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ANTI-CORRUPTION PRACTICES AND IMPLEMENTATION MECHANISMS OF THE FORTUNE GLOBAL 500 AS AN ANSWER FOR AN ETHICAL VALUES CRISIS – RESEARCH RESULTS[1]

The world is a dangerous place, not because of those who do evil, but because of those who look on and do nothing.

Albert Einstein

The earth has enough for everyone's need, but not enough for everyone's greed.

Mahatma Gandhi (1869–1948)

Introduction

Upon reflection, many describe the last decade as a period defined by crises such as the terrorist attacks of 9/11, the plethora of cases of corporate corruption scandals, the 2003 SARS pandemic, the 2004 tsunami and the 2008 collapse of the financial markets. An overview of such events suggests that crises are inevitable and do not discriminate among nations according to size or main industries (Wooten and

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James 2010: 3). The term "crisis" has several meanings (Morin 1976; C Stegăroiu 2005; Chang 2005; Seeger et al. 2003: 4)) and its conceptual roots are long and tangled (Kosselleck 2006). Crises are by definition, comparatively unusual and difficult to foresee (Sandin 2009: 113). A crisis can be a sudden and unexpected event that threatens to disrupt an organization's operations and foment both financial and reputational harm. Damage to stakeholders also can be stark, including their emotional and financial well-being too. The adverse effects of a crisis might affect a wide range of stakeholders, including community members, employees, customers, suppliers, stockholders and various parts and levels of government. Crises threaten to damage reputations since a crisis might nurture in people reasons to think ill of the organization (Coombs 2007). According to many definitions in the contemporary scholarly literature, crises are situations in which there is: (a) a threat to basic values and (b) a limited time for response (Stern 2003). These elements – a threat to basic values and (perceived) constrained time – are also present in the distinction of a closely related factor, "organizational crises", from management research, which can be defined through a synthesis of definitions put forth in the literature (James, Wooten 2005: 142; Pearson and Clair 1998; Rosenthal et al. 1989; Hermann 1972; Rosenthal and Kouzmin 1997: 297; Seeger et al. 1998; Perrow 1984; Nathan 2004: 184; Chong 2004: 43; HwangHong and Lichtentha 1999). An organizational crisis can be understood as a low-probability, high-impact event that threatens the viability of the organization and is characterized by the ambiguity of cause, effect and means of resolution, as well as by a belief that decisions must be made swiftly in its context (Pearson and Clair 1998: 60). Another perspective, by Seeger, Sellnow and Ulmer, states that "organizational crises are specific, unexpected and non-routine events, or series of events that create high levels of uncertainty and threaten, or are perceived to threaten, an organization's priority goals" (Seeger and Ulmer 2001: 369). A fundamental value for any corporation is its continued existence, and one obvious example of a corporate crisis is when a corporation is threatened with imminent bankruptcy. Other examples include strikes, corporate scandals and boycotts (see Snyder et al. 2006: 374).

Though, the issue is not just the potential list of crisis examples but rather how many of the examples that come to mind that have a clear relationship with corporate ethics. The global economic crisis, which started in the summer of 2007, prefaced by notable and numerous earlier corruption scandals in the business world, is salient. Though the global crisis that is currently manifest also stems from other sources such as a neglect of ecological sustainability (Wankel and Stoner 2008) and the growing economic divide of rich and poor nations (Wankel 2008; Stoner and Wankel 2007). This prompts a discussion in the economic sphere not only about its root causes, dimensions, and ongoing development, but also, most importantly, about the relationship between corporate crises and corporate ethics.

The relationship between corporate ethics and corporate crises is fraught with complications. Crises might spark wrongdoing; for instance, when management under pressure is tempted to take shortcuts with the safety of a product or service. Even more stable firms might seek to use the curtailing of safety associated costs to further weaken less strong rivals during a crisis. For example, in the fall of 2010, Ryanair's chief put forth the notion of eliminating co-pilots on shorter flights (Pawlowski, 2010).

Conversely, a crisis might be the result of poor ethics: a company facing bankruptcy after a corporate corruption scandal is an obvious and familiar case. Somewhat paradoxically, a crisis might also be the result of ethically laudable behavior; for example, whistle-blowing. Safeguarding one value (for example, product user safety) a whistle-blower might put another value (the continued existence of the company) at risk.

However, crises need not be only bad things. If properly managed, a crisis might actually generate considerable goodwill. This was the situation for Johnson and Johnson when they recalled all Tylenol after tainted capsules were found in the Northwest United States. Something similar holds for individual crises as well. A person who has been through a crisis might subsequently realize that she or he has learned something important from it, or even become a morally better person; for instance, through cultivating the virtue of courage (Sorell 2003). It is clear that the relationship between corporate crises and business ethics is a very important research subject, particularly concerning the discovery of the sources of previous crises and protecting against them in the future. But as of now, the discussion in management literature is quite poor (Seeger and Ulmer 2001; Simola 2003; Sandin 2009). However, it is hard to sidestep the issue of the enabling factors fostering the many instances of unethical behavior that were exhibited by such a great many organizations over the last decade and about the best ways of preventing such unethical behavior by organizations in the future. In addition to the obvious economic actions, such as neoliberal deregulation and weakened states, it is necessary to indicate the much deeper moral dimensions of the global crisis. For example, an overemphasis on efficiency rather than questioning the rationale for the activities being spurred and management education that promoted a wrongheaded hierarchy of values and, in some ways, moral myopia (Neubaum et al. 2009). A widespread public perception is that corporations are deficient in professional ethics, a perception that corporate business recognizes as potentially detrimental (Schmidt *et al.* 2009). Swanson (2004), for instance, cited that public trust in business had dropped to unfortunate lows, with CEOs and stockbrokers being trusted by only 23% of the public, just a few points above used car dealers at 15%.

The moral dimension of the global crisis is manifested by the public trust crisis to corporations, and theirs leaders, and between corporations. Corruption scandals

were one of the sources of the last global economic crisis and are the seed of a much deeper and more serious crisis: the crisis of ethical values in the contemporary business world. To a great extent, contemporary business corporations are deemed untrustworthy (Fleming and Zyglidopoulos 2009: 1–2), while in past they were seen as an important, fundamental aspect of liberal democratic societies. It is obvious, that corruption scandals not only provoked discussion about the essence of corruption itself but also about the most effective methods for preventing and fighting against it, which may be avenues towards replenishing public trust in corporations. The below table presents some of the most frequently reported methods of fighting against and preventing corruption.

Table 1. Methods fighting against and preventing corruption

1.	Corrupt or unethical behavior in an organization can be reduced or eliminated by cultural change within it - involves both formal and informal elements.
2.	An organization can build effective immunity to corruption through developing, and then managing, a positive corporate and organizational identity, which provides a moral frame for legal and ethical behavior by members of the organization, and of the organization itself.
3.	Corruption can be mitigated by the extensive ethical education of business people and, more broadly, people in all professions.
4.	Various international initiatives to fight corruption and the implementation of measures at the national level: *The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Convention) (…)* established legally binding standards to criminalize the bribery of foreign public officials in international business transactions and provided for a host of related measures to bolster its efficacy. *The United Nations Convention against Corruption (UN Convention)* (…)[Its] role is to provide States with practical assistance and build the technical capacity needed to implement the Convention, (…) development of anti-corruption policies and institutions, including preventative anti-corruption frameworks (UNODC and Corruption). The UN Convention covers the following four main areas: (1) prevention, (2) criminalization, (3) international cooperation, and (4) asset recovery. *UN Global Compact* An initiative was begun by the United Nations that serves as a policy platform and a practical framework for companies which are committed to sustainability and responsible business practices.
5.	Exemplary spiritual leadership based on values, ethical conduct, idealized influence, individualized consideration and transcendental goals could form part of the development of leaders in the corporate world as the corporate world needs ethical leaders more than ever before to prevent corruption and promote integrity.
6.	Implementing extrinsic regulation programs to prevent, detect, and punish legal violations is not enough to prevent corruption. What is required is a culture that embeds support for ethical conduct throughout the formal and informal corporate governance systems.

Source: A. Stachowicz-Stanusch (ed.) (2010), *Organizational Immunity to Corruption: Building Theoretical and Research Foundations*. Charlotte, NC: IAP. Used with permission.

United Nations Initiatives Against Corruption – Global Compact

One of the first international initiatives for combating corruption is the UN Global Compact. In response to the adoption of the UN Convention against Corruption at the UN Global Compact Leaders Summit in June 2004, it was decided that a tenth principle addressing anti-corruption would be added to the then nine UN Global Compact Principles (Nakajima and Palmer 2010: 102). The UN Global Compact "asks companies to embrace, support and enact, within their sphere or influence, a set of core values in the areas of human rights, labor standards, the environment, and anti-corruption" (United Nations Global Compact Office 2008: 5). Over 5000 companies in over 130 nations have pledged to adhere to the ten principles of the Global Compact (United Nations Global Compact Office, 2009b). Another 1000 companies have been delisted as Global Compact signatories for failing to file annual progress reports with the UN Global Compact Office (United Nations Global Compact, 2009a). The tenth principle of the UN Global Compact is: "Businesses should work against corruption in all its forms, including extortion and bribery" (United Nations Global Compact, 2008: 5). The UN has advised the participating corporations of the Global Compact to take the following steps in regard to fighting corruption:

1. To introduce anti-corruption policies and programs within their organizations and their business operations;
2. To report on their work against corruption in the annual Communication on Progress;
3. To share experiences and best practices through the submission of examples and case stories;
4. To collaborate with their industry peers to jointly find solutions to fight corruption through sectoral initiatives;
5. To collaborate with Transparency International and the International Chamber of Commerce as main provider of tools in the fight against corruption;
6. To engage in collective efforts with all stakeholders;
7. To lobby for the ratification and implementation of the UN Convention against Corruption in as many countries as possible (Nakajima and Palmer 2010: 102).

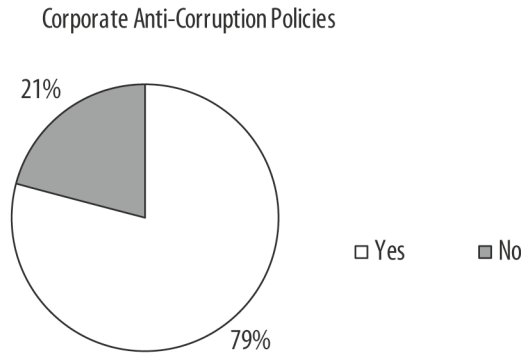# Anti-Corruption Policies of the Fortune Global 500

The need to diminish corporate vulnerability to corruption enticements has resulted in an increasing number of companies taking initiatives to improve internal

integrity, transparency, and accountability. In 2009 the United Nations Office on Drugs and Crime (UNODC), in collaboration with PricewaterhouseCoopers (PwC), produced a report examining what companies in the Fortune Global 500 (2008 Index) are doing to fight corruption (Anti-corruption policies and measures of the Fortune Global 500, 2009). This report represents an attempt – the first of its kind – to take stock of companies' efforts to abide by the 10th Principle and to consolidate the body of existing knowledge on the matter. To this end, the report provides an overview of the direct and indirect measures that companies, listed in the Fortune Global 500 (2008 Index), have adopted to combat corruption and economic crime, including extortion, bribery and other forms of fraud. The results have been summarized in a table that is divided into measures, practices and implementation mechanisms. For the purpose of this report, the word "measures" was understood as any act aimed at fighting corruption, bribery, and money laundering. These terms, as well as other expressions such as "kickbacks" or "improper payments", have also been used as keywords when conducting the research. As there are a wide variety of terms related to corruption, an attempt was made to limit the focus of this report. Our search was limited to items solicited by the search terms: "corruption", "bribery", "money laundering", "kickbacks", and "improper payments". Although, education, awareness raising and training of employees on compliance and anti-corruption have also been considered when searching for companies' anti-corruption "measures".

For the purpose of this report, "practices" has been defined as: i) "gift management", understood to encompass the offering, giving, solicitation or acceptance of a gift, entertainment, meal or travel; ii) "whistle-blowing", understood as any process that offers employees, or affected external persons, the possibility to raise concerns or report violations of codes of conduct or laws; and iii) "disciplinary actions", which include measures that can be taken against employees, managers or directors when misconduct has taken place. Such actions can reach as far as implying dismissal and prosecution. "Implementation mechanisms" refer, for the purpose of this report, to any and all behavioral codes (internal code of conduct, code of ethics, etc.) adopted by the companies in question as well as to the officers and experts responsible for the preparation, implementation and surveillance of the rules and provisions contained therein (legal advisors, compliance officers, ombudsmen, etc.) (Anti-corruption policies and measures of the Fortune Global 500, 2009).

Below are presented the results of anti-corruption policy analysis of companies listed on Global Fortune 500.
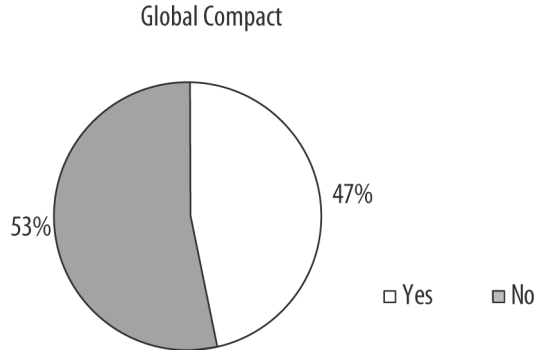
Figure 1. Application of Corporate Anti-Corruption Polices
in Global Fortune 500 companies

Corporate Anti-Corruption Policies

21%

79%

□ Yes ▨ No

Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500* (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

Nearly 80% of analyzed Global 500 companies adopted corporate anti-corruption.

Figure 2. Application of Global Compact principles
in Fortune Global 500 companies

Global Compact

53%

47%

□ Yes ▨ No

Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500* (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

More than half of the analyzed companies which applied their own corporate anti-corruption policies did not implement Global Compact principles.
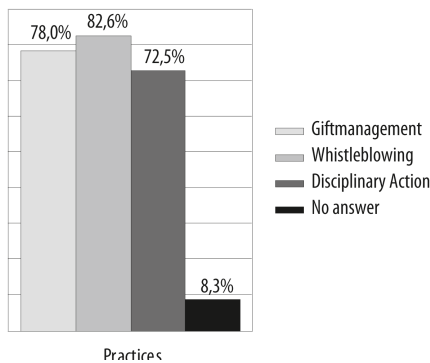
Figure 3. Measures of anti-corruption policy applied in Fortune Global 500 companies
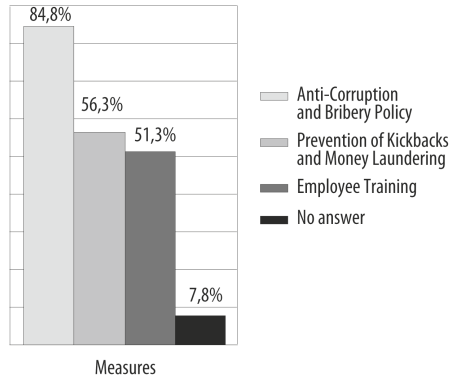
Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500*, (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

Among the companies that created corporate anti-corruption policies nearly 85% concern anti-corruption and bribery policy and over 56% of them take prevention of kickbacks and money laundering into consideration. Also, more than half of those policies include employee training related to anti-corruption issues. Nearly 8% of companies did not provide any response about the implementation of their anti-corruption policies.

Figure 4. Practices included in anti-corruption policy in Global Fortune 500 companies
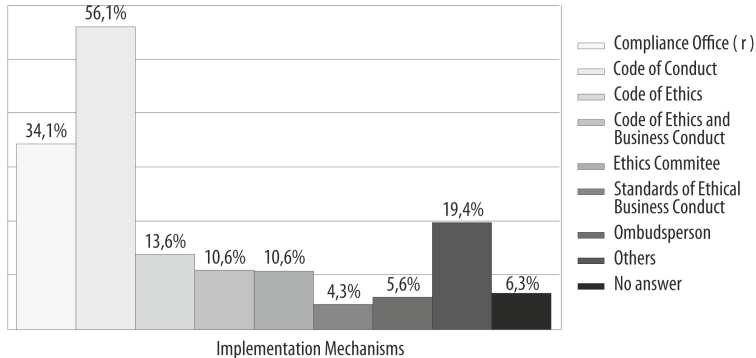

Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500* (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

Declared anti-corruption policies most often include practices such as whistleblowing (over 82%) and gift management (78%). Disciplinary actions are elements

of those policies in more than 72% cases. Over 8% of policies do not mention any of those practices.

Figure 5. Implementation mechanisms included in anti-corruption policy in Fortune Global 500 companies
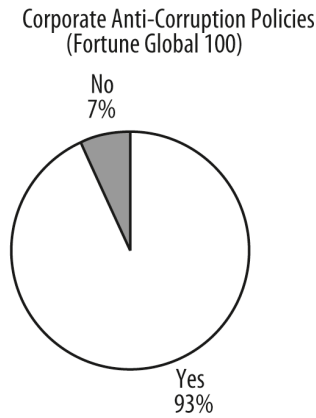

Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500* (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

The most popular implementation mechanism for anti-corruption policies is through a code of conduct (over 56% indicate this). In over 34% of anti-corruption policies, compliance offices or compliance officers are specified. More than 6% of anti-corruption policy statements do not consider implementation mechanisms.

As established above, the most popular anti-corruption practice is whistleblowing. This word was used in the Sarbanes-Oxley Act 2002 in the United States of America. That legislation introduced major changes into the regulation of financial practice and corporate governance. Whistleblowing involves reporting violations of anti-corruption policies, concerns, or related suspicions. It can entail disclosure by organization members (former or current) of illegal, immoral, or illegitimate practices that are under the control of their employers, to persons or organizations that may be able to institute remedial action (Micelli and Near 1992). It works best when specific procedures and internal rules related to it are put forth (see also Johnson 2003: 35).

The whistleblowing mechanisms of the first hundred companies listed in the Global Fortune 500 report (Index 2008) were considered. We will address these results below.
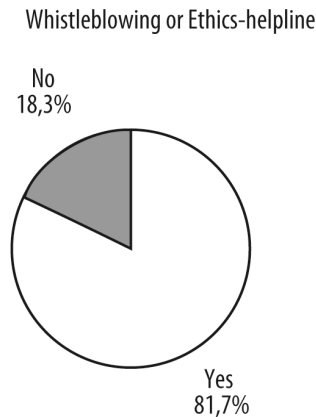
Figure 6. Application of corporate anti-corruption policies in Global Fortune 100 companies

Corporate Anti-Corruption Policies
(Fortune Global 100)

No
7%

Yes
93%

Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500* (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

Among the first one hundred companies listed in the Global Fortune 500, only 7% do not use any corporate anti-corruption policies.

Figure 7. Application of Whistleblowing or Ethics-helpline in Global Fortune 100 companies

Whistleblowing or Ethics-helpline

No
18,3%

Yes
81,7%

Source: A. Stachowicz-Stanusch, *Anti-Corruption Policies and Measures of the Fortune Global 500* (Vienna: UNODC in Cooperation with PricewaterhouseCoopers, 2009).

About 82% (76 cases) of those 93 companies that applied anti-corruption policies indicated whistleblowing (sometimes called ethics-helpline) as one of their implemented anti-corruption practices.

Figure 8. Complexity of whistleblowing mechanisms applied
in Global Fortune 100 companies

Complexity of whistleblowing mechanisms
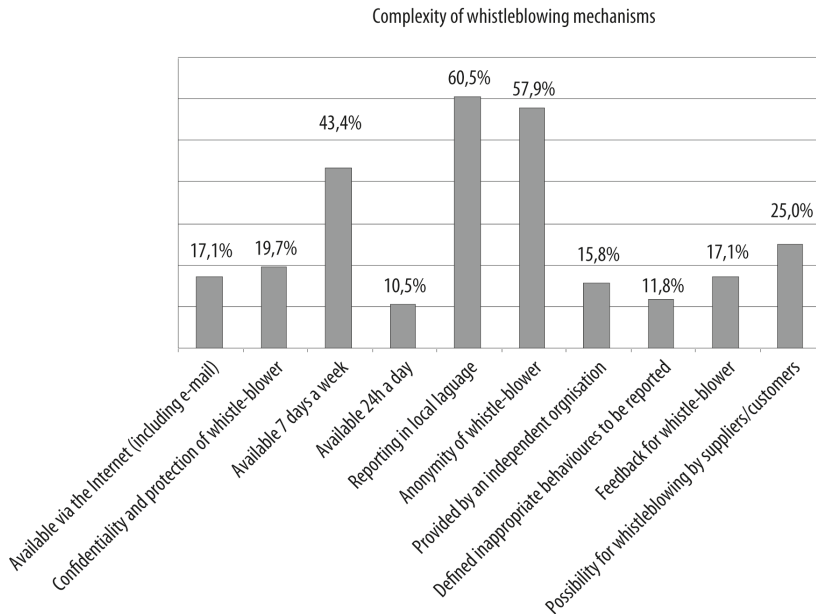
Source: author's own study based on Anti-Corruption Policies and Measures of the Fortune Global 500, UNODC in Cooperation with PricewaterhouseCoopers Austria 2009.

Among the 76 firms that had implemented whistleblowing mechanisms, in most cases, there was the possibility for a whistleblower to report concerns anonymously. However, many companies do not encourage anonymous reports as they lessen the possibility of confirming the validity of such accusations. However, companies often maintain the confidentiality of whistleblowers' identities to protect them from vindictiveness.

The most popular channel for whistleblowing used by firms examined in the study was telephone. However, in 43% of cases, whistleblowers had the opportunity to communicate their concerns online, largely via email.

In multinational companies, reporting is not always possible in local languages. Indeed, just 10.5% of companies provide such an option.

About a quarter of the firms considered provide whistleblowing tools to stakeholders such as suppliers and customers.

Conclusion

In the wake of the financial scandals of the beginning of the millennium, including those of Enron and Parmalat, and with the onset in the summer of 2008 of an international financial crisis set off by US sub-prime mortgage practices and policies, the debate on the ethical aspect of business has greatly intensified and has become more developed (Rotta 2010: xvii). Several scholars have emphasized that modern business is part of the fiber of the larger society and its endeavors; and that a healthy society must have ethics from all sectors supporting each other symbiotically (e.g. De George 1999; Journey and Payne 2002).

Most will agree that public opinion worldwide finds the current level of business ethics in the world to be deplorable. Therefore, we have found it prudent to search for both practical solutions and explanatory theories with the aim of improving the situation. Though addressing the pervasive corruption in the global market might be difficult and not amenable to a quick fix, abdicating responsibility to the invisible hand of the market is imprudent (Rotta 2010: xvii). Amartya Sen, a Nobel Prize winner in 1998, has emphasized that "a business world without moral codes would not only be poor from a regulatory point of view but also very weak in terms of performance" (Sen 2001: 96).

We can follow Aristotle's ideas from *Nicomachean Ethics* and emphasize that the purpose of business activity praxis is to ultimately make a manager a better person and the world a better place (Aristotle 2010). From an Aristotelian perspective it is possible to simultaneously create wealth, be ethical, and be happy too (Nielsen 2010).

Unlike Aristotle, Schumpeter and many other modern economists have separated economic action from attendant ethical issues and judgments (Nielsen 2010). From a Schumpeterian perspective, the economic crisis that began in 2008 displays evolving forms of capitalism grounded in high-leverage finance and emerging organizational cultures.

Robust corporate efforts to battle corruption effectively and resurrect social trust require vigorous support from a firm's board of directors and CEO, with a mind to realize the fundamental capitalist goals of high organizational performance and high integrity. High performance might be reflected by strong and increasing financial results, the provision of superior goods and services, the creation of durable value for shareholders and other stakeholders, while managing risk successfully. High integrity includes conformance to legal and otherwise accepted rules, as well as commitment to such values as honesty, candor, fairness, trustworthiness, and reliability (Heineman 2009).

The development of anti-corruption policies for many Fortune Global 500 firms is a preliminary step towards corporate integrity. Though anti-corruption policies

appear positive, they can only become meaningful if they become embedded in corporate culture. An anti-corruption policy's impact derives from its introduction, implementation, internalization, and institutionalization, with prominent support from leaders who "dare to care."

The creation of a moral frame for legal and ethical behavior by organizations and their members might include: extensive ethical education of business people and, more broadly, people in all professions through behavioral models, case studies, critical analysis and the development of skill sets such as Socratic thinking to illuminate the issues of corruption (Wankel 2010) and the improvement of public sector ethics and the adoption of anti-corruption legislation (McKoy 2010).

Among the ways corruption in organizations might be mitigated are:

- formal systems designed to prevent unethical and illegal behavior including: senior executive oversight, codes of conduct, communication and training programs, anonymous reporting systems and clear disciplinary measures for misconduct;
- drafting anti-corruption principles in the ethical code of conduct of an organization that can be applied to all countries in which it operates;
- applying anti-corruption policies to their relationships with suppliers;
- prohibiting making political contributions on behalf of the company or using the company's name, money, property, or equipment to support political parties;
- explicitly stating that employees are not allowed to accept gifts, gratuities, or kickbacks; notably in connection with business deals;
- prohibiting involvement of individuals in doing business on behalf of the company in ways benefiting their personal friends and family;
- putting in place audit committees enable employees to raise concerns about accounting and auditing procedures and to provide a forum for charges of unethical behavior including bribery and corruption to be investigated;
- running ethics training programs to sensitize employees about ethical issues and instruct them in the values of the company and the guidelines of its code of conduct;
- creating a series of case study situations or simulations where employees are faced with bribery and corruption challenges and encouraging discussions and comments that would help them understand the issues faced in the real world;
- linking performance management to ethical behavior and adherence to explicitly promulgated ethical principles. Using performance appraisal as an opportunity to discipline those who engage in either domestic or foreign business illegalities (Jamali 2010; Nakajima and Palmer 2010).

In conclusion, as Alexander Solzhenitsyn observed: "even the most rational approach to ethics is defenseless if there is not the will to do what is right."

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Abstract

From the Aristotelian perspective, the global crisis of the recent years is an example of what the business ethics could be, but, to the great extent, it isn't. In this paper, the authors formulate a thesis that the corruption scandals of the last decade are not only one of the causes of the global economic crisis, but it is also the source of a much more deep and serious crisis of moral values of contemporary enterprises. The moral dimension of the global crisis has resulted in a crisis of social trust towards corporations and their leaders. The authors of the presented article firstly discuss the relationship between business ethics and organizational crisis, and then analyze the practices and mechanisms of the anti-corruption policies of Fortune Global 500 companies, which seems to be evidence for their following the 10th Global Compact Principle.

In the conclusion, the authors propose a list of necessary actions that should be realized for building a framework for legal and ethical behaviors of the modern organization and its members.

Key words: corruption, corporate ethics, corporate crises, preventing corruption, Global Compact, Anti-Corruption Policies