NBi
National Business Initiative

Benchmark Report |
Understanding the Private
Sector's Approach to Anti-Corruption

CONTENT

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1. INTRODUCTION

South Africa faces growing expectations from societal, political and regulatory spheres to address the complex challenge of corruption. The consequences of failing to prevent corruption are not only limited to financial losses and reputational damage, but also extend to the negative impact on economic growth and pose a long-term threat to business sustainability.

Corruption is widespread and needs to be addressed urgently. Existing interventions have not been sufficient in reducing its prevalence. Thus, more action is required to tackle its root causes and to find effective solutions. The private sector is a key roleplayer that must drive this action.

Ethics provides an important framework for instilling principles and behaviours that govern a responsible, transparent and accountable way of doing business. That makes ethics crucial when addressing corruption. Ethics is underpinned by what constitutes acceptable moral conduct. This suggests there are unacceptable ways of behaving. When considered holistically, ethics serves as a function of philosophical principles . Establishing common and accepted parameters for acceptable and unacceptable conduct is a challenge best addressed through ethics and anti-corruption initiatives.

The National Business Initiative (NBI) has embarked on an Ethical Leadership and Anti-Corruption Project to facilitate dialogue on ethics and corruption in the private sector.

The project aims to develop rigorous and practically relevant insights on these issues. To this end, an intended outcome is an online training platform to support the private sector on ethical business conduct and anti-corruption practices.

The NBI's work in anti-corruption supports our strategy of achieving economic and social transformation. Furthermore, this work is a Presidential Jobs Summit commitment.

As such, an imperative step in designing an online training platform entails establishing a baseline. In this regard, we conducted a study evaluating the anti-corruption practices of the 50 largest companies listed on the Johannesburg Stock Exchange (JSE).

An NBI-developed benchmarking tool aided the study. We used the tool to assess anti-corruption practices based on six dimensions, namely: Leadership and Governance, Values and Organisational Culture, Compliance and Risk, Stakeholder Engagement and Reporting, Ethical Scandal, and Operational Environment.

This report is the first in a series of publications that will showcase best practice in ethical leadership and anti-corruption practices in the private sector. The impetus that drives this report is providing companies and other stakeholders with an understanding about what enables corruption in workplaces. In turn, we will outline what interventions are available to reduce corruption.

1 Minkes, A. L., Small, M. W., & Chatterjee, S. R. (1999). Leadership and Business Ethics: Does it Matter? Implications for Management. Journal of Business Ethics, 20(4), 327-335.

2. OBJECTIVES AND METHOD

2.1 Objectives

The NBI's Ethical Leadership and Anti-Corruption Project is driven by the need to facilitate constructive engagement and dialogue about ethics and anti-corruption in the private sector. Developing an online training platform, to create awareness and address behavioural aspects of these two phenomena, is one of the focal points of the project. The first phase of the project is a research process that explores companies' existing anti-corruption approaches. To guide the research, the NBI has developed a benchmarking tool, which assesses private sector approaches based on indicators related to anti-corruption interventions.

2.2. Method

Company selection and data collection

The benchmarking study assessed the 50 largest companies listed on the JSE Index. Selection was based on market value as at 1 July 2019. The final list of the 50 evaluated companies is presented in the data tables of the report. Similar to other previous studies on evaluating large corporates, the companies were not picked to reach industry wide conclusions. Rather, the companies were selected to explore performance against existing ethics and anti-corruption approaches [2].

During August 2019, we collected data from publicly available information – including annual integrated reports, company policies, governance and sustainability reports, and other documents for the 2018 financial year. In this study, the NBI relied on presented disclosures. Furthermore, the NBI has not undertaken to source non-disclosed information. That means if a company publishes "a full list of its fully consolidated material issues", the information has been accepted at face value and scored accordingly.

Questionnaire scoring and data analysis

The NBI's Ethical Leadership and Anti-Corruption Project team developed the questionnaire internally. The questionnaire is designed to cover a spectrum of indicators that influence companies' ethics and anti-corruption practices. Within organisations, the questionnaire focuses on six dimensions, namely:

- Leadership and Governance;
- Values and Organisational Culture;
- Compliance and Risk;
- Stakeholder Engagement and Reporting;
- Ethical Scandal; and,
- Operational Environment.

The scoring method used to assign numerical ratings for the questionnaire was adapted from other 4-point scales commonly applied in the analysis of corporate reports (see Table 2) [3].

TABLE 1. EVALUATION DIMENSIONS

DIMENSION	WEIGHTING %	NUMBER OF QUESTIONS	DESCRIPTION
Leadership and Governance	25	17	Evaluates ethical leadership and companies' compliance to regulations and other external mandates.
Values and Organisational Culture	25	20	Assesses the embeddedness of values in organisational culture and decision-making practices.
Compliance and Risk	20	17	Evaluates companies' risk assessment practices.
Stakeholder Engagement and Reporting	10	7	Evaluation of inclusive stakeholder engagement.
Ethical Scandal	15	1	Assesses the implications for companies involved in ethical scandals and corruption.
Operational Environment	5	3	Investigates companies' relationship with the public sector and support for the Sustainable Development Goals (SDGs).

The content analysis was conducted in the following three steps:

1) Following completion of the data collection, the final set of documents was imported into a Qualitative Data Analysis software program called ATLAS.ti. Keywords were used to search the documents, which highlighted statements about the underlying indicators aligned to the questions in the six dimensions. The statements were coded and categorised under each question . Coding refers to "the capture of the essence or central theme of a portion of the data" [5].

2) Numerical ratings were assigned based on the type of disclosure. The ratings determined whether the statements were best scored a 0, 1, 2 or 3 (see Table 2).

3) The scores were averaged to give a single score for each dimension. Composite scores were then used to generate statistics.

The final score for each dimension is expressed as a weighted percentage of the maximum possible score. For each dimension, the following weighting was assigned: Leadership and Governance (25%), Values and Organisational Culture (25%), Compliance and Risk (20%), Stakeholder Engagement and Reporting (10%), Ethical Scandal (15%) and Operational Environment (5%). The index is based on the weighted average of results in all six dimensions (see Table 1), where 0 is the worst preforming and 10 is the best preforming.

[2] Corruption Watch. (2016). Transparency in Corporate Reporting: Assessing South African Companies. Retrieved (January 27, 2020) from https://www.corruptionwatch.org.za/wp-content/uploads/2016/08/CW_TRAC_AUG_2016.pdf
[3] Dawkins, C., & Ngunjiri, F. W. (2008). Corporate Social Responsibility Reporting in South Africa: A Descriptive and Comparative Analysis. The Journal of Business Communication, 45(3), 286-307. doi: 10.1177/0021943608317111

[4] Gioia, D. A., Corley, K. G., & Hamilton, A. L. (2013). Seeking Qualitative Rigor in Inductive Research: Notes on the Gioia Methodology. Organizational Research Methods, 16(1), 15-31. https://doi.org/10.1177/1094428112452151
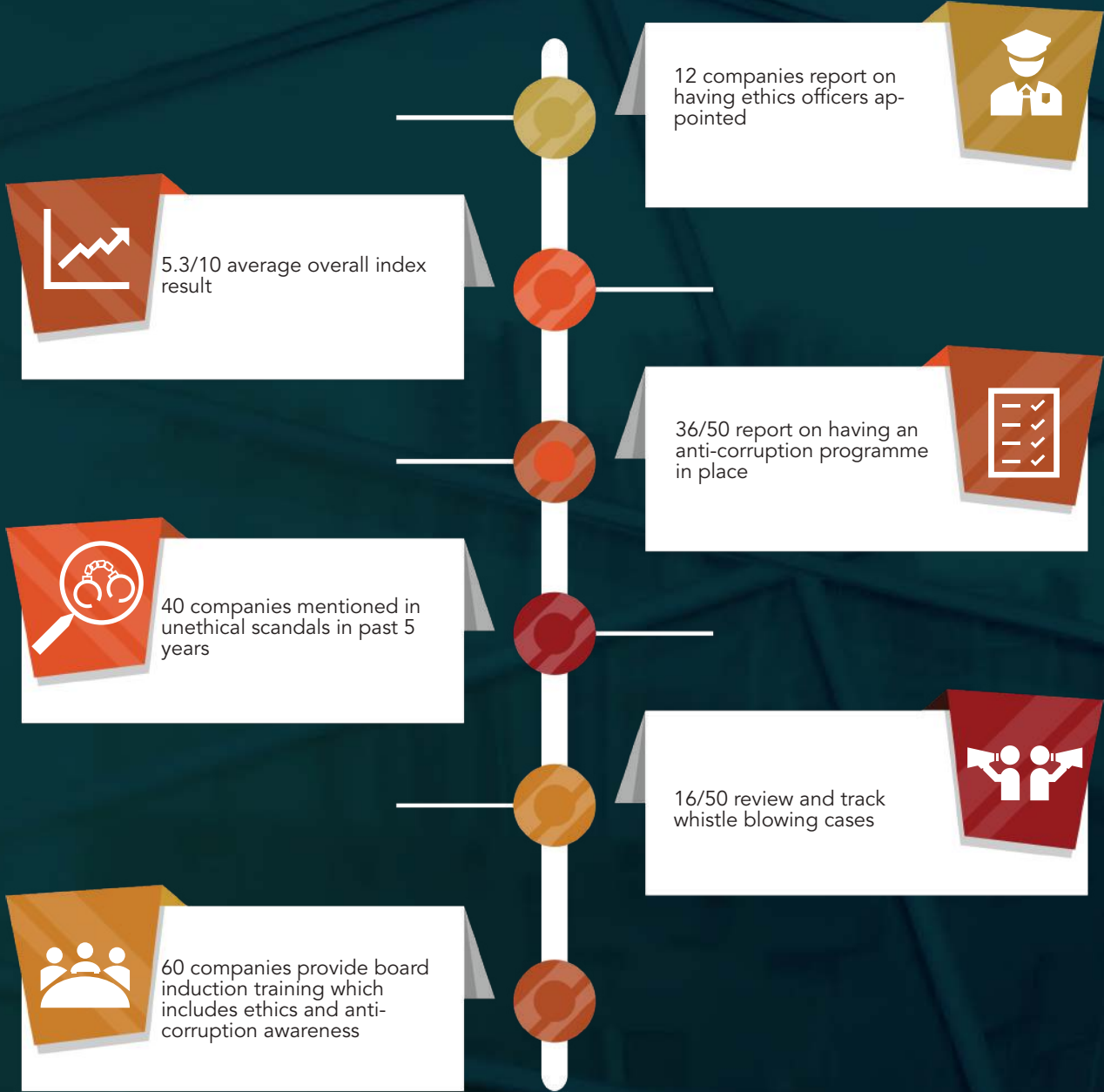[5] The University of Utah. (2019). ATLAS.ti for Qualitative Research: Open Coding. Retrieved (January 27, 2020) from https://campusguides.lib.utah.edu/c.php?g=532147&p=3640671

TABLE 2. SCORING METHOD FOR
CONTENT ANALYSIS

SCORE

0	1	2	3

SCORING CRITERION

No disclosure: No mention is made of reporting indicator.	**Description:** General mention of reporting indicator, but no indication of activities and desired level of performance.	**Activities:** Mention of activities and desired level of performance or in the processes of developing activities.	**Outcomes:** Mention of reporting indicator or measurable outcomes are provided.

EXAMPLE

	"The board uses multiple sources to locate the required skills when there is a vacancy and endeavours to recruit directors with some level of governance experience. The board still needs to determine the number of outside professional commitments allowed for its members and chairperson, based on members' participation and contribution on the board (Integrated Report)."	"The targets for race and women representation at a minimum of 30% each (Integrated Report)."	"The remuneration policy and the implementation report are subject to an annual non-binding shareholder advisory vote at the Annual General Meeting (AGM) … voting results at the previous AGM were as follows: 65.11% in favour of the remuneration policy; 66.38% in favour of the implementation report ... (Integrated Report)."

3. KEY INSIGHTS AND FINDINGS

Figure 1. Highlights

12 companies report on having ethics officers appointed

5.3/10 average overall index result

36/50 report on having an anti-corruption programme in place

40 companies mentioned in unethical scandals in past 5 years

16/50 review and track whistle blowing cases

60 companies provide board induction training which includes ethics and anti-corruption awareness

3.1 Leadership and Governance

Leadership is a crucial lever in instilling a culture that upholds ethical behaviour and drives anti-corruption efforts within companies. But companies continue to rely disproportionately on their boards of directors to set the tone in efforts to combat corruption. In many companies, boards can be considered the ethical guardians for shareholders and, potentially, stakeholders affected by corporates' operations.

Despite well-documented shortcomings in governance practices and mounting public misgivings about outcomes, most interventions focus on board monitoring and control. This is accompanied by externally driven prescriptions for board composition, independence and size . As such, other levels of leadership within corporates are often overlooked. As a result, the role these other tiers of leadership within companies could play in anti-corruption measures remains largely unexplored.

It is proposed that a focus on senior management, as well as other levels of leadership, carries the potential to improve current anti-corruption interventions. This layer of management, and others below it, offers value. In addition, senior management give meaning to the occupational level they lead because the line of authority ''gap'' is narrow. This positioning enables management to engage with the workforce. It is conducive for practical solutions to flow from senior management and allows for the effective communication of problems when they arise.

In this scenario, early detection of any unethical conduct is possible because of senior management's proximity to other tiers of leadership, as well as the flow of information. Based on this perspective, the case can be made that buy-in and support from both senior and middle management are vital to the success of anti-corruption initiatives.


Figure 2. Index results
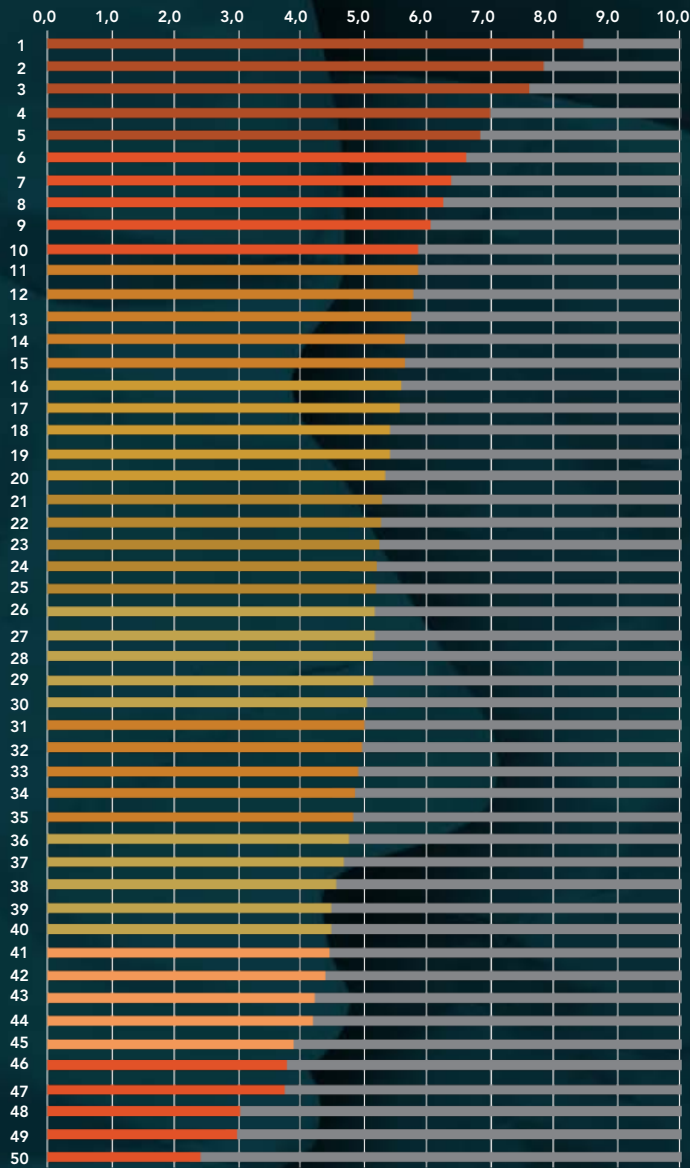
Although regulations and other external mandates are viewed as necessary pre-emptive or intervening functions of governance, these have been shown as insufficient for ensuring improvements in accountability, transparency or ethical decision-making . Given these regulatory limitations, there has been much discussion in practice and research alike about the transformative potential of moral leadership in organisations . Ideally, ethical leaders must exemplify the norms and the values of their organisations and embody the espoused internal culture. Ethical leaders must also enforce compliance with these standards among employees. Ethical leaders can act as moral role models and suppress corrupt acts such as bribes and selling confidential information.

Company results

The evaluation of the Leadership and Governance dimension is based on 17 questions. First, it aims to explore companies' board and leadership compliance to regulations and other external mandates, primarily King IV . Second, it assesses the disclosure of ethical business practices and anti-corruption programmes. Our study recognises publication of elements of an ethics and anti-corruption programme as demonstrative of a company's commitment to fight corruption. This is indicative of responsibility and accountability to stakeholders[2].

In the reporting on Leadership and Governance, the 50 listed companies that we have evaluated achieved an average result of 17%, out of a possible 25%. The best-performing companies – two corporate investment banks – recorded a score of 24%. Our results show that companies which performed well in this dimension often have a board composed mainly of independent and non-executive directors (Figure 3). In line with the King IV recommendations, our evaluation considers independent and non-executive directors important in providing supplemental guidance in instilling ethical leadership. The companies that scored highly in this dimension provide ethics and anti-corruption awareness training for board members. Furthermore, the companies have nominated social and ethics committees, and provided details about the activities of these committees in their annual reporting.

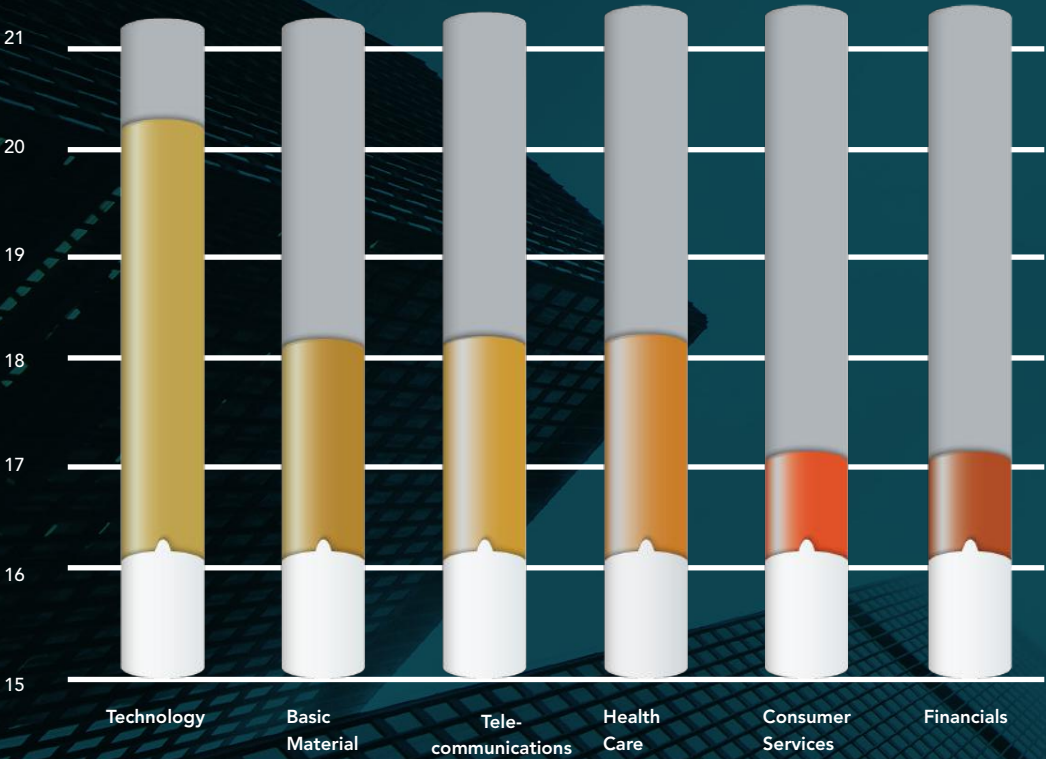Figure 3. Characteristics of top performing companies in leadership and governance

Majority of the board composed independent and non-executive directors

Provide ethics and anti-corruption awareness training for board members

Nominated social and ethics committee
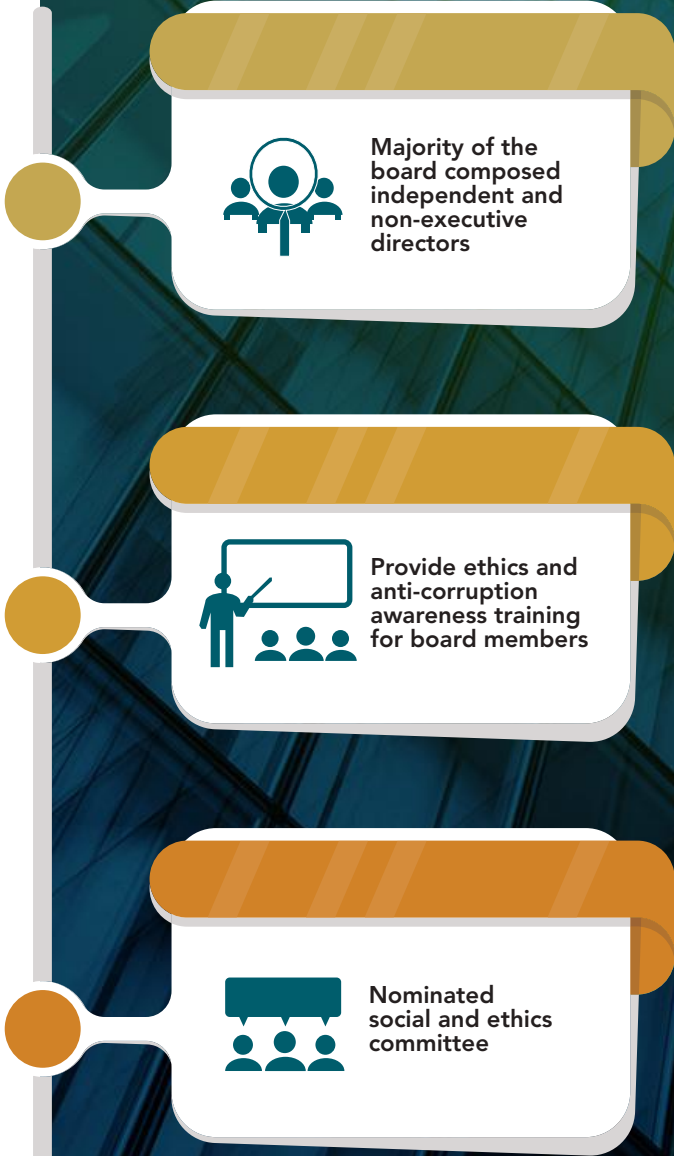
[6] Gerde, V. W., & Michaelson, C. (2019). Global Perspectives on Business Ethics from the 40th Anniversary Conference of the Hoffman Center for Business Ethics at Bentley University, 2016. Journal of Business Ethics, 155(4), 913-916.

[7] Steckler, E., & Clark, C. (2019). Authenticity and Corporate Governance. Journal of Business Ethics, 155(4), 951-963. doi: 10.1007/s10551-018-3903-5
[8] Academy of Management. (2019). Why Moral Leadership Matters. Retrieved (January 27, 2020) from https://journals.aom.org/doi/10.5465/annals.2016.0121.summary
[9] PwC. (2016). King IV - Steering Point. Retrieved (January 27, 2020) from https://www.pwc.co.za/en/publications/king4.html

On the other end of the spectrum, a corporate investment bank achieved a score of 9%, making it the worst performer. Overall, companies performed well in this dimension, particularly in compliance to the King IV Code and the United Nations (UN) Global Compact against corruption. In assessing the evaluation of boards and company secretaries, as suggested in the King IV Code, 43 companies reported evaluating either the board, the company secretary or both (see 7 Questionnaire: **Leadership & Governance on page 24**).

The performance of companies was also categorised according to industry (see Figure 4). The technology industry achieved a score of 20%. However, we do not consider this a representative result because there is only one company under this category. The basic materials, the telecommunication and the healthcare industries all achieved a score of 18%, while the consumer services and the financials industries recorded a score of 17%. These results indicate a low variance among industries, which signals that most companies are responding to compliance expectations.

This dimension also assessed companies' reporting on anti-corruption programmes. Overall, corporates performed well in this indicator, with 36 of the 50 listed companies reporting having an anti-corruption programme in place (see Figure 6).

FIGURE 4. PERFORMANCE BY SECTOR IN THE
LEADERSHIP AND GOVERNANCE DIMENSION

FIGURE 5. COMPANY REPORTING ON BOARD
INDUCTION AND ANTI-CORRUPTION TRAINING

38%
62%

■ Report on having a board induction process
■ No mention of board induction process

Induction process which includes Ethics and Anti-Corruption Training

No mention of reporting on Ethics and Anti-Corruption Training
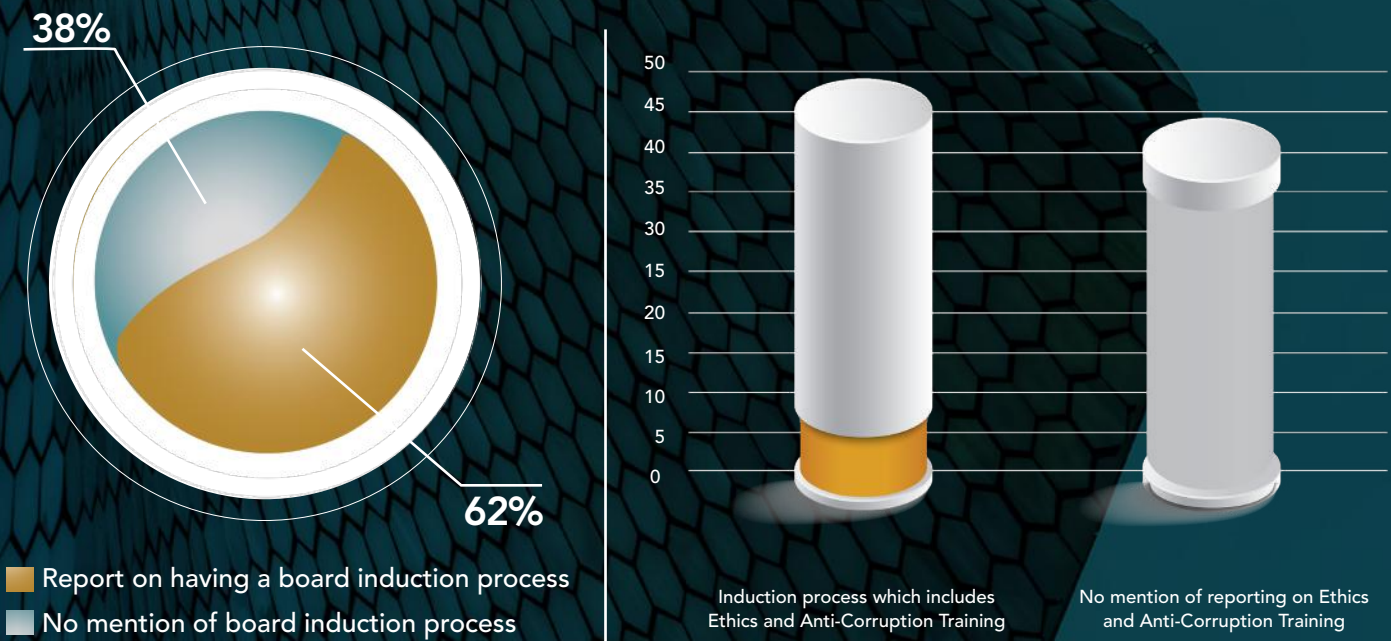
FIGURE 6. PREVALENCE OF ANTI-CORRUPTION
PROGRAMMES IN COMPANIES

72%
28%

■ Report on having an anti-corruption programme
■ No induction of anti-corruption programme

To assess ethical leadership at board level, the prevalence of induction processes for directors was evaluated. In particular, we explored the reporting of induction processes that include ethics and anti-corruption awareness training. A total of 31 companies, representing 62%, reported having a board induction process in place (see Figure 5). However, only six of these companies reported having a board induction process that includes ethics and anti-corruption training (see Figure 5).

This is concerning because a higher number was expected for this question, given the level of responsibility accorded to board members. The Companies Act 71 of 2008 and the King IV Report on Corporate Governance recommend the governing body ensure that incoming members are inducted[10]:

[10] Institute of Directors South Africa. (2018). New Directors: How to Hit the Ground Running. Retrieved (January 28, 2020) from https://www.iodsa.co.za/news/401706/New-directors-How-to-hit-the-ground-running.htm

3.2 Values and Organisational Culture

At the launch of the Allan Gray Centre for Values-Based Leadership in 2014, the founder of the company stated: "Values-based leadership involves a fundamental questioning of the principles by which the world has been doing business. More specifically, exploring whether profit and shareholder value should continue to be the exclusive drivers of business or if values, purpose and meaning might be more effective drivers for the 21st century[11]." Fast forward to the present, and more companies are incorporating values into their operations and decision-making processes.

In organisational settings, values make up the belief systems that underlie the actions of individuals and those of the organisation. Taken together, values shape how people and organisations respond to expectations to embed ethical leadership and prevent corruption. This suggests that if corruption levels are to be reduced, there must be a shift or adoption of values which embrace ethical business conduct. Ideally, companies should articulate values that align to create a culture which promotes ethical conduct.

Related to the aforesaid are tensions companies face when designing organisational values. This can be partly attributed to competing interests between shareholders and societal expectations. Priem, Tantalo and McFadyen (2019), writing in the Academy of Management, propose that top managers explicitly recognise the willing participation of all essential stakeholders as a necessity for a company's long-term success . As such, top managers should resist pressure from activist shareholders for high financial performance at the expense of other stakeholder groups. This approach espouses a more inclusive stance to stakeholders. Furthermore, such an approach engenders an organisational culture informed by clearly articulated values.
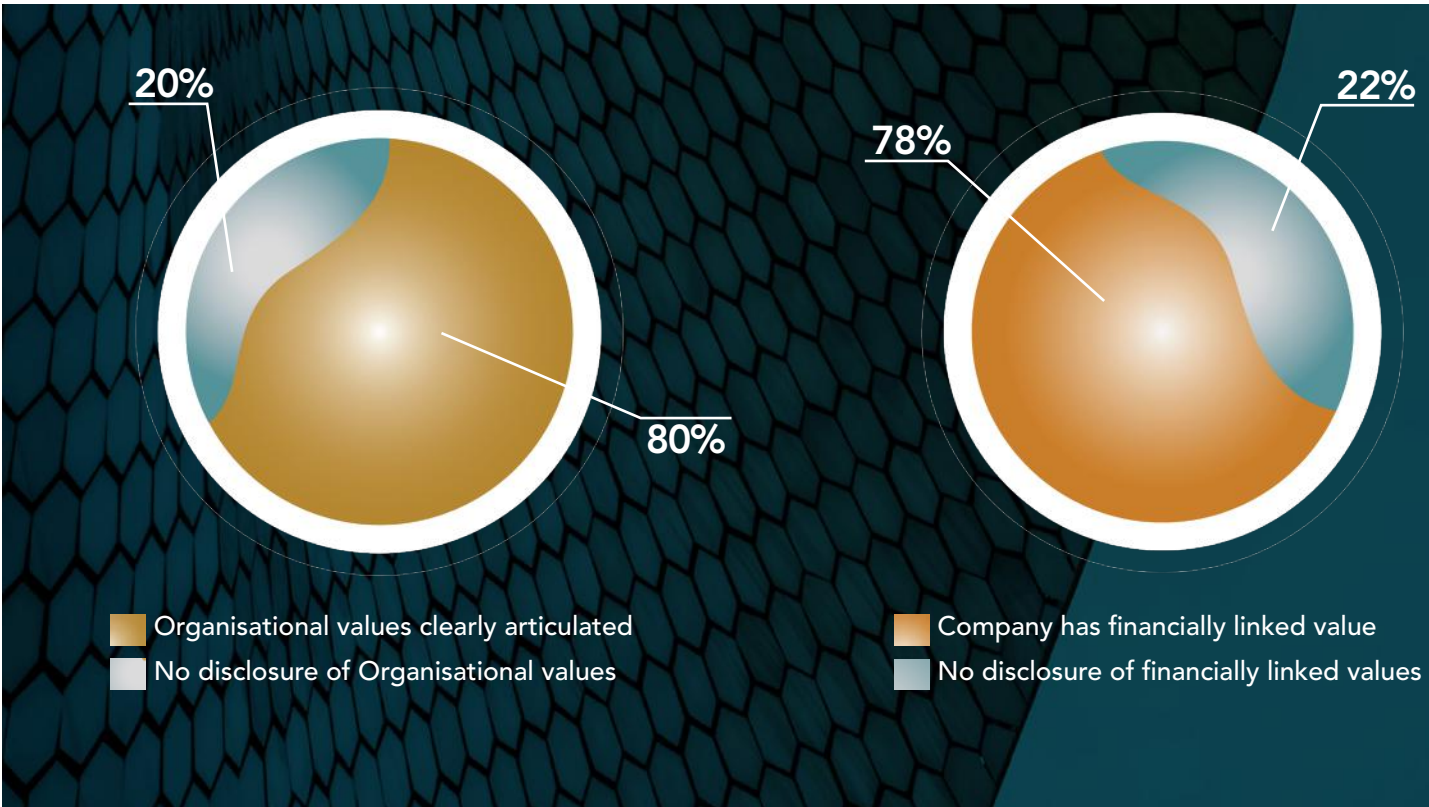
In such a paradigm, appointments to key leadership roles within a company become paramount. Therefore, selecting the best-suited candidates is crucial. Such appointments must be made along analogous criteria to board candidate selections in terms of inclusivity, diversity, race, expertise and experience. Values-based leadership is important because it emphasises an open flow of communication and the active participation of independent non-executive directors to engage with executive board members more robustly and constructively on matters of disagreement. In general, boards that are values-based in nature are more likely to exhibit transparency around access to   their minutes or other preparatory material. This correlates with how well such boards implement King IV.

Company results

Our assessment of Values and Organisational Culture is based on 20 questions. Overall, company performance was weak in this dimension, with an average result of 12%, out of a possible 25%. In our analysis, we explored the embedding of values and ethics in decision-making practices. Our study shows most companies have clearly articulated values which are integrated in their overall business strategies, with 80% of the corporates evaluated indicating this practice (see Figure 7). This was most evident in the integrated annual reports we reviewed. In addition, we observed that companies are starting to adopt values which enforce ethics and anti-corruption policies. This is a positive development given that, up to now, most companies have tended to articulate values which promote customer satisfaction or employee well-being.

However, we also identified companies that articulated values linked to financial performance. Such companies were rated negatively and given a score of 0, while corporates that did not have a financially linked value were given a score of 3. Our rationale is that a financially linked value encourages directors and employees to overlook ethical practices to achieve financial objectives. A company might state, for example, that one of its values is "ensuring … [employees] achieve profits even in challenging circumstances". Couched this way, such a value may encourage employees to overlook ethical business practices to meet these profit objectives. A total of 11 companies, representing 22%, were rated to have a financially linked value (see Figure 7).

FIGURE 7. HOW COMPANIES ENACT ORGANISATIONAL VALUES

- 20%
- 80%
- 78%
- 22%

■ Organisational values clearly articulated
■ No disclosure of Organisational values

■ Company has financially linked value
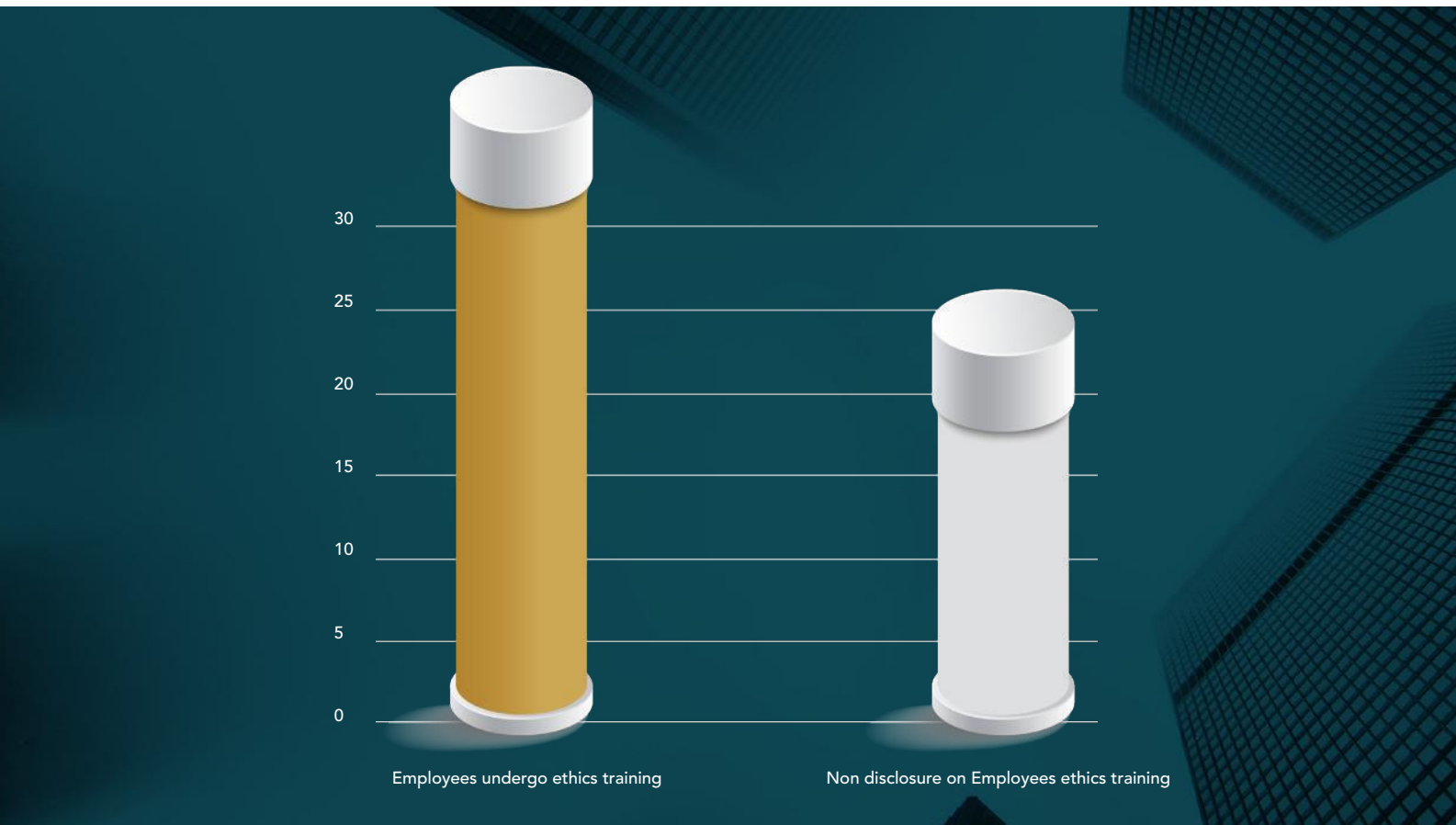■ No disclosure of financially linked values

To embed and inculcate a culture of ethical behaviour in companies, ethics training for all employees must be provided. Some companies have taken proactive steps to introduce such training [13]. We evaluated this practice and found that in 28 of the 50 listed companies, employees undergo some form of ethics training (see Figure 8). Although this figure shows progress, corporate governance expectations suggest that more companies should be providing ethics training.

[11] GSB Review. (2014). Values-Based Leadership. Retrieved (January 28, 2020) from http://www.gsbbusinessreview.gsb.uct.ac.za/centre-for-values-based-leadership/
[12] Priem, R. L., Krause, R., Tantalo, C., & McFadyen, A. (2019). Promoting Long-Term Shareholder Value by "Competing" for Essential Stakeholders: A New, Multi-Sided Market Logic for Top Managers. Academy of Management. doi/abs/10.5465/amp.2018.0048
[13] JSE. (2019). Driving Corporate Ethics for a Results-Orientated Environment. Retrieved (January 28, 2020) from https://www.jse.co.za/events-and-facilities/corporate-ethics-training

FIGURE **8.** COMPANY REPORTING ON ETHICS TRAINING

FIGURE **9.** PREVALENCE OF ANTI-CORRUPTION AND WHISTLE BLOWING POLICIES

42%

24%

58%

76%

◼ Report on having an anti-corruption policy
◼ No indication of anti-corruption policy in place

◼ Whistle blowing policy
◼ No indication of whistle blowing policy

Our study also assessed the availability of whistle-blowing facilities, an equally important indicator. Employees who face destructive leader behaviour, or evidence of unethical or illegal action, often remain silent. Such silence discourages employees from reporting these actions, states an Academy of Management article on the topic[16]. Therefore, the availability of a secure, externally managed whistle-blowing line is vital to ensure employees can report unethical behaviour.

We found that 39 of the 50 evaluated companies reported having a whistle-blowing line. However, only 12 companies, or 24%, reported having a whistle-blowing policy which ensures employees are protected from victimisation (see Figure 9).

3.3 Compliance and Risk

Companies are increasingly allocating more resources to enhance compliance with regulations. The impact of new legislation on business, as well as the implications of non-compliance, has increased the focus by boards on regulatory compliance[14].

Companies have a responsibility to identify existing and emerging legislation relevant to their business to ensure risks that may arise from compliance requirements are well understood by boards and management, notes a Deloitte report on compliance[14].
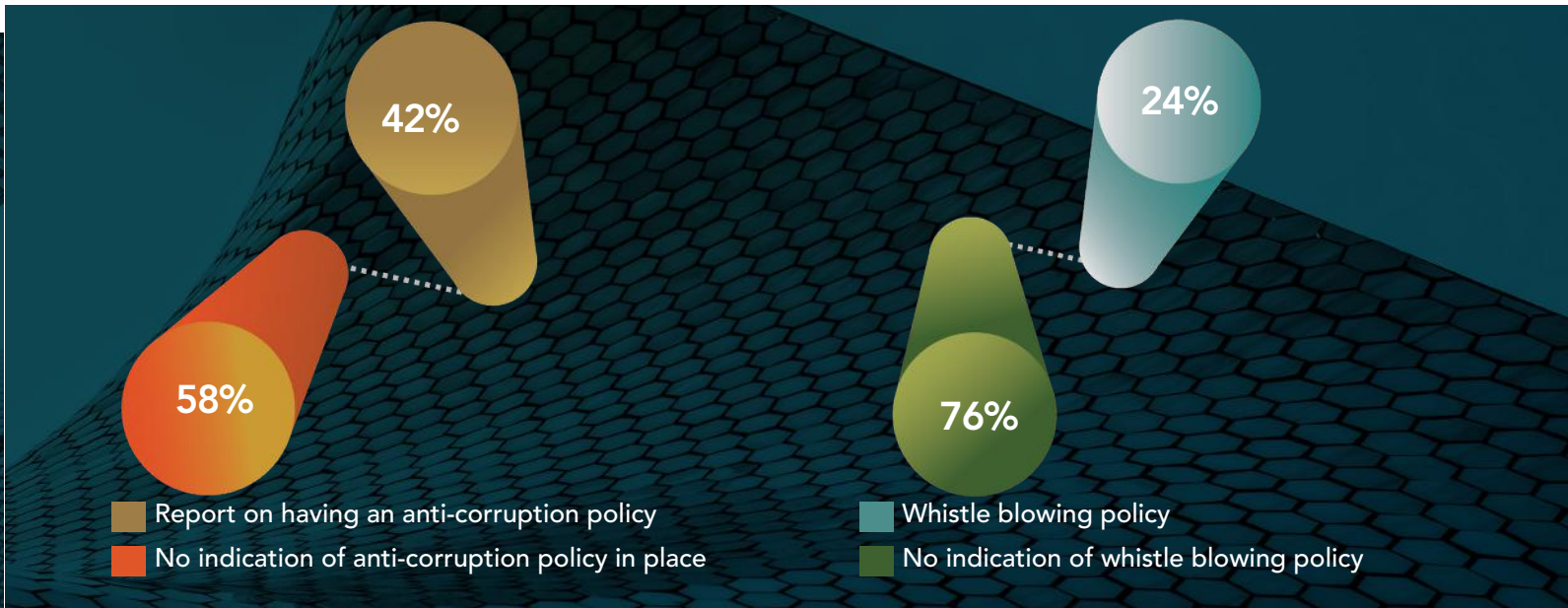
Company results

In this dimension, we assessed companies' compliance to King IV and other related policies. We also evaluated companies' risk assessment processes[15].

We identified details of an anti-corruption policy as a key indicator of managing the risk posed by corrupt acts such as bribery and price-fixing. We found that 21 of the 50 companies, or 42%, reported having an anti-corruption policy.

This was surprising given that 72% of companies reported having an anti-corruption programme in place (see Figure 6). The expectation is that more companies should develop or disclose their anti-corruption policies to increase stakeholder satisfaction and public confidence.

Our study recognises that some companies may have comprehensive anti-corruption programmes, but elect not to disclose. The motivation for this practice is beyond the scope of this investigation.

3.4 Stakeholder Engagement and Reporting

Establishing a stakeholder-inclusive approach is a necessity in the management practice toolkit. King IV recommends establishing a social and ethics committee to enable and support this practice. According to King IV, the reasons behind the committee's establishment must be discussed at board level. In addition, a culture of corporate citizenship and stakeholder awareness must be driven from the top-down throughout a company[17].

Company results

In this dimension, we evaluated companies' stakeholder-inclusive best practices. We considered an assurance opinion by internal and external providers as a key indicator of best practice.
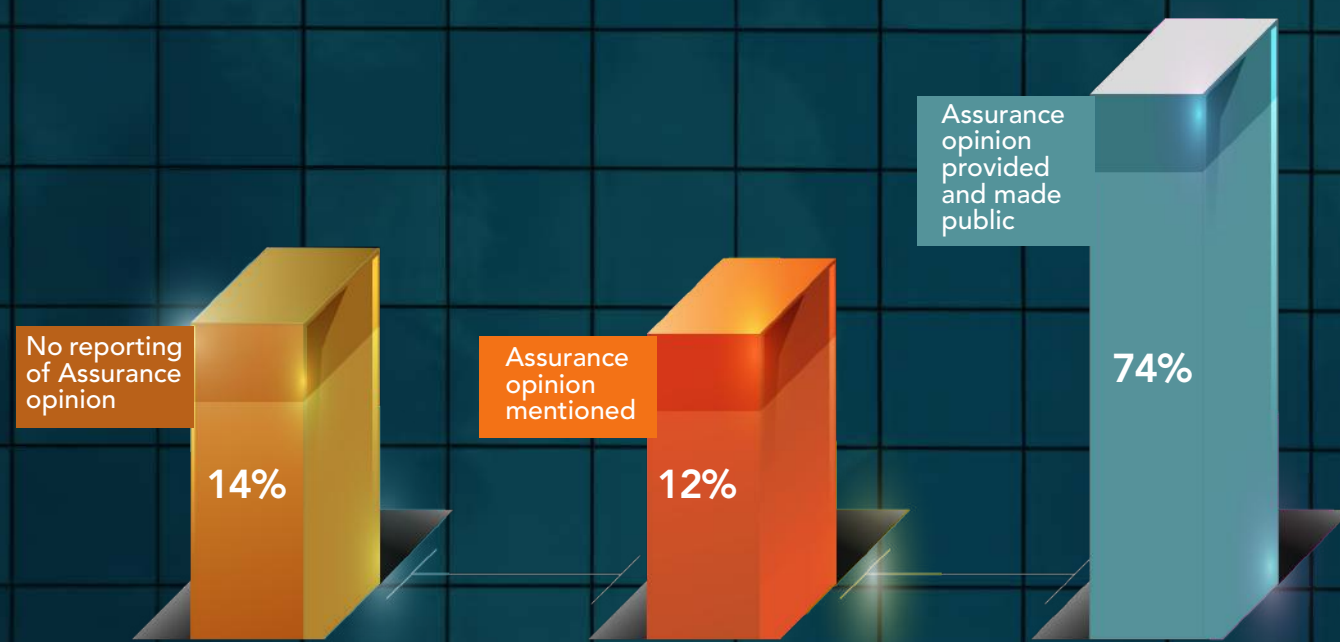
Companies that submit to environmental, social and governance – also known as ESG – auditing tend to demonstrate a commitment to create an inclusive approach to all stakeholders.

Of the companies evaluated, 37 of the 50 provided an assurance opinion which was made public (see Figure 10). Although six companies mentioned assurance in their reporting, these corporates did not provide details nor disclosed to the public. The remaining companies did not report on the provision of assurance.

14 Deloitte. (2016). Ensuring Regulatory Compliance: Integrating Risk Advisory and Assurance. Retrieved (January 28, 2020) from https://www2.deloitte.com/content/dam/Deloitte/za/Documents/risk/za_Ensuring_Regulatory_Compliance.pdf
15 See 7 Questionnaire: Compliance, Risk & King

16 Academy of Management. (2019). Even for Whistleblowers, Silence is Golden. Retrieved (January 28, 2020) from https://journals.aom.org/doi/10.5465/amp.2017.0003.summary
17 BDO. (2017). King IV™: The Rise of the Stakeholder. Retrieved (January 28, 2020) from https://www.bdo.co.za/en-za/insights/2017/king-iv/king-iv-the-rise-of-the-stakeholder

FIGURE 10. COMPANY REPORTING ON ASSURANCE

No reporting of Assurance opinion
14%

Assurance opinion mentioned
12%

Assurance opinion provided and made public
74%

3.5 Ethical Scandal

In recent years, several commissions of inquiry have been set up to unearth unethical conduct. The most notable among these is the Commission of Inquiry into State Capture, at which it has been demonstrated that the private sector is equally culpable in acts of corruption. In this regard, private companies have played an equally destructive role in enabling corruption through being party to corruption or facilitating corruption – as was the case with many professional services firms [18].

A recent ethics barometer conducted by the Gordon Institute of Business Science (GIBS) Ethics and Governance Think Tank found that most respondents thought it important their organisations behaved ethically, and that ethical values are widely shared across groupings [19].

But: "Only 30% of respondents who said they had witnessed ethical misconduct, including discrimination, bending of the rules to reach targets, and tolerance of bullying and intimidation, said they would report these breaches, either out of fear of victimisation or because they didn't believe their company would take any action." This revelation is concerning and demonstrates the urgent need for a proactive approach in the private sector.

Company results

In this dimension, we investigated whether the 50 companies have been implicated in ethical scandals. We reviewed media articles from the past five years, starting in August 2018. Out of the 50 companies evaluated, 40 were implicated in unethical business practices (see Figure 11). On the 10 top-performing companies, five reported having anti-corruption policies in place.

FIGURE 11. COMPANIES IMPLICATED IN SCANDALS

Implicated in unethical scandals in the last 5 years

Not implicated
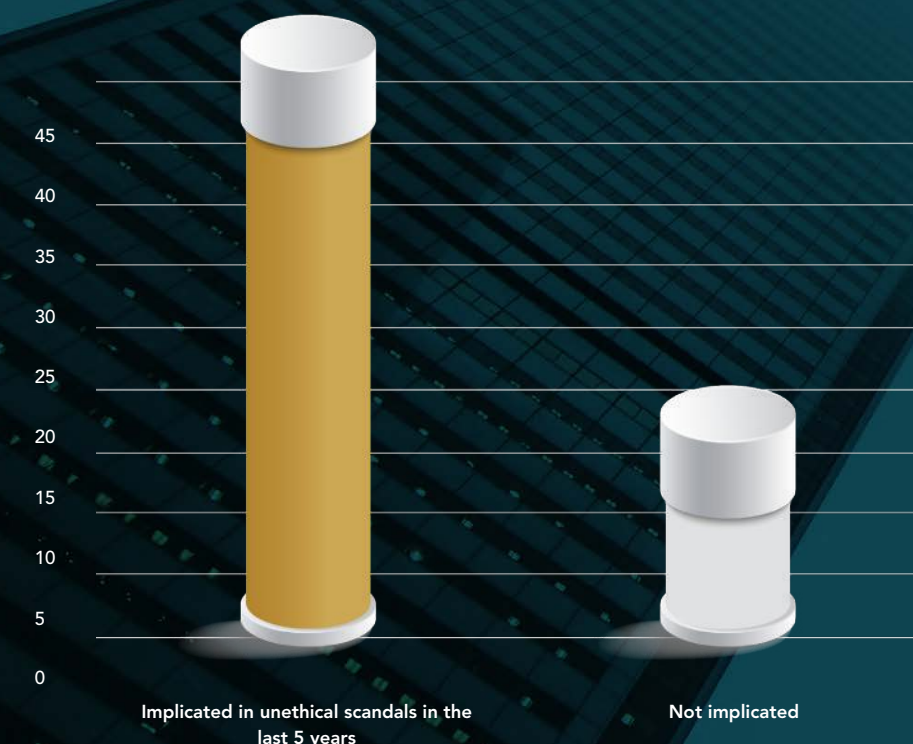
3.6 OPERATIONAL ENVIRONMENT

In this last dimension, we evaluated companies' relations with the public sector, how corporates report on key operational areas and their support for the SDGs. More companies are starting to articulate their public positions with respect to global trends – such as climate change, water scarcity and human rights – and are disclosing their exposure to socio-ecological risks. This shift has given rise to growing expectations that more companies adopt this approach [20].

Although there are three indicators in this dimension, we identified support for the SDGs as a key indicator companies view their operations as part of a system bounded by social and environmental systems. Our analysis indicates that 60% of the companies evaluated identify alignment with the mandate of the SDGs.

[18] Corruption Watch. (2019). Corporate SA Must do Much More to Boost Good Ethics. Retrieved (January 28, 2020) from https://www.corruptionwatch.org.za/corporate-sa-must-do-much-more-to-boost-good-ethics/
[19] GIBS. (2019). The Launch of the GIBS Ethics Barometer: Creating the New Performance Standard for World Class Organisations. Retrieved (January 28, 2020) from https://www.gibs.co.za/news-events/news/Pages/The-Launch-of-the-GIBS-Ethics-Barometer--Creating-the-new-performance-standard-for-world-class-organisations-.aspx
[20] Embedding Project. (2017). The Road to Context: Contextualising Your Strategy & Goals Guide. Retrieved (January 28, 2020) from https://embeddingproject.org/pub/resources/EP-Road-to-Context.pdf

4. INTERVENTIONS TO SUPPORT ETHICAL ORGANISATIONS

Systematically building ethical organisations underpinned by appropriate policies, backed by adequate systems and processes, is a core challenge in the private sector. Furthermore, such efforts must be underscored by values and ethics. Often, such an approach protects organisations from legal, financial and reputational damage. In addition, this approach engenders trust among employees, consumers, within markets and in broader society.

4.1 Build a Strong Foundation | Policy, Systems and Processes

Globally, there are stringent anti-corruption laws that guide how companies should conduct business. Increasingly, companies are becoming aware of the legal, financial and reputational risks of unethical business practices. This realisation comes with an acknowledgment of the necessity for putting in place appropriate policies, enforceable systems and reliable processes to prevent corruption. These can be taken as the fundamental building blocks of a strong foundation from which to create and inculcate ethics within organisations.

4.1.1 Practical Guidelines

There are practical and implementable steps to lay a firm foundation for building an ethical business. While our benchmarking research suggests that the companies assessed have robust compliance systems in place, many companies do not. Therefore, it is necessary to put in place a foundation.

A UN Office on Drugs and Crime (UNODC) Anti-Corruption, Ethics and Compliance for Business[21] report details practical interventions for the private sector, which include:

1. Developing an anti-corruption policy and supporting programme;
2. Conducting risk assessment and developing a mitigation plan;
3. Leadership and senior management commitment;
4. Communication and training;
5. Whistleblowing and reporting mechanism; and,
6. Conducting regular reviews.

4.1.2 Importance of Good Corporate Governance

Corporate governance is a system that guides how companies are directed and controlled[22]. Corporate governance involves the establishment of structures and processes, accompanied by appropriate checks and balances, to enable directors to discharge their legal responsibilities. Essentially, corporate governance is about enabling effective leadership. It also serves as an effective tool to limit companies' participation in corruption[23].

King IV has 16 principles, three of which are focused on ethics: ethical leadership, ethical organisational culture and the ethical responsibilities of organisations within their immediate operating environment.

Principle 1: The governing body should lead ethically and effectively.

Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

Principle 3: The governing body should ensure that the organisation is seen to be a responsible corporate citizen.

- The appointment of a company secretary is a common practice across most companies. This is so primarily because of the mandatory appointment of company secretaries in publicly traded companies. This is a good governance practice and would benefit most companies.

- Our study found that there are few ethics officer appointments across most companies in corporate South Africa. Ethics officers provide crucial support in creating an ethical culture. Given the important role ethics officers can play in companies, we recommend such appointments be prioritised.

- The human resources (HR) department is a key enabler of organisational culture, and a change thereto. HR practitioners can share practical experiences and give guidance about common beliefs, practices and traditions. Doing this will give employees a sense of "how things are done around here" in an organisational context. Through training and open communication, an ethical culture prepares employees for making good decisions. The HR department's interactions with the workforce can be used as a catalyst to reinforce an ethical company culture. Often, employees perceive of the HR department as a place where they can air their grievances and concerns, and seek support. This makes the HR department appropriately positioned as an enabler of ethical culture.

Although the function of an ethics officer is intended to design systems and processes, it is not meant to be a box-ticking mechanism. For an ethical culture to be properly entrenched, companies, in particular the ethics officer function, must go beyond compliance.

Admittedly, systems and processes create the foundation, but compliance alone is an inadequate response to the challenges posed by corruption.

Although the principles in the King IV Code guide organisations about good business practices, it is important to acknowledge the limitations. One such limitation is that having an independent non-executive director on a board will remove all risk of conflicts of interest. Harvard principal Turnbull (2011) explores the different limitations further in his seminal work, The Limitations of Corporate Governance Best Practices[24]. The work is not intended as a polemic of governance models, rather it is intended to draw from lessons learned and to improve current practice.

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[24] Turnbull, C. S. (2011). The Limitations of Corporate Governance Best Practices. Retrieved (April 7, 2020) from https://www.researchgate.net/publication/228210769_The_Limitations_of_Corporate_Governance_Best_Practices. doi: 10.4135/9781446200995.n19

4.2 Enabling Ethical Leadership

For CEOs to lead change effectively, the 2019 Edelman Trust Barometer Report encourages: "Honesty and transparency … [as] powerful trust-building elements, together with high expectations (74%) that CEOs will embody the values and mission of the organisation they lead ." The report supports our recommendation that senior leadership take ownership of and responsibility for shaping and upholding organisational values.

A recent PwC study reveals that in 2018 CEO turnover was 17%, a record high. The same study shows there was an increase in the number of CEOs found guilty of ethical lapses. PwC's finding is in line with our study, which shows that 80% of the evaluated companies have been implicated in unethical scandals. In addition, of the 10 top-preforming companies, 50% are implicated in unethical practices. This re-emphasises the importance of holding senior top management accountable.

Measures that can be taken include:
1. Performance management that measures ethics-related key performance indicators;
2. Incentives; and,
3. Integrity testing in recruitment.

The four characterises of ethical leadership that support a values-based culture are: responsibility, accountability, fairness and transparency (RAFT) . A social and ethics committee must build on these four characteristics to inform its ethics strategy for top senior management and operational levels of organisations. As a concept, RAFT espouses taking ownership of what constitutes right and wrong action. It emphases personal accountability and sees individual action as an integral driver of ethical conduct.

There are incidents and situations that arise in a professional setting which might not fit into an individual's job scope or fall within the jurisdiction of a manager or a person of authority. In such instances, the litmus test for the efficacy of inculcating a RAFT approach is individual action once an offence comes to light.

4.3 Going beyond compliance | Creating a Values-Based Culture

Epley and Kumar (2019) make the case that organisations need to move beyond legalistic compliance programmes. In this regard, Epley and Kumar (2019) propose organisations create an ethical organisational culture to supplement compliance. The authors recommend four ways to promote an ethical culture[27]:

- Connect ethical principles to strategies and policies;
- Keep ethics top of mind;
- Reward ethical behaviour through incentives; and,
- Encourage ethical norms in day-to-day practices.

A values-based approach is fundamental in creating and promoting an ethical culture. Organisational values guide the vision and the mission within companies, and are a constant reminder of the way organisations are meant to conduct their business. These values are applied by all employees when making decisions. However, our study shows that some organisations do not articulate their values nor demonstrate how values are integrated in their strategy and activities. We consider this a shortcoming that is imperative to address.

To create a values-based culture that supports ethical practices, there must be consistency and demonstrable behaviour from the top-down. Organisational values are the invisible hand that drives behaviour. Collectively, all employees' behaviour makes up organisational culture – "the way we do things around here"[28].

Collins and Porras (1996) define core values as inherent and sacrosanct. Thus, values can never be compromised, either for convenience or short-term economic gain. Core values often reflect a founder's value orientation. Values are the source of a company's distinctiveness and must be maintained at all costs[29]. Lencioni (2002) built on this work in latter years[30].

An organisational culture embedded with ethics is the outcome of deliberate and intentional decision-making within companies. It is underpinned by consistent communication at all occupational levels.

Appointing ethics ambassadors and champions is another important building block of establishing an ethical company culture. These ethics ambassadors and champions can be drawn from different occupational levels. Their appointment is intended to give support and capacity when building such a culture. Training can be run at two levels and in each level, while accommodating distinguishing points of authority[31]. Strict screening and profiling must be incorporated as standard practice when selecting and promoting high-risk and senior personnel[32].

Level one: An ethics ambassador, a role any employee in the organisation can take on.	Level two: An ethics champion, a responsibility assigned to a senior leader.
1) Informal promoters; 2) Advocates or guardians of the organisation's ethics from any division/function or from any hierarchical level; 3) Behaviour ambassadors for the ethics office; 4) Comfortable talking about ethics; and, 5) Unafraid to point out the ethical consequences of business decisions.	1) Responsible for initiating the ethics management function; 2) Empowered with authority to ensure ethics initiatives maintain momentum; 3) Usually well-respected members of the executive; 4) Management team who understand the organisation; and, 5) Credible and trustworthy ethics role models.

By expanding the breadth and depth of responsibility, companies ensure organisational culture is supported and maintained at all levels.

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26 Olivier, B. Corporate Governance. Financial Markets Journal. Retrieved (April 1, 2020) from   http://financialmarketsjournal.co.za/oldsite/8thedition/printedarticles/corporategovernance.htm
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5. CONCLUSION AND CALL TO ACTION

This report explored the anti-corruption practices at 50 companies listed on the JSE. In general, companies have taken note of the challenge corruption poses and its negative impacts, our findings reveal. This is demonstrated by the fact that 36 of the 50 companies reported having anti-corruption programmes in place. Furthermore, our research shows that corporates have made strides in improving compliance to corporate governance expectations and legislation.

Despite this, there remains much ground to cover to change organisational cultures, to instil ethical behaviour and drive anti-corruption efforts. It is imperative that corruption be understood well and viewed from multiple perspectives to effect change. Crucially, collaboration between the private sector and the public sector will bolster anti-corruption efforts.

The NBI is committed to drive change towards creating a more ethical private sector. It has demonstrated this commitment by working with member companies and other key partners to address capacity building gaps, which focus on effecting behavioural change.

This study provides a useful benchmark of where companies are in addressing corruption. It also highlights the need to move beyond compliance towards a private sector that understands its integral role in broader society.

6. DATA TABLE

LG: Leadership and Governance VOC: Values and Organisational Culture CR: Compliance and Risk

SER: Stakeholder Engagement and Reporting ES: Ethical Scandal OE: Operational Environment

COMPANY	INDUSTRY	LG	VOC	CR	SER	ES	OE	INDEX
Company 1	Basic Materials	23	18	16	9	15	5	8,5
Company 2	Basic Materials	16	18	18	6	15	5	7,9
Company 3	Financials	24	23	16	10	0	4	7,7
Company 4	Financials	18	13	15	6	15	3	7,0
Company 5	Financials	23	14	9	4	15	4	6,9
Company 6	Basic Materials	20	18	16	8	0	5	6,6
Company 7	Basic Materials	21	17	15	9	0	3	6,4
Company 8	Consumer Services	15	12	14	6	15	2	6,3
Company 9	Financials	24	13	15	7	0	2	6,1
Company 10	Financials	13	10	11	7	15	3	5,9
Company 11	Financials	20	15	10	9	0	4	5,9
Company 12	Telecommunication	21	11	16	9	0	2	5,8
Company 13	Consumer Services	19	13	16	6	0	4	5,8
Company 14	Basic Materials	19	13	15	6	0	3	5,7
Company 15	Financials	21	13	12	9	0	3	5,7
Company 16	Consumer Services	17	13	12	9	0	5	5,6
Company 17	Consumer Services	17	11	7	4	15	2	5,6
Company 18	Financials	17	10	8	4	15	1	5,4
Company 19	Basic Materials	19	11	13	7	0	4	5,4
Company 20	Technology	20	9	16	7	0	2	5,4
Company 21	Financials	17	15	11	7	0	3	5,3
Company 22	Basic Materials	21	15	11	3	0	3	5,3
Company 23	Financials	17	10	13	7	0	5	5,3
Company 24	Financials	19	14	11	5	0	3	5,2
Company 25	Health Care	21	12	12	6	0	2	5,2

Company 26	Consumer Services	18	16	10	7	0	2	5,2
Company 27	Telecommunication	17	12	12	9	0	3	5,2
Company 28	Financials	17	12	13	7	0	3	5,2
Company 29	Consumer Services	17	17	13	4	0	1	5,2
Company 30	Basic Materials	19	10	11	7	0	4	5,1
Company 31	Basic Materials	12	17	10	6	0	5	5,0
Company 32	Financials	19	12	10	8	0	2	5,0
Company 33	Health Care	20	9	11	7	0	2	4,9
Company 34	Financials	19	15	11	4	0	1	4,9
Company 35	Consumer Services	18	10	10	8	0	3	4,9
Company 36	Financials	17	14	10	7	0	1	4,8
Company 37	Financials	10	10	6	4	15	2	4,7
Company 38	Consumer Services	21	11	8	3	0	3	4,6
Company 39	Basic Materials	14	13	11	4	0	3	4,5
Company 40	Basic Materials	15	10	11	8	0	2	4,5
Company 41	Health Care	14	10	13	6	0	2	4,5
Company 42	Basic Materials	16	14	5	4	0	4	4,4
Company 43	Financials	15	9	10	5	0	3	4,3
Company 44	Financials	12	10	13	5	0	2	4,2
Company 45	Telecommunication	18	3	10	5	0	3	3,9
Company 46	Consumer Services	13	12	7	4	0	2	3,8
Company 47	Consumer Services	13	8	7	6	0	3	3,8
Company 48	Financials	9	9	7	3	0	3	3,1
Company 49	Financials	15	4	4	4	0	3	3,0
Company 50	Financials	15	1	5	3	0	0	2,4

7. QUESTIONNAIRE

Leadership & Governance

- Is most of the board composed of independent and non-executive directors?
- Are the CEO and the chair of the board independent non-executive directors?
- Does the board have an induction process which includes ethics and anti-corruption awareness training?
- Does the organisation report on the diversity of the board of directors with regard to race and gender?
- Does the organisation report on the qualifications, skills and experience of the board of directors?
- Is there a company secretary appointed?
- Is there a nominated audit committee?
- Is there a nominated social and ethics committee?
- Is there a nominated remuneration committee?
- Is there an ethics officer appointed?
- Is there an anti-corruption programme / policy in place, and is it supported by the board (tone from the top)?
- Does the anti-corruption programme / policy address bribery, facilitation payments, political and charitable contributions, gifts and entertainment?
- Do the organisation's ethics and anti-corruption procedures align to global practices / standards?
- Are there any monetary incentives aligned to ethical behaviour in the organisation?
- Is the organisation's remuneration policy approved by shareholders (75+1 vote)?
- Is the remuneration policy publicly available?
- Are the board and the company secretary evaluated, as suggested in King?

Values & Organisational Culture

- Is there a code of conduct in the organisation?
- Is there a code of ethics in the organisation?
- Are these codes aligned to the compliance policies of the organisation?
- Are the organisational values clearly articulated?
- Do the organisational values enforce ethics in the organisation?
- Do the organisational values enforce anti-corruption policies in the organisation?
- Does the organisation have a financially linked value?
- Are organisational values integrated in the overall business strategy?
- Is there a clear purpose / vision for the organisation that relates directly to ethical leadership?

Do all the employees undergo ethics training, regardless of their occupational level?

- Does the organisation report publicly on training initiatives for its stakeholder value chain?
- Does the induction training outline the organisation's anti-corruption policy, expectations and the sanctions procedure if there is violation of it?
- Does the organisation run annual employee surveys?
- Are there outcomes / actions resulting from the employee survey?
- Does the organisation report on sexual harassment?
- Are there any disclosures on sexual harassment cases?
- Does the organisation report on discrimination/transgressions/grievances?
- Does the organisation report publicly on actions taken against discrimination?
- Does the due diligence process follow ethical guidelines and anti-corruption policies?
- Does the service level agreement (in procurement) include ethical guidelines that are aligned to the anti-corruption policies?

Compliance, Risk & King

- Does the organisation have an anti-corruption policy?
- Does the organisation have a policy prohibiting facilitation payments / bribery?
- Are the King IV Report and all other compliance-related policies incorporated within the operations of the organisation?
- Does the organisation have a remuneration philosophy or policy?
- Is the lack of retention of senior top management seen as a risk in the organisation?
- Does the organisation meet the national minimum wage for workers in South Africa?
- Does the organisation have a whistle-blowing line?
- Does the organisation have an externally managed whistle-blowing line?
- Does the organisation have a whistle-blowing policy that ensures employees are protected?
- Does senior management review the reports on whistleblowing and track the cases?
- Does the organisation communicate its ethical programmes to all staff in a way that is accessible and inclusive?
- Are there any corruption cases recovered internally?
- Does the organisation report on how these cases are resolved?
- Does the organisation report publicly on its risk assessment process?
- Does the organisation publish the results of its engagement with relevant interested parties?
- Does the board or equivalent body have an oversight of the risk assessment process?
- Does the organisation list reputational risk / public trust as a priority?

Stakeholder engagements & Reporting

- Does the organisation disclose its integrated reporting framework?
- Does the organisation report on ESG?
- Has the organisation established a stakeholder-inclusive approach?
- Does the organisation have reporting channels that are secure and accessible for all employees?
- Does the organisation report on the effectiveness of the ethics programme?
- Are regulators and professional bodies independent from senior top management or the board?
- Has the organisation received the verification or assurance opinion, and was it made public?

Ethical Scandal

- Has the organisation been involved in any unethical scandals in the past five years?

Operational Environment

- Does the organisation publicly report on its key operation areas as part of its strategy for the year?
- Does the organisation identify with the mandate of the SDGs and, if so, has it publicly committed to the SDGs mandate?
- Does the organisation declare its relationship with the public sector (political parties, regulators who may influence its investors)?

8. ANTI-CORRUPTION GLOSSARY
specific to the private sector

AUTOMATIC EXCHANGE OF INFORMATION

Automatic Exchange of Information occurs when the tax authorities of two or more states share financial information related to all types of wealth, including immovable property such as houses or land, and taxable activity, for example, dividends, interests, royalties, salaries, pensions and value-added tax refunds, on an automatic, periodic basis. In this system, information is routinely collected in the country where the taxable activity occurs, or the wealth is held, and shared with the country where taxes are due without a formal request being required. The system can be formalised in either bilateral or multilateral agreements between state parties.

Why it matters

This process is seen as the best way to assess and collect taxes where they may be due. Governments should adopt and implement automatic exchange of information as the global standard since it enables more effective and quicker cross-border information sharing, which helps overcome legal, operational and political barriers to international co-operation. It increases transparency in the financial system and can reduce tax avoidance and evasion.

BASE EROSION AND PROFIT SHIFTING

Base erosion and profit shifting refers to the erosion of a national tax base and one process through which this happens. This process happens when multinational companies shift the profits generated in a country into outside jurisdictions such as offshore financial centres that have lower or zero tax, thus minimising their tax burden. Although the practice is legal, it also creates an unbalanced playing field for small and medium-sized businesses. Smaller businesses do not normally have access to profit-shifting schemes. Therefore, smaller businesses end up paying higher taxes than multinationals.

Why it matters

Companies should enhance levels of corporate transparency. This allows citizens to hold companies accountable for the impact they have on their communities. Multinationals operate through networks of related entities incorporated under diverse legislation. Without transparency, many transactions are almost impossible to trace.

BENEFICIAL OWNERSHIP SECRECY

A beneficial owner is the real person who ultimately owns, controls or benefits from a company or trust fund and the income generated. The term is used to contrast with the legal or nominee company owners and with trustees, all of whom might be registered the legal owners of an asset without possessing the right to enjoy its benefits. Complex and opaque corporate structures set up across different jurisdictions make it easy to hide the beneficial owner, especially when nominees are used and when part of the structure is incorporated in a secrecy jurisdiction.

Why it matters

Governments should establish mandatory, public registers that disclose the beneficial ownership of trust funds and companies. Public registers of beneficial ownership would allow ill-gotten gains to be more easily traced and make it more difficult, and less attractive, for people to benefit from the proceeds of corruption and crime.

BRIBERY

The offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal, unethical or a breach of trust. Inducements can take the form of gifts, loans, fees, rewards or other advantages such as taxes, services, donations and favours.

Why it matters

Governments need to take effective action in the fight against international bribery both at the national level and through international groups including the Group of 20, the European Union, the UN and the Organisation for Economic Co-operation and Development (OECD). All national legislation should outlaw bribery between firms in the private sector. Governments should fully implement and enforce laws criminalising foreign bribery and prohibiting off-book accounts, in accordance with the OECD Anti-Bribery Convention and the UN Convention Against Corruption, and report regularly on the enforcement of these laws. The OECD's peer review process and Transparency International's OECD Convention Progress Report have demonstrated that most OECD member states do not sufficiently prosecute foreign bribery cases.

CLIENTELISM

An unequal system of exchanging resources and favours based on an exploitative relationship between a wealthier and/or more powerful "patron" and a less wealthy and weaker "client".

COLLUSION

A secret agreement between parties, in the public and/or the private sector, to conspire to commit actions aimed to deceive or commit fraud with the objective of illicit financial gain. The parties involved are often referred to as "cartels".

Why it matters

Companies and governments must strengthen compliance and adopt a zero-tolerance policy towards cartels. Price-fixing and collusion must be unequivocally condemned by business. To be sustainable, internal compliance measures to stop cartels must be established.

PATRONAGE

Form of favouritism in which a person is selected, regardless of qualifications or entitlement, for a job or government benefit because of affiliations or connections.

CONFLICT OF INTERESTS

Situation where an individual or the entity for which they work, whether a government, business, media outlet or civil society organisation, is confronted with choosing between the duties and demands of their position and their own private interests.

Why it matters

Companies should establish policies and procedures to identify, monitor and manage conflicts of interest which may give rise to a risk of bribery – actual, potential or perceived.

CORRUPTION

The abuse of entrusted power for private gain. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs. Also see "grand corruption", "petty corruption" and "political corruption".

EMBEZZLEMENT

When a person holding office in an institution, organisation or company dishonestly and illegally appropriates, uses or traffics the funds and goods they have been entrusted with for personal enrichment or other activities.

Why it matters

Legal redress for corruption in education and other sectors is not limited to criminal prosecution. Civil society should support local civil action to recover costs, as well as public-interest litigation to recover public resources lost to embezzlement and fraud.

EXTORTION

Act of utilising, either directly or indirectly, one's access to a position of power or knowledge to demand unmerited co-operation or compensation as a result of coercive threats.

Why it matters

Responsible business leaders know that bribe payments cannot be turned on and off. Once a company bribes, it can no longer maintain the position that it does not pay bribes and sets itself up for continuing extortion. There should be independent reporting channels to allow companies that have been victims of extortion to report the crime.

FACILITATION PAYMENTS

A small bribe, also called a "facilitating", "speed" or "grease" payment, made to secure or expedite the performance of a routine or necessary action to which the payer has legal or other entitlement.

Why it matters

All companies must cease making facilitation payments immediately. Companies must recognise these as bribes and prohibit them. All companies must report on their policy on facilitation payments as part of their transparent reporting on their anti-corruption programmes.

FRAUD

To cheat. The offence of intentionally deceiving someone in order to gain an unfair or illegal advantage: financial, political or otherwise. Countries consider such offences criminal or a violation of civil law.

Why it matters

Governments, companies and civil society organisations must have efficient internal reporting channels and follow-up mechanisms to detect fraud, corruption and gross mismanagement inside an organisation.

ILLICIT FINANCIAL FLOWS

Illicit financial flows describe the movement of money that is illegally acquired, transferred or spent across borders. The sources of the funds of these cross-border transfers come in three forms: corruption, such as bribery and theft by government officials; criminal activities, such as drug trading, human trafficking, illegal arms sales and more; and tax evasion and transfer mispricing.

Why it matters

The volume of illicit financial flows is huge. They have a major impact on the global economy, with a devastating impact on poorer countries and have clear links to corruption. Secrecy jurisdictions play a major role in receiving illicit financial flows. Governments should establish mandatory, public registers that disclose the beneficial ownership of trust funds and companies to allow illicit financial flows to be more easily traced. Such a step would also make it harder for people to benefit from the proceeds of corruption and crime.

KNOW YOUR CUSTOMER

Know your customer (KYC) is a term used to describe a set of money laundering measures normally mandated by law, which are employed by banks and other financial institutions to document the true identity of a customer/client and his or her source of wealth to make sure it is legitimate. The KYC information is compiled and retained in a client "profile" that is periodically updated. Actual activity over the account is compared to the KYC profile to identify activity that raises suspicions of money laundering.

Why it matters

A sound KYC programme is one of the best tools in an effective anti-money laundering programme for detecting suspicious activity.

MONEY LAUNDERING

Money laundering is the process of concealing the origin, ownership or destination of illegally or dishonestly obtained money by hiding it within legitimate economic activities to make them appear legal.

Why it matters

Money laundering thrives when assets can be hidden through shell companies and opaque ownership structures. Governments should establish mandatory, public registers that disclose the beneficial ownership of trust funds and companies to make it more difficult, and less attractive, for people to benefit from the proceeds of corruption and crime. A sound KYC programme is one of the best tools in a good anti-money laundering programme for detecting suspicious activity.

NEPOTISM

Form of favouritism based on acquaintances and familiar relationships whereby someone in an official position exploits his or her power and authority to provide a job or favour to a family member or friend, even though he or she may not be qualified or deserving. Also see "clientelism".

REVOLVING DOOR

The term "revolving door" refers to the movement of individuals between positions of public office and jobs in the same sector in the private or the voluntary sector, in either direction. If not properly regulated, it can be open to abuse. A cooling-off period is the minimum time required between switching from the public to the private sector, it is intended to discourage the practice and minimise its impact.

Why it matters

Reasonable minimum cooling-off periods should be adopted by governments to mitigate the risk of conflicts of interest. They should accompany a comprehensive, transparent and formal assessment procedure which assesses whether post-public office employment is compatible with former duties.

POLITICAL CONTRIBUTION

Any contribution, made in cash or in kind, to support a political cause. Examples include gifts of property or services, advertising or promotional activities endorsing a political party, and the purchase of tickets to fundraising events.

SECRECY JURISDICTION

Secrecy jurisdictions are territories, including cities, states/provinces and countries that encourage the relocation of otherwise foreign economic and financial transactions through strong privacy protection rules. These jurisdictions ensure that the identity of those relocating their money through them cannot be disclosed. This often undermines legislation and regulation of another jurisdiction. Many secrecy jurisdictions are also tax havens.

Why it matters

All jurisdictions should ensure high standards of transparency, accountability and integrity, and take part in multilateral information sharing and mutual legal assistance schemes. All jurisdictions should establish mandatory, public registers that disclose the beneficial ownership of trust funds and companies.

SHELL COMPANY

A shell company or corporation is a limited liability entity that has no physical presence in its jurisdiction, no employees and no commercial activity. It is usually formed in a tax haven or secrecy jurisdiction and its main or sole purpose is to insulate the real beneficial owner from taxes, disclosure or both. Shell companies are also referred to as international business companies, personal investment companies, front companies, or "mailbox"/ "letterbox" companies.

Why it matters

Governments should establish mandatory, public registers that disclose the beneficial ownership of trust funds and companies. Public registers of beneficial ownership would allow ill-gotten gains to be more easily traced and make it more difficult, and less attractive, for people to benefit from the proceeds of corruption and crime.

SOLICITATION

The act of a person asking, ordering or enticing someone else to commit bribery or another crime.

TAX EVASION / TAX AVOIDANCE

Tax evasion is the illegal non-payment or under-payment of taxes. This is usually done by deliberately making a false declaration or no declaration to tax authorities – such as declaring less income, profits or gains than the amounts earned, or overstating deductions. It entails criminal or civil legal penalties. Tax avoidance is the legal practice of seeking to minimise a tax bill by taking advantage of a loophole or exception to the rules or adopting an unintended interpretation of the tax code. It usually refers to the practice of seeking to avoid paying tax by adhering to the letter of the law but opposed to the spirit of the law. Proving intention is difficult; therefore, the dividing line between avoidance and evasion is often unclear.

Why it matters

Tax evasion is facilitated by complex and opaque corporate structures and hidden company ownership. Governments should establish mandatory, public registers that disclose the beneficial ownership of trust funds and companies to allow ill-gotten gains to be more easily traced. Enhanced corporate transparency provides information that can monitor behaviour.

OFFSHORE FINANCIAL CENTRES

Countries or jurisdictions, sometimes called "fiscal paradises" or "tax havens", that provide financial services to non-residents on a disproportionate scale to the domestic economy as a result of financial incentives, such as minimum government interference and low or zero tax rates.

TRANSFER PRICING / TRANSFER MISPRICING

Transfer pricing is the process through which parent companies and/or subsidiaries of the same parent, in different countries, establish a price for goods or services between themselves. Transfer mispricing is the abusive manipulation of this process for the purpose of avoiding or reducing taxes across all entities. This takes place when related firms agree to manipulate the price of their internal transactions in order to declare less profit in higher-tax jurisdictions and therefore reduce their total tax payments. It deliberately generates profit and hides or accumulates money in the jurisdiction where the tax bill is low.

Why it matters

Companies should ensure high levels of corporate transparency, since this allows citizens to hold companies accountable for the impact they have on their communities. Multinationals operate through networks of related entities incorporated under diverse legislation. Without transparency, many transactions are almost impossible to trace.

GRAND CORRUPTION

The abuse of high-level power that benefits the few, at the expense of the many, and causes serious and widespread harm to individuals and society. It often goes unpunished. See also "corruption", "petty corruption", and "political corruption".

9. OUR TEAM

Gugu McLaren-Ushewokunze, Head:
Social Transformation, NBI

Gugu McLaren-Ushewokunze holds: a Master of Social Science in Gender and Development; a Bachelor of Social Science (Honours) in Psychology and Gender from the University of Cape Town; and numerous sustainable development and strategy qualifications.

Gugu leads the NBI's Social Transformation Programme. Her responsibilities include developing and implementing the NBI's programme to engage business in driving social transformation, with the aim of addressing inequality and inequity. The programme focuses on companies' internal transformation and creating diverse and inclusive organisations, as well as businesses' relationship with society.

She has over 12 years' experience in the field of social and sustainable development. Gugu has worked across sectors in varying industries, with the bulk of her career having unfolded within the corporate sector, where she has driven the design and implementation of sustainable development strategies.

Prior to joining the NBI, Gugu spent seven years at Discovery, where she supported the company's shared-value business model. There, Gugu delivered innovative and award-winning annual reports. Over the course of her career, she has focused on socially driven strategy, research, project management and reporting within globally relevant organisations.

Thuthula Ndunge, Project Co-ordinator:
Social Transformation (Anti-Corruption Programme), NBI

Thuthula Ndunge acquired a Bachelor of Administration Degree specialising in Public Management and Industrial Psychology from the University of Pretoria. She is a certified ethics officer under the Ethics Institute of South Africa and the University of Stellenbosch.

Thuthula has been involved in corporate governance initiatives for eight years including: Business Unity South Africa's Mentee Anti-Corruption Integrity Programme in 2011-2012 and has been mentored by Dr Janette H Minnaar-van Veijeren (ProEthics). Currently, she is serving on the National Anti-Corruption Strategy Reference Group that is mandated to implement a framework plan to monitor, evaluate and report on interventions to address corruption in government, business and civil society (2019-2030).

In November 2019, she was awarded the Anti-Corruption Award for a Youth International Contest by the Department of Service and Administration in association with the BRICS Initiative. Thuthula's role is about driving anti-corruption initiatives in the private sector and supporting the Presidential Jobs Summit Framework Agreement. The anti-corruption portfolio includes: content development, research, analysis, project co-ordination and stakeholder engagement.

For the past nine years to date, she has been part of empowerment and donor management – capacity building, transformation, socio-economic development – as an area of focus.

Previously, she was a Marketing and Communication Officer at AFGRI Poultry, Group CSI Adviser and Non-Executive Director at Black SEED Investments, and Trustee of the Business for Empowerment Foundation.

Lulamile Makaula, Support Researcher:
University of Cape Town

Lulamile Makaula is a Research Analyst at the University of Cape Town (UCT) Graduate School of Business. He conducts research for a multi-disciplinary project on business responses to social-ecological complexity. The research project is supported by the UCT African Climate and Development Initiative and the National Research Foundation.

In this role, Lulamile undertakes independent research and analysis in key ESG focus areas, contributes to the development of practical tools to embed sustainability in companies, collaborates with sustainability practitioners to co-create knowledge and resources, and supports structured and reflective processes to incorporate sustainability in companies.

Prior to UCT, Lulamile worked for Anglo American as a geologist. He holds a Bachelor in Geology, a Postgraduate Diploma in Management, an MPhil in Inclusive Innovation, and is a PhD candidate at the UCT Graduate School of Business.

9. CONTACT DETAILS

> "There are no honest institutions without honest leadership. Every human being can rationalise a situation by making conscious and informed decisions towards the right thing."

THUTHULA NDUNGE I PROJECT CO-ORDINATOR I ETHICAL LEADERSHIP & ANTI-CORRUPTION I ThuthulaN@nbi.org.za I +27 11 544 6020

> ''Corruption continues to hamper our ability to address the pressing issues of inequality, unemployment and poverty. The private sector has to be decisive in driving ethical leadership and practices."

GUGU MCLAREN-USHEWOKUNZE I HEAD OF SOCIAL TRANSFORMATION I GuguM@nbi.org.za I +27 11 544 6020

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The National Business Initiative (NBI) is a voluntary coalition of South African and multinational companies, working towards sustainable growth and development in South Africa and the shaping of a sustainable future through responsible business action.

Since our inception in 1995, the NBI has made a distinct impact in the spheres of housing delivery, crime prevention, local economic development, public sector capacity building, further education and training, schooling, public private partnerships, energy efficiency and climate change.

The NBI is a global network partner of the World Business Council for Sustainable Development (WBCSD) and an implementation partner of We Mean Business, the CEO Water Mandate and CDP.

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