

PREVENTING CORRUPTION IN THE SUPPLY CHAIN

HOW COMPANIES CAN ADDRESS CHALLENGES

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For reasons of the legibility the male form was chosen in the text, the information refers nevertheless to members of both genders.

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These guidelines are intended to help companies to address challenges that can emerge when implementing corruption prevention measures.

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INTRODUCTION

Companies are increasingly involved in global supply chains. However, potential risks need to be considered in order to profit from related opportunities effectively.

One of the main risks is corruption, often connected to human rights violations and efforts to circumvent environmental and quality standards by contracted suppliers. The public perception not only focuses on the suppliers but also on the companies that contracted them.

In line with these guidelines, **corruption** is primarily understood as bribery and the acceptance of bribes as well as granting and accepting undue advantages.

Related offences such as blackmail, fraud, embezzlement, document forgery and money laundering are not explicitly considered, although they are covered to some extent by the measures presented here.

Consumers are able to exert pressure, for instance via social media or civil society organisations, and law enforcement agencies demand legal, ethical and sustainable business practices.

In addition to ensuring compliance with national and international regulations, companies should thus adopt a proactive approach to prevent corruption in their supply chains, with regard to their corporate responsibility and sustainable business practices. Companies that take a strong stance against corruption are acting ethically fair.

Preventing corruption does therefore not only mitigate legal and commercial risks. By taking appropriate steps, a company is able to enhance its reputation with its own employees, clients, suppliers and other stakeholders, as well as cutting costs and ultimately gaining competitive advantages.

These guidelines can help companies to successfully implement measures that are designed to prevent corruption in the supply chain.

For the purposes of these guidelines, the focus is especially on the following actors of the **supply chain**:

- **Employees¹ of the company itself** with a focus on procurement processes.
- **Suppliers who have a contract with the company**, including intermediaries, brokers, agents and other service providers.

Furthermore, suppliers who do not have a contract with the company itself will also be taken into account occasionally (**sub-suppliers further down the supply chain**).

These guidelines are divided into two parts:

PART I offers an overview of what is involved in developing and implementing appropriate anti-corruption measures for companies that have not yet looked in detail at ways of preventing corruption in their own supply chain.

Possible measures are presented and explained with reference to the six-step model of the United Nations Global Compact.

PART II suggests ways of dealing with practical challenges for companies already familiar with anti-corruption measures in the supply chain.

Exemplified in 14 scenarios, typical challenges of implementing anti-corruption measures are demonstrated. The scenarios are based on an exemplary three-stage procurement process comprising the offer, manufacture and delivery phase. Possible practical solutions are given to each of the identified challenges.

¹ The term 'employees' includes all individuals employed by a company at its headquarters as well as abroad at all levels including the executive management level.

PREVENTIVE ACTION OFFERS PROTECTION AND BENEFITS

Inadequate corruption prevention in the supply chain can cause far-reaching negative consequences.

A specific case of corruption in the procurement process does not only have adverse consequences for the involved employees but rather for the management and the entire company.

POTENTIAL CONSEQUENCES OF CORRUPTION

- The brand value is tarnished, accompanied by a loss of trust on the part of employees, clients, suppliers and other stakeholders, with a concomitant loss of market share and drop in sales (reputational risk).
- The company or its management can be fined.
- Fines and imprisonment for involved employees with accompanying reputational damage.
- Exclusion of the company from future bidding procedures if entered in pertinent registers (e.g. transparency register).
- Property levy.
- Claims for damages.
- Administrative costs for rehabilitation, including time and cost of crisis management and legal advice to clarify liability issues.

Even if one's own company is not directly involved and the fault lies entirely with the supplier or sub-supplier, an incident can have serious repercussions on the own reputation and can entail significant costs. Corruption of suppliers is generally also a case for the public prosecutor's office and other authorities.

It is thus important for companies to take preventive action.

By taking steps to prevent corruption, companies cannot only prevent negative consequences but can actually benefit from a whole series of concrete advantages.

THE BENEFITS OF PROACTIVE CORRUPTION PREVENTION

- Enhancement of brand image and increase of trust in the company on the part of employees, clients, suppliers and other stakeholders, with resulting competitive advantages.
- Reduction of liability risks.
- Ensuring of entrepreneurial autonomy.
- Focus on innovation as well as marketable products and services.



- Reduction of costs in the procurement process because of greater efficiency and reliability.
- Strengthening attractiveness as an employer.

IT IS IMPORTANT TO NOTE that companies that implement effective steps to prevent corruption in their supply chains are laying important foundations for future growth.²

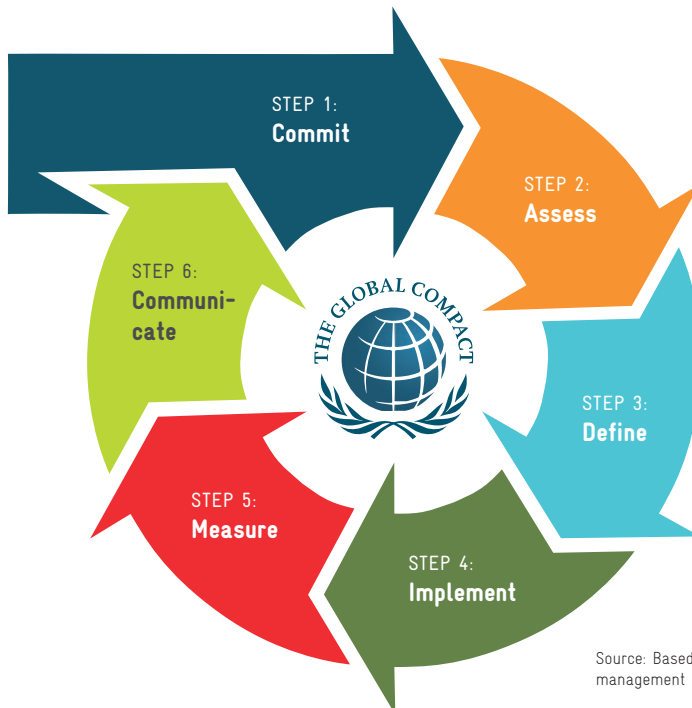
² United Nations Global Compact, Business for Social Responsibility (2012): Supply Chain Sustainability – A Practical Guide for Continuous Improvement.

PART I

SIX STEPS TO PREVENT CORRUPTION IN THE SUPPLY CHAIN

Preventing corruption in the supply chain always begins within your own company, where it covers your own relevant internal processes and the employees involved in the procurement process. Additionally, the contracting company should introduce specific measures for suppliers and sub-suppliers further down the supply chain.

The **United Nations Global Compact** offers tried and tested solutions for devising and establishing an anti-corruption programme for the supply chain. With the help of the following **six steps**, necessary measures can be developed, structured and implemented based on a processual approach that allows consistent enhancement.



Source: Based on UN Global Compact management model, 2010.

In the following, each of these steps is presented in more detail. Here, it is important to note that the **specific form of each step depends on the addressed company** (e.g. size and complexity, sector, existing corporate culture, operating environment).

1. COMMIT

The basis for all successful efforts to eradicate corruption is a corporate culture that neither accepts nor tolerates corruption. For this, the management must make an unequivocal commitment which should clearly represent the corporate values the company stands for. These must in turn be communicated throughout the company so that the values are internalised and practised by all staff members (*tone from the top – echo from the bottom*).

The voluntary commitment should take the form of a **code of conduct for employees** and should be implemented into practice in everyday business activities. Brevity can be more effective than a long and detailed document.

In addition to this, a **code of conduct for suppliers** should be drawn up. This should be an integral and mandatory part of all contracts with suppliers.

In order to reach **sub-suppliers** too, the document can also require that all suppliers contracted by a company insist that their own suppliers adhere to the same principles as those laid out in the code of conduct.

In practical terms, it is advisable to incorporate anti-corruption into any existing code of conduct.

2. ASSESS

Another important basis for successful corruption prevention is a risk analysis specifically adapted to the needs of the company. It should explicitly be taken into account that risks of corruption exist not only in the company's own processes and structures, but also in those of its suppliers and sub-suppliers. On the basis of such a risk-based approach companies can devise appropriate measures.

Possible risks of corruption in procurement departments, within suppliers and sub-suppliers:

- Procurement officers give precedence to certain suppliers to their own advantage.
- A supplier bribes employees of the procurement department in order to obtain a contract.

- A supplier or sub-supplier obtains essential official permits in an unacceptable way by making facilitation payments to an office holder.³
- Employees of your own company support or cover for employees of a supplier regarding bribery.
- Auditors accept bribes when auditing suppliers or accepting manufactured goods (e.g. for certification).

3. DEFINE

Based on the identified corruption risks, a programme should be drawn up to prevent corruption and deal with any cases of corruption that arise. Important elements of the programme include directions and process definitions, supported by training and communication measures. They should lay out clearly what is expected, what assistance is available and who the contact person is if employees have any questions. In the process definition, participants must be familiarised with the identified risks and the pertinent anti-corruption measures in their own field. Furthermore, responsibilities must be made clear.

³ Office holders include employees, civil servants, judges and others employed for an office under public law (e.g. ministers) or entrusted with duties to be performed for a public authority (e.g. employees of a company that performs public-sector administrative duties).

4. IMPLEMENT

The drafted directions, processes, training and communication measures must then be implemented into practice.

The priorities can be derived from the risk analysis performed at Step 2.

Measures for your company's own workforce should include the following:

- **Training and communication measures:** Sensitise employees to risks and enable them to apply the directions in practice.
- **Procurement processes:** Establish anti-corruption measures, including a double-check principle and clear authorisation procedures (see below for measures for suppliers).
- **Contacts:** Nominate a specific contact person whom employees can contact with general questions and specific cases in day-to-day business operations.
- **Whistleblower system:** Establish a process for the notification, identification and investigation of incidences of corruption.

- **Sanctions:** Establish and enforce sanctions for employees involved in cases of corruption.
- **Bonus regulations:** Modify remuneration and the performance target system for your own employees to reduce the incentives for corrupt behaviour.
- **Job rotation:** Rotate employees in key positions in the procurement process at regular intervals (where this is possible and expedient).

Measures for suppliers should include the following:

- **Auditing and monitoring suppliers:**
 - Audits of suppliers: Identification of corruption risks and typical concomitant offences (integrity review or risk audit, often referred to as a due diligence audit).
 - During the term of a contract: Monitoring (based on random samples) using questionnaires, face-to-face interviews, audits and other methods.
- **Training and communication measures:** Suppliers should be sensitised to risks and enabled to apply the principles of the code of conduct in practice.

■ **Supplier contracts and sanctions:**

- Obligation of suppliers to follow the principles of the code of conduct for suppliers to be integrated in contracts (including provision for supplier audits).
- Additional commitments for suppliers should be considered, requiring them to insist that their own suppliers comply with the code of conduct and obliging them to monitor compliance.
- Possible consequences of non-compliance should be specified (including various stages of escalation culminating in cancelling the suppliers contract in severe cases).

- **Whistleblower system:** Establishment of a whistleblower system that can be accessed by suppliers and their employees and that is actively communicated to them (in all relevant languages, with a visible contact person).

In addition, companies should examine, based on the risk analysis, whether **measures must also be extended to cover sub-suppliers**. These measures may include sample-based monitoring, training and communication measures and the use of the whistleblower system.

All measures must be **documented and communicated in a way that is easy to understand**.

5. MEASURE

An anti-corruption programme is not a project that has a definite beginning or a final end. Rather it is an **ongoing process** of learning, adjusting and improving. Regular reviews should help to determine whether codes of conduct are respected in day-to-day business operations, whether measures are implemented and whether the programme is able to address existing risks and meet requirements effectively.

Regular reviews and audits as well as an international and internal control system are essential to ensure the ongoing review and improvement of anti-corruption measures instigated in the procurement process.

Identified shortcomings and weaknesses should be remedied as swiftly as possible and potentials for improvement should be considered promptly.

6. COMMUNICATE

It is important to report on anti-corruption measures in order to demonstrate responsibility and comply with your commitments in this field.⁴

⁴ As of fiscal 2017, stock-listed companies in Germany with a workforce of more than 500 are required by law to report on anti-corruption measures and processes in their non-financial disclosure (secs. 289b and 289c of the German Commercial Code).

Every company should report on measures taken within the company and with respect to suppliers and sub-suppliers further down the supply chain to prevent corruption and to deal with any cases of corruption in order to foster a positive image of the company outside and inside the enterprise. Companies can do so for instance on their website, in their annual report or in their sustainability report.

COOPERATION WITH OTHER PARTNERS

The efforts of an individual company might not be sufficient to influence a corrupt environment for the better. Furthermore, in particular small companies often lack resources to address corruption risks and actively instigate counter-measures. This may be particularly the case in complex supply chains.

Collective action can help to overcome such difficulties, making anti-corruption the norm, leaving corrupt players isolated (levelling the playing field) and enabling actors to address the challenges together. Such a collective approach gathers like-minded actors within a network and is a key instrument in preventing corruption.



By being part of collective action initiatives, companies can create better competitive conditions. Harmonised anti-corruption standards can be drawn up and implemented, and joint action can be taken to address corruption among office bearers in inspectorates, licensing authorities or the customs authorities, if appropriate at political level.

Companies should thus become involved in collective action initiatives according to their abilities, while taking account of relevant monopoly and competition laws.

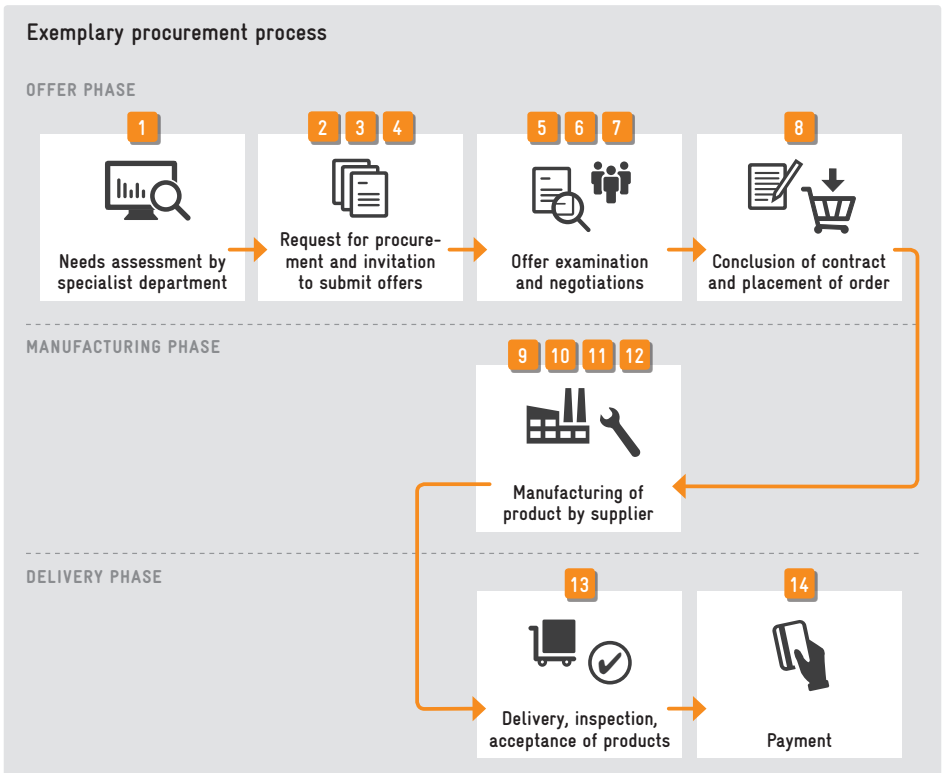
PART II

COPING WITH THE CHALLENGES OF IMPLEMENTATION

Implementing corruption prevention measures with regard to their supply chains can confront a company with a number of practical **challenges**, depending on its size, the sector in which it operates and its level of internationalisation.

In the following, **14 possible scenarios** illustrate typical challenges that companies

encounter while implementing anti-corruption measures. The scenarios are based on a **three-stage procurement process involving offers, manufacturing and delivery**. For each scenario and each of the challenges described, there are identified possible **measures for resolving the problem**.



1. BYPASSING THE PROCUREMENT DEPARTMENT

A staff member in a specialist department would like to order a product directly from the supplier without requesting and comparing a number of different offers. In response to a query from the procurement department he cites the specific product specifications, which can allegedly only be met by this one supplier and the considerable time pressure. In his view, these two factors make it unnecessary to involve the procurement department. He argues that a protracted procurement process would jeopardise the success of the project.

Challenge:

Your company's anti-corruption programme requires the procurement department to be involved in selecting the supplier. At the same time, you do not want inflexible processes to jeopardise projects.

Possible solutions:

- Guarantee the status of the procurement department as a 'business partner' within the company, including a clear description of company procurement processes in the form of guidelines:
 - Ensure that the procurement department is involved in all procedures at an early stage, especially when new

countries, new suppliers or new products are involved.

- Incorporate organisational checks and balances into the procurement process, including for instance the double-check principle before requests for procurement are authorised above a certain value; assign technical specialists to the procurement department to enable the department to check the legitimacy and rationale of specifications; respect and comply with documentation requirements.
 - Identify any exceptions to procedures with the help of firm criteria and clearly regulated authorisation procedures in advance (express purchases and emergency requirements).
- Involve the heads of other specialist departments in the development and implementation of corruption prevention measures in the procurement process to ensure an equal footing.
 - Train staff of other specialist departments in procurement processes.

2. CONVINCING YOUR OWN PROCUREMENT DEPARTMENT

Your company wants to implement the code of conduct for suppliers by conducting a review of new suppliers in line with these criteria and incorporating pertinent provisions in the contract. Employees of your own procurement department are trained in topics such as what should be considered in invitations to submit an offer.

Challenge:

You know that appropriate training measures are indispensable for the success of anti-corruption measures. The training measures announced, however, meet with little enthusiasm on the part of the responsible heads of department in procurement. Without their support, the acceptance of the training measures and thus of the entire programme is at risk.

Possible solutions:

- Devise and modify training sessions on the basis of staff feedback; training must generate interest in the covered subject, e.g. by using practical examples rather than quoting legislation.
 - Ensure that employees are actively involved in training sessions, e.g. through role-playing or an open dialogue about possibly conflicting goals.
 - Spotlight positive aspects of anti-corruption measures, including protecting the company and employees themselves from sanctions.
 - Adapt the type and methodology of training to the needs of the company, e.g. incorporate anti-corruption training into other training measures.
- The management actively supports the introduction of training measures (e.g. by attending the first training courses, introducing company-wide voluntary commitments and a code of conduct).
 - Gear performance targets of staff to various corporate goals (including taking

3. THE UNKNOWN SUPPLIER

Your company intends to expand its product range. The new product could be obtained at a particularly good price from a supplier abroad. Initial online research on the English website of the supplier, however, fails to reveal detailed information about the supplier itself or about its beneficial owner.

Challenge:

In this case, your company's risk assessment criteria require to identify any links to office holders in high-risk countries. While this remains unclear, you may not place an order with the supplier.

Possible solutions:

- Contact the supplier directly and ask for information.
- Contact the chamber of commerce and industry in the country in question or the German Chamber of Commerce and Industry (AHK) along with other suppliers or other institutions in the country and ask for information.
- Check relevant registers, including:
 - The local company register with the help of local translators and market specialists.

- Sanctions lists (e.g. the EU's Common Foreign Security Policy list of persons, groups and entities subject to EU financial sanctions).⁵
- Press database.
- Professional social networks.
- Contract a service provider specialised in risk assessment with specific expertise in the field of exploring ownership structures.
- If the required information is not available, reassess the risks and on this basis reconsider selecting this supplier.

⁵ Official database of the European Union (EU) that provides information regarding persons, organisations, and institutions and their financial sanctions of the EU.

4. THE RELATED SUPPLIER

The head of procurement of your foreign subsidiary draws up a list of suppliers for the procurement of an important semi-finished product. It emerges that the managing director of the most prominent company on the list is a cousin of the head of procurement of your foreign subsidiary.

Challenge:

According to the code of conduct for employees of your company, the placing of orders with suppliers must not result in any undue advantages for your own staff or their family members. This case involves a significant conflict of interests, which is an obstacle to concluding a contract. Nevertheless, your company would prefer to work with the most renowned supplier.

- Keep detailed records of the conflict of interests and the decision made on how to deal with the situation.
- Always ensure that a conflict of interest is not in itself a reason to discount a potential supplier, because the decision to select that company can still be in the best interests of your company in spite of the conflict of interests.
- Discuss conflicts of interests (e.g. during training courses) and make it obligatory to disclose them.
- Ensure compliance with standard procurement processes at all times, e.g. obtaining the usual number of offers for the purpose of comparison.

Possible solutions:

- Check whether the supplier offers the objectively best terms and conditions and record decisions in detail.
- The head of procurement should withdraw from the process, i.e. the decisions relating to the placing of an order must be made by other colleagues with absolutely no involvement of the head of procurement.



5. THE INCORRIGIBLE SUPPLIER

Your company would like to contract a new supplier. According to research, this supplier is the only one on the market that is in a position to supply under the given circumstances. Within the framework of the risk assessment, however, it becomes apparent that the supplier is neither able nor willing to implement your code of conduct for suppliers.

Challenge:

Your company's anti-corruption programme requires suppliers to accept and implement this code of conduct. Under the supplier selection process, this supplier would not be acceptable under the given conditions. However, you absolutely want to work with this supplier to avoid any jeopardy to the success of the project.

Possible solutions:

- Provide the supplier with information (including negative case studies) and clarify with the help of case studies what adverse consequences a lack of anti-corruption measures can have for your company and also for the supplier.
 - Make it unmistakably clear to the supplier that your company cannot cooperate without a contractual commitment to anti-corruption and the commitment being translated into action.
 - Take your requirements to higher levels of the supplier, to the top managerial level, the owners or the mother company and insist that anti-corruption measures are implemented.
 - Offer anti-corruption training.
 - In individual cases, weigh up the risks and decide whether an exception might be acceptable.
-
- Try to understand why the supplier is refusing – perhaps the company is already bound by a number of different directions imposed by other companies.

6. THE IMPENETRABLE AUDITOR

Your company wants to establish a new supplier network in another country. An external auditor is contracted who speaks the local language and is familiar with the situation on the ground. The auditor conducts risk assessments for a whole series of suppliers on the basis of research work, meetings with suppliers' representatives and the records of state inspectorates (covering occupational health and safety, environmental regulations, anti-corruption programmes). Experience in the region, however, casts doubt on the plausibility of the reports of the auditor who has found no grounds for complaint with respect to any of the suppliers.

Challenge:

Your company guidelines require no doubts regarding the risk profile of suppliers contracted by the company. The reports submitted to you do not meet this criterion.

Possible solutions:

- If necessary, request additional explanations and background information.
- Obtain additional reports of experience in the region and evidence (e.g. from other companies or civil society sources) in order to check recommendations.
- Impose a contractual commitment to anti-corruption on auditors and regularly remind auditors of this commitment within the scope of communication and training measures.
- Introduce a rotation system for auditors to reduce dependencies.
- Introduce a 'four-eyes principle' for auditors.
- Have your own staff conduct random sample audits.
- Supplement audits with an effective feedback process for suppliers.
- Set up your own whistleblower system for suppliers and publicise it.
- Ensure that the whistleblower system for suppliers works.
- Support initiatives to draw up lists of recognised and certified auditors (collective action).

7. THE SUPPLIER WITH INDEPENDENT STANDARDS

Your company is negotiating a major contract with a strategically important supplier. However, the audit shows that the principles of the supplier's code of conduct do not tally exactly with your own code of conduct. On request, the supplier refuses to bring its code of conduct into line with yours, pointing to other clients and local legislation.

Challenge:

Your anti-corruption programme requires suppliers to commit to the principles of your code of conduct. This does not arise in the present case which is an obstacle for further cooperation with the supplier.

Possible solutions:

- Check the supplier's code of conduct to see if it is of equivalent value to your own code of conduct for suppliers⁶:
 - If you find the two codes to be of equivalent value, you can accept the supplier's code of conduct as well as your own.

- If possible, agree on an informal revocation of the requirement.
- If this is not possible, you should consider a written agreement recognising each other's code of conduct.

- If you find the two codes of conduct not to be equivalent, incorporate pertinent individual provisions into the contract.
- Alternatively, you should consider allowing suppliers to base their actions on valid legislation and/or the code of conduct of the relevant professional association.

- Ensure that the contract contains an anti-corruption clause.
- Bring your own code of conduct for suppliers into line with accepted standards and incorporate additional pertinent provisions into contracts.
- Enforce cooperation with other local companies with the intention of drawing up and applying common anti-corruption guidelines (ensure you are not infringing competition or monopoly law provisions).

⁶ Additional details can be found in the guidelines issued by BDI, the Federation of German Industries (2010): Mutual recognition of Codes of Conduct.



8. THE PROCUREMENT OFFICER AND THE BONUS

One of your procurement officers has reached a special agreement with a supplier, under which the supplier keeps the prices down until the end of the year and does not raise them until the following year. This means that the procurement officer is entitled to a higher bonus. There is no objective justification for the sudden jump in prices.

Challenge:

The remuneration regulations for staff should be reviewed for any corruption risks that are inherent and adjusted accordingly. However, this is resisted by the staff of the procurement department who fear that their salary might be reduced.

Possible solutions:

- Review the case and if appropriate impose sanctions on the procurement officer to clarify a zero tolerance policy on corruption within your own company and to suppliers.
- Ensure that the management is a role model in terms of anti-corruption commitments and that they communicate the anti-corruption message throughout the company. This should be repeatedly stressed in staff training sessions.
- Always have contracts reviewed by an independent body within the company.
- Take bonus regulations for staff into account in risk analyses.
- Before awarding bonuses, analyse transactions and check for any irregularities.
- With the help of the management, ensure that the design of the bonus system takes the following into account:
 - Regulations must not contradict the corporate culture.
 - It must be possible to achieve performance targets while acting ethically.
 - Staff must not be paid purely based on the output (strengthen staff's own motivation, set longer-term objectives).
 - Staff who are guilty of serious or repeated misconduct may not be promoted and/or will be sanctioned.

9. TOO MANY SUPPLIERS FOR REGULAR CHECKS

Following a corruption scandal, a competitor saw its strong position on the market weakened in the previous year, since the management and other implicated units played a major role in the investigation of the scandal. Based on this observation, your own company management has clearly stated that corruption prevention in the supply chain is a top priority with immediate effect. However, your company has contracts with several hundred suppliers in a number of different countries.

Challenge:

Your anti-corruption programme requires that you monitor risks involving suppliers during the term of contracts, too. You know, however, that it is not possible to run regular checks on all suppliers to the same extent.

Possible solutions:

- Integrate questions on anti-corruption into existing supplier questionnaires and send out the questionnaires at regular intervals to decrease time and effort on the supplier-side and enhance transparency.
 - Ask suppliers for regular and proactive self-assessments and/or reports.
 - Use external supplier databases as long as the provided assessment criteria are compatible with the requirements of your own company.
 - Have audits performed by external service providers (see also challenge no. 6 – ‘The impenetrable auditor’).
-
- Select a risk-based approach in order to prioritise the suppliers to be checked.
 - Conduct regular random checks of suppliers.
 - If necessary, provide additional resources within your company for this work.

10. THE NEW SUB-SUPPLIER

Within the scope of restructuring, your company is now working with a number of new suppliers selected on the basis of the standard risk analysis. During the term of the contract, your company is informed that one supplier has sourced out an important part of the work to a sub-supplier unknown to you. Initial research points to corruption risks.

Challenge:

Your own supplier selection process would not allow placing an order with such a supplier (and thus not with a sub-supplier either) with this risk profile. However, your supplier has already signed a contract with the sub-supplier.

Possible solutions:

- Make it clear during contractual negotiations that there can be no sub-contracting or that any sub-contracting must be authorised by your company and have this incorporated into the contract.
- In your contract with suppliers, require them to oblige their own suppliers to respect the principles of your own code of conduct for suppliers and make your suppliers responsible for monitoring compliance.
- Offer support for sub-suppliers in conjunction with monitoring based on random samples.
- Talk as quickly as possible with your supplier and clarify that this development is not in line with the intentions or the spirit of the company's contract and if necessary, insist that the supplier withdraws from the contract with the sub-supplier.
- If the supplier is not willing to cooperate, bar the supplier from any further contracts or cancel the existing contract.

11. THE DEPENDENT COMPANY

Anonymous information from an employee of your supplier has reached you via the whistleblower system, claiming that government inspectors have been bribed to circumvent inspections relating to occupational health and safety and compliance with environmental standards.

Challenge:

In a case like this, your company's guidelines require to terminate relations with the supplier as swiftly as possible. However, this would mean the almost total discontinuation of the supply of an important product line.

Possible solutions:

- Ensure that the identity of the whistleblower is not discovered by the supplier.
 - Demand that the supplier take additional preventive measures to ensure that this practice is not repeated, including evidence of the consequences for the employee(s) guilty of corrupt practices.
 - If the supplier demonstrates little interest in cooperating, check whether you can cancel the contract immediately or within the near future and consider cancelling the contract while seeking an alternative source.
 - Consider informing other companies that might also be affected.
-
- Request a meeting with the responsible persons at the supplier and ask for immediate clarification.
 - Demand an immediate end to current practice along with further evidence; if necessary and possible, conduct inspections yourself.
 - Check to what extent escalation stages comply with the national law in the supplier's country and seek the assistance of experienced lawyers in that country.

12. THE DEPENDENT SUPPLIER

Your company works with a large number of smaller suppliers, many of whom depend on the orders placed by your company. Experience indicates that dependencies like this are associated with corruption risks (e.g. your procurement officers could make unethical additional demands).

Challenge:

Your company has put in place a whistleblower system that allows employees of suppliers to inform you about cases of corruption. Suppliers are actively informed about this option. They do not use it, however, because they fear that to do so would entail disadvantages in future.

Possible solutions:

- Make sure that you are a good anti-corruption role model and present this outside the company to demonstrate suppliers that the company has a zero tolerance policy on corruption.
- Run suitable random checks on transactions.
- Strengthen the whistleblower system within the company:
 - Ensure protection for suppliers within the framework of the whistleblower system (including anonymity; ensure a contact point outside the procurement department).
 - Make data protection and privacy laws and consequences under labour law transparent inside and outside your own country.
 - Offer a number of different communication channels within the company and for suppliers, also in their own national languages.
 - Consider setting up a contact point at an external service provider.
- Conduct training for employees to make them more aware of the risks of such situations (greater awareness among colleagues).
- Introduce a job rotation system to prevent the emergence of long-standing relations.
- Communicate to relevant staff that clear sanctions will be imposed in the case of misconduct and (where necessary) enforce these sanctions.



13. THE VALUABLE SERVICE PROVIDER

Your company has contracted a high-ranking expert who was selected because of a proposal made by an executive in a particular specialist department. At the end of the contract, the expert invoices your company for rendered services. The executive in the specialist department confirms the performance of all services. A double-check reveals that the services to be rendered were not clearly defined in the contract concluded with the expert.

Challenge:

Before an invoice can be authorised and released for payment, your company's purchasing and procurement guidelines require a double-check of rendered services by an internal unit. Because of the lack of detailed terms of reference, it is not immediately possible to perform this double-check or pay the expert.

Possible solutions:

- If the contractual definition of the services is inadequate and/or if there are reasonable grounds for doubt, demand documentation of the services provided.
- When a contract is concluded, ensure the following:
 - The services to be provided are clearly defined and described in detail.
 - The documentation that the contractor must supply is clearly stipulated.
 - Payment is clearly linked to the rendering of all services specified and to the pertinent documentation.
- Ensure that the contract, the proportionality of the rendered services, payment and documentation of the provided services are double-checked inside the company.
- If possible, request other offers as a basis for comparison when checking contracts for consulting or mediation services (services are difficult to quantify).
- Question the executive and investigate in any potential conflict of interests.

14. RENEGOTIATIONS

A supplier has delivered on time and in line with the provisions of the contract. This was confirmed when the delivery was accepted. During renegotiations, the supplier points to additional costs and tries to negotiate a higher price.

Challenge:

Basically renegotiations of this sort are consistent with standard practice in your business environment. At the same time, you know from other projects in the region that the additional costs could have been incurred by facilitation payments to the customs authorities to accelerate customs clearance. This results in a direct liability risk for your company that must be fully discounted before payment is made.

Possible solutions:

- Always discuss possible risks of corruption with suppliers and consider possible counter-measures with them.
- When contracts are concluded, ensure that
 - The documentation to be provided by the supplier is clearly stipulated.
 - Payments are linked to the complete delivery of goods/services as agreed and to the provision of the relevant documentation.
 - Additional costs may only be invoiced if they are authorised in advance.
- Require the supplier to provide a precise break-down of additional costs along with the pertinent vouchers and written confirmation from the supplier that funds have been used correctly.
- Voice your suspicions to the supplier and offer help.

HARNESSING DIGITALISATION TO RESPOND TO CHALLENGES

Every sustainable risk-aware anti-corruption programme will be measured against two yardsticks: effectiveness and cost-efficiency. Digitalisation offers a large number of options to respond to anti-corruption challenges in the supply chain. This applies both to small and medium-sized enterprises and to multinationals.

The continuing digitalisation of information and the increasing networking via the internet generates more and more opportunities for gathering, use and evaluation of mobile data. Digital transformation can thus significantly enhance the effectiveness and cost-efficiency of corruption prevention measures.

Digitalisation facilitates the following:⁷

- **Faster and more cost-effective selection of suppliers** using procurement platforms and e-auctions along with improved due diligence audits facilitated by optimised data storage and analysis and response to risk assessments.
 - **Greater acceptance and effectiveness of training** by focusing training with respect to risk and requirements profiles and better integrating training measures into everyday work with mobile training, different language versions, more inter-personal interaction, space to share experience and rapid feedback.
 - **More cost-effective and more flexible whistleblower systems** that better respond to different preferences and habits of employees (e.g. making use of different reporting channels).
 - **Optimisation of internal control systems and risk analyses**, partly through the screening of acceptance records and payment transactions for irregularities, but also improved risk analyses and real-time monitoring through the processing of master data, transaction and application data.
- Great sensitivity is required when implementing these measures. Successful implementation requires you to comply with data protection and privacy provisions, as well as dealing with a constantly expanding volume

⁷ See also Biermann et al. (2009): Compliance Intelligence.



of data from a variety of different sources and with the opportunities offered by and consequences of automated conclusions that might well prove incorrect in specific situations. Not everything that is technically feasible is also desirable.

Nevertheless, companies should make use of the opportunities offered by digitalisation to respond to challenges in the implementation of anti-corruption measures in the supply chain and make the integrity of business processes even more efficient.⁸

⁸ More information (in German only) can be found in DICO – Deutsches Institut für Compliance e.V. (2017): Erwartungen an die Compliance Funktion 4.0 – Thesenpapier zur digitalen Zukunft der Compliance.

MORE GUIDELINES: HELP FOR THE DAILY PRACTICE

Designing and realising programmes

The Association Materials Management, Purchasing and Logistics Germany (2008):
Code of Conduct

Transparency International (2014):
Business Principles for Countering Bribery:
Small and Medium Enterprise (SME)
Edition

Transparency International (2013):
Business Principles for Countering Bribery

Transparency International UK (2012):
The 2010 UK Bribery Act – Adequate
Procedures. Guidance on Good Practice
Procedures for Corporate Anti-bribery
Programmes – Checklist

United Nations Global Compact (2016):
Fighting Corruption in the Supply Chain:
A Guide for Customers and Suppliers

United Nations Office on Drugs and Crime (2013): Anti-Corruption Ethics and
Compliance Programme for Business:
A Practical Guide

Risk management

International Chamber of Commerce (2015):
ICC Anti-Corruption Third Party Due
Diligence: A Guide for Small and Medium
Size Enterprises

OECD (2017): OECD Due Diligence Guidance
for Responsible Supply Chains in the Garment
and Footwear Sector

Transparency International UK (2013):
Diagnosing Bribery Risk – Guidance for
the Conduct of Effective Bribery Risk
Assessment

United Nations Global Compact (2013):
A Guide for Anti-Corruption Risk
Assessment

Whistleblower systems

International Chamber of Commerce (2008):
ICC Guidelines on Whistleblowing

Bonus systems for staff

Transparency International (2016):

Incentivising Ethics – Managing Incentives to Encourage Good and Deter Bad Behaviour

Specimen clauses for contracts with suppliers

International Chamber of Commerce (2012):

ICC Anti-Corruption Clause

Reporting

United Nations Global Compact, Transparency International (2009):

Reporting on the 10th Principle against Corruption

Collective action

United Nations Global Compact (2015):

A Practical Guide for Collective Action against Corruption

World Bank Institute (2006): Fighting Corruption Through Collective Action

Training and other assistance for employees and companies

Transparency International Deutschland, Transparency International Bangladesh (2015):

Undress Corruption – How to Prevent Corruption in the Readymade Garment Sector: Scenarios from Bangladesh

Transparency International UK (2014):

Countering Small Bribes

United Nations Global Compact, World Economic Forum, International Chamber of Commerce, Transparency International (2009): RESIST – Resisting Extortion and Solicitation in International Transactions

Alliance for Integrity (2016): No eXcuses! Countering the 10 Most Common Excuses for Corrupt Behaviour. A Pocket Guide for Business Practitioners



The Alliance for Integrity is a business-driven, multi-stakeholder initiative seeking to promote transparency and integrity in the economic system. To achieve this goal, it fosters collective action of all relevant actors from the private sector, the public sector and civil society. The Alliance for Integrity is a platform that offers practical solutions to strengthen the compliance capacities of companies and their supply chains. In addition, the Alliance for Integrity contributes to the improvement of framework conditions by fostering dialogue between the public and private sectors. This is why the Alliance for Integrity is the significant global contact point for businesses countering corruption collectively. www.allianceforintegrity.org



Global Compact
Network Germany

The Global Compact was launched by the United Nations in 2000. It is a strategic and international platform for learning and dialogue on sustainable and responsible corporate management involving civil society organisations, businesses and national governments. Working with its partners, the Global Compact has shaped the international debate on corporate sustainability and the development of strategies and tools for its implementation. As a platform for multi-stakeholder learning and dialog, the Global Compact uses webinars, workshops, coaching, conferences and expert discussions in its work.

Through the local networks, which organise and run many of these events, businesses can advance sustainability topics that they feel should be addressed and then play an active role in shaping the dialogue. The Global Compact Network Germany is one of the most active in the world with around 450 participants. www.globalcompact.de/en



Partnership for
Sustainable Textiles

The Partnership for Sustainable Textiles is a multi-stakeholder initiative with about 150 members from the business sector, non-governmental organisations, trade unions, standards organisations and the German Government. The Textiles Partnership was founded in October 2014 in response to the deadly accidents in textile factories in Bangladesh and Pakistan and is striving to achieve social, ecological and economic improvements alongside the entire textile supply chain. Based on jointly defined Partnership goals, all members commit to binding and verifiable targets that become gradually more ambitious. In addition, promising ideas for solutions are promoted through Partnership Initiatives in production countries.

www.textilbuendnis.com/en

