) for additional information*

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### Scenario 6: Supplier submits false invoice for work done or employee work hours.

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**Description:** A company outsources certain production to a supplier. The unit price the customer pays is based on a combination of production cost and a predetermined margin for the supplier. Because production cost is dependent on the hours worked by the relevant supplier operators, the contract requires that the supplier inform the customer of actual work hours. The customer receives an invoice from the supplier that contains inconsistencies in reported work hours. A thorough examination of the invoice reveals that the supplier may have inflated work hours. What should the customer do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

The customer should investigate, perhaps in conjunction with supplier management, whether inaccuracies in the invoice were inadvertent or intentional, and if intentional, whether an isolated incident or a systemic practice:

- Review pay slips, ledgers, etc.
- Interview supplier managers or supervisors to verify work hours. (Note that operator work hours can be calculated

differently from country to country. It is also possible that extra work hours have resulted from necessary arrangements made after a shutdown of manufacturing equipment due to nation-wide holidays.)

- Review all prior invoices from supplier for similar inaccuracies
- If the supplier intentionally overbilled and the incident was isolated, the customer should warn the supplier that any future incident will result in contract termination
- If the supplier intentionally overbilled and the practice is systemic, the customer should terminate contract and bar supplier from future contracts

*What more should a prudent customer do? Please consult "Practical Guidance" (Section 3 of this Guide) for additional information*

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## Corruption Involving Bribery of Government Officials or Other Third Parties

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### Scenario 7: Customer learns of corrupt payment by a distributor to government official

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**Description:** A major drug manufacturer retains a company in Country x for the purposes of distributing its drugs to the local market. The drug manufacturer learns (from expense reporting) that the local company has, on several occasions, engaged Country X's Minister of Health in lavish incidents of hospitality. During the same time frame, the customer receives news that its blockbuster product has been approved by the Ministry of Health for inclusion on the local government hospital formulary. What should the customer do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

Customer should immediately investigate the circumstances surrounding the approval of its blockbuster drug by the local Ministry of Health in order to determine if there is any potential relationship between the hospital-

ity provided by the manufacturer's distributor and the actual inclusion of the drug on the hospital formulary. If such a connection is present, customer should:

- Review its distribution agreement for potential termination provisions;
- Terminate the agreement; and
- Consider possible disclosure to government authorities

*What more should a prudent customer do? Please consult "Practical Guidance" (Section 3 of this Guide) for additional information*

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### **Scenario 8: Customs official demands bribe from supplier to speed goods through customs or to pass nonconforming goods through customs.**

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**Description:** A supplier produces widgets for a customer. The contract specifies certain deadlines by which the widgets must be delivered, and imposes substantial penalties for late delivery. The supplier orders certain component parts for the widgets from outside the country. These parts arrive in port, but are held up in customs, where a local customs official demands a payment from the supplier before he will release the goods. The supplier will incur significant penalties under the contract with its customer if the parts are not received immediately for the production of widgets. What should the supplier do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

The supplier should refuse to pay the bribe, explaining that it violates the business principles of the company.

- Make a record of the relevant interaction
- Immediately report to supplier management or the appropriate officer responsible for matters involving the code of conduct
- Return to the customs official with at least one witness and explain that the supplier would like the goods released if they are in compliance with customs regulations, otherwise the official should indicate spe-

cifically what is not in compliance and the supplier will correct the problem

- If the bribery demand is reiterated, inform the customs official that this practice is not acceptable
- Notify the customer that delivery may be delayed as a result of the bribery demand from the customs official, and work with the customer to find a solution
- Try to determine whether the demand for the bribe is endemic to the customs office, or merely the conduct of a rogue official
  - If it is a rogue official, report the incident to the official's superiors

*What more should a prudent supplier do? Please consult "Practical Guidance" (Section 3 of this Guide) for additional information*

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### **Scenario 9: Supplier bribes government official to pass health and safety inspections.**

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**Description:** A manufacturer of food products receives ingredients from a supplier. The supplier is subject to inspection by the local health department. During the inspection the local health official informs the supplier that some of its perishable items are beyond their expiration date and may not be used as ingredients in food products for public consumption. A supplier employee pays the inspector a bribe to ignore the problem, and the supplier ships the ingredients to the customer. A supplier employee who witnessed the bribe calls the customer's reporting hotline and informs the customer of the bribe and the shipment of the ingredients. What should the customer do?

**Response:** HOW TO REACT IF A CORRUPT DEMAND IS MADE OR CORRUPTION OCCURS

The customer should stop use of the ingredients and promptly assess all legal, operational, and reputational risks and remedies:

- Conduct an independent audit to assess any actual risks to product or consumer health and safety
- Ensure that the product recall and other contingency plans are up-to-date



- Notify the supplier that the customer is not accepting the ingredients because of the bribe and that the supplier must cooperate in a complete investigation of the matter, and if necessary, assist in notifying the authorities
- Investigate, in conjunction with supplier management, whether the bribe was an isolated incident or indicative of a systemic practice
  - Carefully review records of all prior shipments from the supplier
  - Interview the supplier personnel and review supplier records
  - If an isolated incident, inform the supplier that any additional incidents will result in termination of the contract
  - If a systematic practice, terminate the contract and bar the supplier from further contracts
- Inform the health inspector's supervisor of the incident
- Consider that there may be an obligation to disclose to various other authorities, including the customer's home country's anti-corruption authority and health/safety authorities of countries where non-compliant products may have been distributed or sold

*What more should a prudent customer do?  
Please consult "Practical Guidance" (Section 3 of  
this Guide) for additional information*

## Practical Guidance on Preventing and Responding to Corruption in the Supply Chain:

*What More Should Prudent Suppliers and Customers do?*

### WHAT MORE SHOULD PRUDENT SUPPLIERS DO?

#### [AS RECIPIENT OF A CORRUPT OFFER OF PAYMENT]

- Make a record of the relevant interaction
- Immediately report offers of kickbacks to supplier management
- Immediately report offers of kickbacks to customer's organization
- Work through industry initiatives to communicate bribery demands and other corruption
- Expose known corrupt organizations to national anti-corruption bodies
- Consider reporting solicitation to media and NGOs

#### [AS PROVIDER OF A CORRUPT OFFER OF PAYMENT]

- Investigate corrupt payment offers, possibly in conjunction with the customer
- Discipline all employees involved in acts of corruption and if necessary, terminate employment
- Notify the customer of corrective action taken
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, re-view processes, etc.)
- Retrain relevant employees on policies against corruption, conflicts of interest, or other relevant policies, including changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance

#### [AS THE TARGET OF A CORRUPT REQUEST FOR PAYMENT (BY GOVERNMENT OFFICIAL)]

- Make a record of the relevant interaction
- Immediately report to supplier management or the appropriate officer responsible for matters involving the code of conduct
- If it is systemic corruption, report the incident to a national anti-corruption body
- Consider external reporting, perhaps in conjunction with the customer, to:
  - [www.bribeLine.com](http://www.bribeLine.com)
  - The relevant embassy or consulate to seek guidance and support
  - Industry and trade associations to discuss what strategies others used to combat such corruption, and to discuss Collective Action
  - Media and NGOs to leverage public scrutiny of corruption-related activities

## WHAT MORE SHOULD PRUDENT CUSTOMERS DO?

- Make a record of the relevant interaction
- Investigate reported acts of corruption, possibly in conjunction with supplier
- Report to supplier any reported attempted payments;
- Advise supplier, in the event of reported corruption, that unless supplier investigates and takes corrective action, the supplier will not be eligible for future contracts
- Discipline all employees involved in acts of corruption and terminate employment, as needed
- At the conclusion of the investigation, document and apply lessons learned (e.g., make relevant changes to operations, review processes, modify internal controls, etc.)
- Retrain relevant employees on policies against corruption, conflicts of interest, or other relevant policies, including changes that may have been made as a result of the investigation, and the possible sanctions for non-compliance
- Consider publicizing (in a sanitized fashion) the appropriate disposition of the matter in order to positively impact the culture, and to send the right message to the employee organization
- Follow up on the corrective actions taken by the supplier
- Work through industry initiatives to communicate bribery demands and other corruption, and expose known corrupt organizations to national anti-corruption bodies

## Hallmarks of an Effective Anti-Corruption Compliance Programme [FCPA Resource Guide, 2012]

Following are the essential elements of an effective anti-corruption compliance programme as defined by the US Department of Justice and the US Securities and Exchange Commission. See the Resources Section for additional Guidance:

- Conducting periodic and targeted ethics and compliance risk assessments
- Commitment from Senior Management and clearly articulated policy against corruption
- Code of Conduct and ethics and compliance policies and procedures
- Appropriate oversight and autonomy by Chief Ethics and Compliance Officer, adequate resources, and access to senior management and the Board
- Providing appropriate ethics and compliance training and continuing advice
- Implementing a system of consistent disciplinary measures and appropriate incentives
- Implementing a process for internal controls and appropriate delegation of approval authority
- Implementing processes for third-party due diligence and payments
- Devising a system for confidential reporting of concerns and internal investigations
- Continuous improvement, including periodic assessments and evaluations
- Mergers and acquisitions: Pre-acquisition due diligence and post-acquisition integration

# Addenda

## Resources

The following Resources are referenced throughout the specified sections of the guide

### INTRODUCTION

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#### UN GLOBAL COMPACT 10th PRINCIPLE UN Global Compact Sustainable Supply Chain Resources:

(<http://supply-chain.unglobalcompact.org/>)

This website contains information designed to assist business practitioners in embedding sustainability in supply chains.

### SECTION 1: THE BUSINESS CASE FOR FIGHTING CORRUPTION IN THE SUPPLY CHAIN

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#### The Business Case Against Corruption Clean Business Is Good Business

[https://www.unglobalcompact.org/docs/issues\\_doc/Anti-Corruption/clean\\_business\\_is\\_good\\_business.pdf](https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/clean_business_is_good_business.pdf)

#### Corruption Risk Exacerbates Other Supply Chain Risk

<http://www.sedexglobal.com/wp-content/uploads/2014/12/Sedex-Briefing-Business-Ethics.pdf>

#### Fighting Corruption Through “Collective Action”

The UN Global Compact is a global initiative that offers mutual assistance and support to businesses. Through the UN Global Compact 10 Principles, businesses commit to support human rights and labour fairness, maintain and improve the environment and fight corruption. This guide is one example of Collective Action from the UN Global Compact 10th Principle Working Group.

- A Practical Guide for Collective Action Against Corruption (<https://www.unglobalcompact.org/library/1781>).

[compact.org/library/1781](https://www.unglobalcompact.org/library/1781)).

- World Bank Institute, Business Fighting Corruption: A Resource Center for Business, A - [http://info.worldbank.org/etools/docs/antic/Whole\\_guide\\_Oct.pdf](http://info.worldbank.org/etools/docs/antic/Whole_guide_Oct.pdf)
- See also the Supplier Ethical Data Exchange (<http://www.sedex.org.uk>), a non-profit membership organization that enables suppliers to share data on ethical and responsible conduct with their global customers. The Sedex online Self-Assessment Questionnaire includes a Business Integrity section, including significant content on corruption

### SECTION 2: CUSTOMER-SUPPLIER ENGAGEMENT

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#### Key Questions Customers Should Ask About Their Own Business

- UN Global Compact 10th Principle Reporting Guidance ([https://www.unglobalcompact.org/docs/issues\\_doc/Anti-Corruption/UNGC\\_AntiCorruptionReporting.pdf](https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/UNGC_AntiCorruptionReporting.pdf)) for a description of anti-corruption programme elements that UN Global Compact participants should report on.
- Transparency International Business Principles for Countering Bribery ([http://www.transparency.org/whatwedo/publication/business\\_principles\\_for\\_countering\\_bribery](http://www.transparency.org/whatwedo/publication/business_principles_for_countering_bribery))

#### Does the overall anti-corruption programme meet applicable standards?

- FCPA Resource Guide — <https://www.justice.gov/sites/default/files/criminal-fraud/legacy/2015/01/16/guide.pdf>
- USSC Guidelines — See United States Sentencing Commission, Organizational Guidelines, Section 8B2. (<http://www.ussc.gov/guidelines/2015-guidelines-manual/archive/2012-8b21>);
- UK Bribery Act 2010 — <http://www.justice.gov.uk/downloads/legislation/bribery-act-2010-guidance.pdf>
- Brazil — <http://www.business-anti-corruption.com/anti-corruption-legislation/brazil>
- Italy — In Italy, Italian Legislative Decree

231/01 provides exemption from liability for organizations that effectively implement certain management, organization and control models prior to an offense.

- OECD Good Practice Guidance — <http://www.oecd.org/daf/anti-bribery/44884389.pdf>

### Key Questions to ask About the Supplier

- See the Transparency International Corruption Perceptions Index for a rating of perceived corruption in various countries: <https://www.transparency.org/cpi2014/results>
- See <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html> for a listing of countries that have signed or ratified the United Nations Convention against Corruption.
- See <http://www.unodc.org/unodc/en/corruption/index.html?ref=menuse> for a listing of national anti-corruption bodies.
- See also the country profiles available at <http://www.business-anti-corruption.com>.

## SECTION 3: PRACTICAL GUIDANCE ON PREVENTING AND RESPONDING TO CORRUPTION IN THE SUPPLY CHAIN

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### General Company Anti-Corruption Policies: Promoting a culture of ethics and accountability

See Giving Voice to Values  
<http://www.givingvoicetovaluesthebook.com/>

**Collective Action** — See Section 1, above

(in this **Resources** Section).

## Tools

### ANTI-CORRUPTION RESOURCES (GENERAL)

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Customers and suppliers can find descriptions and links to a wide variety of anti-corruption resources, including conventions, guidelines, tools, and industry and country specific anti-corruption information, at the UN Global Compact Anti-Corruption Tools Inventory, accessible at <https://www.unglobalcompact.org/library/156>.

### ANTI-CORRUPTION RISK ASSESSMENT GUIDE

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<https://www.unglobalcompact.org/library/411>

### INTERNATIONAL CONVENTIONS

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#### UN Convention Against Corruption

<http://www.unodc.org/unodc/en/treaties/CAC/>

#### OECD Anti-Bribery Convention

<http://www.oecd.org/corruption/oecdantibriberyconvention.htm>

#### OECD Working Group

<http://www.oecd.org/corruption/anti-bribery/anti-briberyconvention/oecdworkinggrouponbriberyininternationalbusinesstransactions.htm>

### UNGC MANAGEMENT MODEL

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[https://www.unglobalcompact.org/docs/news\\_events/9.1\\_news\\_archives/2010\\_06\\_17/UN\\_Global\\_Compact\\_Management\\_Model.pdf](https://www.unglobalcompact.org/docs/news_events/9.1_news_archives/2010_06_17/UN_Global_Compact_Management_Model.pdf)

## Sample Documents

While not developed or endorsed by the UN Global Compact, companies may find the sample documents below useful in creating their own materials.

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### ANTI-CORRUPTION CONTRACT LANGUAGE

#### TRACE

<http://www.traceinternational.org/>

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### RED FLAGS CHECKLIST / ANTI-CORRUPTION WARNINGS

<http://fcpamericas.com/english/anti-corruption-compliance/master-list-party-corruption-red-flags>

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### SAMPLE DUE DILIGENCE FORMS /QUESTIONNAIRES

#### PACI

[http://www3.weforum.org/docs/WEF\\_PACI\\_ConductingThirdPartyDueDiligence\\_Guidelines\\_2013.pdf](http://www3.weforum.org/docs/WEF_PACI_ConductingThirdPartyDueDiligence_Guidelines_2013.pdf)

#### Regal-Beloit

[http://www.regalbeloit.com/anticorruption/anticorruptionpdfs/englishpdfs/exhibit1\\_3rdpartyquestionnaireandinitialcertificationform\\_english.pdf](http://www.regalbeloit.com/anticorruption/anticorruptionpdfs/englishpdfs/exhibit1_3rdpartyquestionnaireandinitialcertificationform_english.pdf)

#### TRACE

<http://www.traceinternational.org/>

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### SUPPLIER CODE OF CONDUCT

<http://www.barrick.com/files/suppliers/Barrick-Supplier-Code-of-Ethics.pdf>

[http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Sustainability/Library/Supplier\\_Code\\_of\\_Conduct.pdf](http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Sustainability/Library/Supplier_Code_of_Conduct.pdf)

#### TRACE

<http://www.traceinternational.org/>

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### SUPPLIER RISK MATRIX

#### Third Party Risk Matrix (Sample)

##### Risk Ranking of Suppliers

- Rank suppliers in accordance with the level of corruption risk that they pose for the customer
- Once ranked, the customer then applies an appropriate level of vigilance and due diligence, accordingly

##### Variables to Consider

- Geographic location;
- Reputation of the business;
- Products and services;
- The activity the 3rd party will be engaged in, and
- Relationship with the local Government



| Group X Countries: Indonesia, Indian, Korea, Malaysia, Philippines, Thailand, Vietnam |  |   |  |                                  |
|---|--|---|--|----------------------------------|
| ENGAGEMENT  | TIER 1   | TIER 2  | TIER 3   | TIER 4                           |
| <b>Division A<br/>Sales and<br/>Marketing</b>   |  | Advertising or Other Agencies   | <ul style="list-style-type: none"> <li>• Co-marketing</li> <li>• Co-promotion</li> <li>• Third party promotion</li> <li>• Out-licensing approved product</li> <li>• Wholesaler/ Distributor (marketing/selling)</li> <li>• Sales Agent</li> <li>• Tender Agents</li> <li>• Local manufacturing, packaging &amp; distribution</li> </ul>        |                                  |
| <b>Division B<br/>Manufacturing</b>   |  | <ul style="list-style-type: none"> <li>• Capital (construction) Project Suppliers</li> <li>• Contract Manufacturing &amp; Packaging (with no marketing or distribution)</li> <li>• Distributors acting as re-packagers of company products</li> <li>• Contracting, Warehouse Space</li> <li>• Plant &amp; Equipment Service provider</li> <li>• Waste Treatment Management</li> </ul> | <ul style="list-style-type: none"> <li>• Consultant/ Facilitator (when hiring an individual or a firm to interact (e.g. negotiate, lobbyist/lobby) on company's behalf (e.g. market access, tax mediator, etc.) with a Government Official*</li> <li>• Customs Broker / Import-Export Broker / Freight Forwarders / Shipping Agent*</li> </ul> |                                  |
| <b>Division C<br/>Research</b>  | <ul style="list-style-type: none"> <li>• Out-licensing a product or compound</li> <li>• Out-licensing other technology or knowledge</li> <li>• In-licensing (product, technology, knowledge, etc)</li> </ul> | <ul style="list-style-type: none"> <li>• Research collaborations</li> </ul>   | <ul style="list-style-type: none"> <li>• Contract Research Organizations</li> </ul>  |                                  |
| <b>General<br/>(may cross<br/>divisional line)</b>                                    | All other: Any 3rd Party engaged by the company that could interact with a Government Official where he/she could influence our business – Compliance & Legal must be consulted for input before proceeding  |   |  |                                  |
|   |  | Travel Agents / Meeting Planners  | Consultant / Facilitator   | M&A, JV, Technology Transfer Out |



**LEVEL OF DUE DILIGENCE BY TIER**

|               | <b>Due Diligence Questionnaire (DDQ) completion by 3rd Party</b> | <b>Manual Media Search</b> | <b>Media search by qualified independent corporate intelligence provider</b> | <b>Consult with Compliance and legal before proceeding with the engagement</b> | <b>Standard contracting and procurement process</b> | <b>Provide 3rd party training materials</b> |
|---------------|--|----------------------------|--|--|---|---|
| <b>TIER 1</b> |  |                            |  |  | •   |   |
| <b>TIER 2</b> | •  | •                          |  |  | •   | •   |
| <b>TIER 3</b> | •  |                            | •  | •  | •   | •   |
| <b>TIER 4</b> | •  |                            | •  | •  | •   | •   |

## Supplier Education

### ANTI-CORRUPTION EDUCATION AND COMMUNICATION FOR SUPPLIERS

In an ideal world, every supplier would have its own anti-corruption programme that would include education for their employees. In this world, many suppliers do not, and it is advisable in many cases for customers to educate suppliers and supplier personnel about the customer's expectations regarding corruption and the general business case for avoiding corruption in business transactions. Ultimately, this should be part of supplier capacity building. Rather than a one-way transfer of knowledge from customer to supplier, it should be a cooperative effort that prepares suppliers to deal with these issues internally.

This addendum presents general guidance on supplier education and communication in this area, including a discussion of subject areas to cover, audiences to address, and the various methods of communication. It does not present a model training programme, as content and mode of presentation will vary significantly from customer to customer and supplier to supplier, depending on risk profiles, the nature of the audience and available technology. Content should, however, align with the reality of the risks and temptations for corruption that supplier personnel may face.

#### CONTENT

As with other elements of a supplier anti-corruption programme, the content of education and communication to suppliers must begin with an assessment of relevant risks. The most effective education will include an overview of relevant concepts and principles, but must also include an examination of real scenarios that supplier personnel may face. These will differ across industries, regions, and contracts. For example, where risk of corruption in government inspections is high, the education should focus on government inspections. Similarly, where kickbacks, false billing and reporting, or customs concerns predominate, the education should concentrate on these issues. Section 3 of this

guide contains a series of common scenarios that provide a good starting point for building education content.

At a minimum, education should address the various types of corruption, why corruption is an issue (including the consequences for the supplier's business and for society), how to respond to corruption demands, and where to go to report corruption demands.

In each case, training should present real-life situations and allow the employees to consider how best to respond to the demands and temptations to corruption. Training should be interactive and engaging. It should not merely present the "right answer," but build a sense of understanding as to why it is the right answer.

#### AUDIENCE

This also must be informed by an understanding of relevant risks, as well as the practical realities of cost, and supplier receptiveness to education delivery. Supplier management should always receive training. If management is able to convey what was taught in the training to other relevant personnel, management training may be all that is needed. In other instances, customers will want to engage other supplier personnel directly. High risk audiences may include the supplier sales force, production managers, as well as others performing under the contract.

Content should vary according to the audience, addressing the particular corruption risks they may face. The sales force may receive instruction concentrating on kickback issues, while production managers would receive more instruction on dealing with government inspections. The level of detail necessary for training should vary with the audience, with management and others facing the most significant risks receiving the greatest amount of content.

A significant part of the education for supplier management should include mechanisms for management to disseminate training to their own employee population. This may include train-the-trainer sessions, where the customer provides training materials to supplier management and assists them in determining the best method to deliver the training to their own population.

## METHODS

The goal of any supplier education and communication programme is to build awareness and understanding among supplier personnel of the harm that corruption causes and the right way to behave in the face of corruption demands and temptations. There are multiple mechanisms for getting these messages across, each of which has its advantages and disadvantages. The following table attempts to capture these across four primary education and communication methods.

| Method   | Advantages   | Disadvantages   |
|--|--|---|
| In-person training                                     | <ul style="list-style-type: none"> <li>• Highest impact</li> <li>• Allows for real-time interaction and discussion of difficult issues</li> <li>• Allows for role-play and other highly engaging approaches</li> </ul>   | <ul style="list-style-type: none"> <li>• Resource intensive</li> <li>• Difficult to schedule and ensure attendance of all relevant personnel</li> <li>• May require live translators</li> </ul>   |
| Web-based training (WBT)                               | <ul style="list-style-type: none"> <li>• The best WBT is highly engaging and interactive</li> <li>• Allows learners to take training according to their schedule</li> <li>• Can ensure education delivery through computer tracking of completions</li> <li>• Cost-effective across a large audience</li> <li>• Easily translated into multiple languages</li> </ul> | <ul style="list-style-type: none"> <li>• Does not allow for live discussion and interaction</li> <li>• Limited by technology available to supplier personnel</li> <li>• Can be expensive if delivered to only a small audience</li> </ul> |
| Interactive web experiences (e.g., webinars, blogs)    | <ul style="list-style-type: none"> <li>• Allows for interaction and discussion of difficult issues</li> <li>• Cost-effective</li> </ul>  | <ul style="list-style-type: none"> <li>• Limited by technology available to supplier personnel</li> <li>• Interactivity is limited by time constraints and absence of face-to-face interaction</li> <li>• Translation issues</li> </ul>   |
| One-way communication (e.g., e-mail, fliers, websites) | <ul style="list-style-type: none"> <li>• Cost-effective</li> <li>• Can be effective at conveying basic messaging and as reinforcement for other education</li> <li>• Easily translated</li> </ul>  | <ul style="list-style-type: none"> <li>• No opportunity for interaction or discussion</li> <li>• Limited ability to ensure delivery</li> </ul>  |

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# The Ten Principles of the United Nations Global Compact

## HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 make sure that they are not complicit in human rights abuses.

## LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4 the elimination of all forms of forced and compulsory labour;
- Principle 5 the effective abolition of child labour; and
- Principle 6 the elimination of discrimination in respect of employment and occupation.

## ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 undertake initiatives to promote greater environmental responsibility; and
- Principle 9 encourage the development and diffusion of environmentally friendly technologies.

## ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.