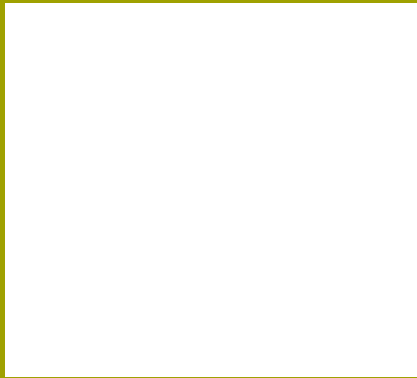




# THE CONVENTION ON BUSINESS INTEGRITY



“There are many business areas where competence and the reputation of the company is very important. It is definitely possible to do business without using corrupt behaviour, but it takes some guts. People with integrity are given much respect, even among those who are themselves corrupt. I strongly believe in the potential of the Convention on Business Integrity.”

Dr. Pat Utomi, Lagos Business School

# CONTENTS

THE CONVENTION ON BUSINESS INTEGRITY	
A Nigerian Initiative against Corruption in the Private Sector	4
The Road to a new Beginning	5
You can trust the Convention	6
Rating System	8
THE BENEFITS OF SUBSCRIBING TO THE CONVENTION	
Enhancing Company Reputation	10
Less Uncertainty and Risk	10
Minimising Risk of Criminal and Civil Sanction	11
Heightening Employee Awareness of Corporate Policy	11
Protection of Shareholders Assets	11
Simplified Contacts with foreign Business Partners	12
Lower Transaction Costs	12
Gaining an Edge in Competitive Conditions	12
Clarification of Grey Areas	13
Benefits to the National Economy	13
Increasing foreign Investment	13
Talent Pays and Society Gains	13
THIS IS THE TIME TO DEFEAT CORRUPTION	
International Awareness	14
National Determination	15

#### WHAT IS CORRUPTION?

CORRUPTION HAS BROADLY BEEN DEFINED AS "THE ABUSE OF PUBLIC OFFICE FOR PRIVATE GAIN", BUT THIS DEFINITION MAY NOT CAPTURE ALL KINDS OF CORRUPT PRACTICES SINCE IT DOES NOT FULLY TAKE INTO ACCOUNT SIMILAR INCIDENCES IN THE PRIVATE SECTOR. CORRUPTION CAN COME IN VARIOUS GUISES SUCH AS OVER-INVOICING AND INFLATION OF CONTRACTS, MONEY LAUNDERING, FALSIFICATION OF DOCUMENTS, FLAGRANT DISRESPECT FOR LAID DOWN RULES AND REGULATIONS, SMUGGLING, BANKING FRAUD, BUSINESS SCAMS AND A HOST OF OTHER ECONOMIC CRIMES. THE BULK OF CORRUPT ACTIVITIES TAKE PLACE IN THE INTERFACE BETWEEN THE PRIVATE AND PUBLIC SECTOR.

## THE CONVENTION ON BUSINESS INTEGRITY

### A NIGERIAN INITIATIVE AGAINST CORRUPTION IN THE PRIVATE SECTOR

Nigeria has repeatedly been labelled one of the most corrupt countries in the world. A perceived all-encompassing culture of corruption could give the impression that there is practically no room for anyone to operate outside its borders. Still, the concerted determination to fight corruption is at its peak. A strong consensus has grown that if Nigeria is to develop, the battle against corruption must be fought. The Nigerian government, international organisations and donor agencies, civil society, and now also the business community, have taken a common stand in the battle against corruption.

Corruption strikes at the heart of the market economy, distorting decision-making, and rewarding the corrupt and manipulative rather than the efficient and the productive. In Nigeria much of government-led development efforts in the past have been unsuccessful. Today, increased privatisation has given the private sector a greater responsibility for development. However, also in the private sector corruption poses a great risk

to successful development. As corruption permeates both the public and the private sector it poses a continuous threat to democracy, political stability and socio-economic development.

One Nigerian initiative, which seeks to challenge corruption, is the Convention on Business Integrity. Being the result of joint action between actors within civil society and the business community, the Convention on Business Integrity is a covenant among businesses operating in Nigeria to build a private sector coalition against corruption and corrupt practices. It is a declaration for the maintenance of ethical conduct, competence, transparency, and accountability by private sector operators. The Convention does not impose a legal obligation but represents a moral contract among signatories to promote integrity in the conduct of business.

## THE ROAD TO AN NEW BEGINNING

Recognising that corruption must be fought simultaneously on several battlefields and that not only the public sector, but also civil society and the business sector has an overarching responsibility in counteracting corruption, the Convention on Business Integrity<sup>1</sup> was created. Supported by Integrity, a non-governmental organisation with extensive experience from different areas of anti-corruption work, a group of Nigerian businessmen set out to show that not all companies in Nigeria are corrupt and vowed to create a new standard for business. To symbolise their resolve to challenge corruption well-reputed Nigerian businesses were invited to publicly sign a declaration against corruption at an event which took place on the 2nd of October 1997 in Lagos. Individual influential business people also endorsed the Convention in order to give it their public support. The Convention on Business Integrity was the first initiative of its kind to make responsible governance an issue of focus in the Nigerian business world.

However, it was realised that a declaration without further actions is nothing more than a piece of paper. The work started to form an effective structure and plan for change. A group of signatories came together for regular meetings to translate the principles of the

declaration into minimum standards for the policies and processes of an organisation, which resulted in the Code of Business Integrity. The Code was adopted by the current signatories to the Convention on Business Integrity in 1998.

The Code of Business Integrity, which comprises requirements on the signatories and clear procedures for sanctions, must first be ratified before intending signatories may proceed to sign the Convention. The Code identified the need for an elected core group to lead the initiative and for a secretariat to be set up to administer the initiative. In the end of 1998 a Core Group was elected, including signatories, business consultants and a representative from Integrity. The next step was to set up a secretariat, but in 1999 part of the momentum of the initiative was lost. Some crucial people moved into politics and there was lack of essential funding to set up a secretariat. Up to 2001 the initiative continued on a low gear, mobilising support and identifying new strategies to get the Convention on Business Integrity back on track. In 2001 SAP, the world's leading provider of e-business software solutions, announced that it is giving its support to the Convention and will thus fund the set-up of a secretariat in Nigeria. Integrity is strongly backing up the initiative with its knowledge and experience and the businessmen

involved are determined to make use of the lessons learnt and transform the Convention on Business Integrity into an effective catalyst for change within the business world. The power and momentum of the Convention on Business Integrity is back and a timetable has been set up for its further development:

2002

1st quarter	Integrity will plan a re-launch of the initiative
2nd quarter	Integrity will convene a signing by SAP of the Convention on Business Integrity A Core Group will be elected by the signatories The Core Group will oversee the appointment of an Executive Director
3rd quarter	The Secretariat will be established
4th quarter	The Secretariat of Convention on Business Integrity will open for businesses to join

<sup>1</sup>The Convention on Business Integrity is to be renamed "African Convention on Business Integrity" to reflect the change from the initial Nigeria focus to Africa

Dr. Christopher Kolade, Nigerian Ambassador to the United Kingdom, member of Integrity's Board and signatory of the Convention on Business Integrity

### **YOU CAN TRUST THE CONVENTION**

The perception seems to have persisted that Nigerians are good at coming up with excellent ideas, but have problems carrying them through. The Convention on Business Integrity challenges this reputation and wants to demonstrate that there is a clear strategy for the implementation of the convention.

“Being in charge of a company actually gives you a responsibility, not only to manage that organisation well, but to make a contribution to the general wholesomeness of the environment of corporate society. Integrity and most of the things that we want to preach are very well known to everybody. Everyone knows that it's better to be honest than dishonest. It is not sensational news. But, what we want to do is to put a credible organisation behind this stand to show that this is not only what we believe in, but we are putting our belief into practice now and you can come and judge. That is what the Convention on Business Integrity is about.”

“There are many business areas where competence and the reputation of the company is very important. It is definitely possible to do business without using corrupt behaviour, but it takes some guts. People with integrity are given much respect, even among those who are themselves corrupt. I strongly believe in the potential of the Convention on Business Integrity.” The businessmen developing the Convention on Business Integrity have dwelled on and developed components which are important in order to facilitate the implementation of the Convention:

- Integrity will initially oversee the establishment of processes and procedures of the Convention. As soon as the Core Group is elected, the Convention will pass from being NGO led to being private sector led.
- Companies must be able to see tangible benefits of subscribing to the Convention. Such benefits will be effectively marketed to Nigerian businesses.
- It is significant to have a strong Core Group. The work has started to attract a Core Group of dedicated people, who can function as a society role model. SAP has already decided to make a representative available for election to the Core Group.
- Good contacts have been established with the media, which is an important ingredient in giving publicity to the companies that sign the Convention and for presenting the Core Group as a role model.
- The Convention does not take a judgemental stance. Instead, if a company wants to benchmark its behaviour, it will be assisted in meeting the standards and then encouraged to sign the convention.
- Self policing is an important element in compliance. All stakeholders are empowered to act as whistleblower.
- Peer pressure within the group of signatories will ensure that a company does meet the promised requirements. A company that has invested its credibility by signing the Convention will not accept the risk of its reputation being blackened, by strange bedfellows.
- Peer pressure must be complemented with careful monitoring and severe sanctions on any offence. The Code of Business Integrity includes clearly specified sanctions.
- Rating will be used as both a method for improvement and as a visible result of the monitoring.
- Even though the Convention will be open to business generally, its target group are the larger, more influential companies. Such companies are able to exert a greater influence on what tools to be used within the business world. SAP, being a leading company within its sector, is not only giving funding to the Convention, but is also signing the Convention and calling on other corporations to subscribe to the Code and support the initiative.

Dr. Pat Utomi, Lagos Business School

## **RATING SYSTEM**

Subscription to the Convention on Business Integrity requires a demonstration of good faith by intending signatories to streamline their business procedures to comply with the Code of Business Integrity. What follows thereafter is a process of application, verification and rating to ensure commitment and adherence to the core values of the Convention.

In measuring compliance, the management of the entity under review will be asked to fill out a questionnaire on implementation of the code (which deals largely with standards of business processes). A similar questionnaire will then be administered on a number of employees chosen at random from each level. The same will be done with shareholders, auditors, registrars, customers, suppliers, and other stakeholders as deemed necessary. The details provided will be verified by the secretariat. The level of agreement between the references will be directly related to the level of compliance with the code. The integrity rating system takes into account the following factors

### ■ One star \* – Competence

We check the 'fitness-for-purpose' of an organisation, paying particular attention to processes that ensure it cannot act outside its areas of competence. The entity must have adequate professional competence, including knowledge, skill and experience.

### ■ Two stars \*\* – Ethics & Morals

We check the value system of the organisation to ensure it has articulated acceptable ethical and moral standards for itself by way of credos, codes or policy statements. We pay particular attention to processes that require that such values are known and imbibed throughout the organisation.

### ■ Three stars \*\*\* – Transparency & Accountability

We check processes put in place to ensure timely and accurate disclosure of information to stakeholders (as much as a particular stakeholder has a right to) both at pre-agreed intervals and at unscheduled times. We check processes put in place to ensure independent verification of such information, as may be required by key stakeholders, is possible and welcome. We check processes put in place to ensure the board and management cannot act ultra-wires.

■ Fours stars \*\*\*\* – Will and Power to Do

The Right Thing

We check processes put in place to ensure audit of organisation compliance with stated business processes as well as continuous enhancement of such processes. We check that the processes include self-audits of compliance with the values of the code by a board level member of the organisation with sufficient powers to define and execute any remedial action identified as necessary.

■ Five stars \*\*\*\*\* – Commitment

We check for anecdotal evidence of a track record of sanctioning deviant behaviour and a history of rewarding and reinforcing acceptable behaviour within the organisation, about which the average stakeholder should be able to testify. This gives an idea of commitment to entrenching the stated values into the culture of the organisation. A demonstrated time related will and power to review and enhance integrity continuously would imply the full implementation of the Code on Business Integrity.

**THE 5-STAR RATING SYSTEM**

Factors/Rating	*	**	***	****	*****
Time related commitment to integrity	-	-	-	-	*****
Demonstrable Will & Power to protect integrity	-	-	-	****	****
Acceptable level of Transparency & Accountability	-	-	***	***	***
Acceptable Ethical & Moral Standards	-	**	**	**	**
Professional competence assured	*	*	*	*	*

## THE BENEFITS OF SUBSCRIBING TO THE CONVENTION

Whereas the requirements for acceding to the Convention on Business Integrity are detailed and stringent, the benefits may not be so obvious at first. However, there are several advantages, ranging from those that could profit individual signatories as well as the national economy as a whole. Some of these are listed below.

### ENHANCING COMPANY REPUTATION

The public reputation of a company is obviously a very precious commodity to it if only to go by the volume and quality of advertising that many firms undertake to boost their image. At a time, therefore, when the public is obviously fed-up with corruption, it is in the best interests of firms to be associated in the public mind with the fight against corruption. Conversely, a company or organisation can suffer severe damage to its reputation by being associated with corrupt practices in the public mind. Subscribing to the Convention on Business Integrity not only gives the

positive image but also helps organisations to put checks in place to control errant employees or undertake needed reform of defective internal procedures.

### LESS UNCERTAINTY AND RISK

The impact of corruption on the environment in which the private sector must operate is manifold. First and foremost, it introduces uncertainty on issues such as whether or not contracts will be honoured, if impartial and competent adjudicators can resolve disputes, if future decisions can be predicted with requisite certainty. Also, where corruption introduces uncertainty, it also increases risk. Furthermore, corrupt relationships operate to keep newcomers out of the game, thereby inhibiting the growth of the private sector itself.

### **MINIMISING RISK OF CRIMINAL AND CIVIL SANCTION**

As several countries, including Nigeria adopt and begin to implement anti-corruption legislation, it would only be prudent for private business to prepare against the risk of criminal or civil sanction. The risk is real because where companies practise, condone or turn a blind eye to corrupt business practices they may find that they become entangled in infractions of the law and the possibility of criminal action being taken against them or their managers. For instance, a company that has not geared its corporate practices to fighting corruption may find that one of its employees has run foul of the law by receiving or giving a bribe. Apart from the resulting poor publicity and the loss of business, the company risks other sanctions including prosecution or being blacklisted by industry regulators.

### **HEIGHTENING EMPLOYEE AWARENESS OF CORPORATE POLICY**

Even where the owners or management of a firm are opposed to giving bribes or engaging in corrupt practices, it is useful for them to subscribe to a voluntary code of conduct like the Convention on Business Integrity. Apart from preventing the embarrassment that may arise from the behaviour of an errant employee, subscription to the Convention is a means of heigh-

tening employee awareness of corporate policy. In addition to providing a framework in which the employee can situate his actions, it also amounts to giving training to company managers and staff in business ethics. This saves the firm the costs of having to develop separate codes of conduct for its employees especially as there is a need for some broad consensus on which actions are permissible and those that should be avoided.

### **PROTECTION OF SHAREHOLDER ASSETS**

It probably goes without saying that one of the key duties of the management of a company is the protection of shareholder assets. Since corruption can erode such asset base through payment of bribes, uncompetitive tendering for supplies or outright fraud, it is of interest to a firm for there to be internal controls as well as external constraints on corruption. The Convention on Business Integrity certainly helps to establish procedures that discourage corruption in-house and payment of graft to other entities and thereby contribute to protecting shareholder assets.

### **SIMPLIFIED CONTACTS WITH FOREIGN BUSINESS PARTNERS**

Given the prevalent perception of Nigeria as a highly corrupt country that harbours fraudulent people it is not surprising that foreign companies are wary of doing business with Nigerian firms. Only a clear and permanent change in the country's image can overcome this negative perception but since business transactions must continue, Nigerian based firms should have a way of reassuring foreign partners that they are credible. Being certified as a member of the Convention on Business Integrity and rated accordingly is one way of overcoming the hurdle of persuading potential partners that your company is sincere and trustworthy. Also, participation in the Convention on Business Integrity will certainly ensure that companies operating in Nigeria comply with emerging global anti-corruption standards.

### **LOWER TRANSACTION COSTS**

Gaining such trust is crucial not only for trade, investment and joint execution of projects but also in terms of transaction costs such as modes of payment. Nigerian firms currently have to provide the most expensive forms of business guarantees and insurance because of the poor international business image of the country. A key function of the Convention Secretariat will be to negotiate better terms of trade for signatories to the code.

### **GAINING AN EDGE IN COMPETITIVE CONDITIONS**

Globalisation and increased transparency in economic matters mean that companies have to rely on their competitive edge in order to do well in business. Indeed, companies can no longer rely on being shielded from foreign competition or by giving bribes to win contracts. This requires that they get used to bidding for jobs on a competitive basis with this, in turn, requiring a motivated workforce committed to excellence. The adherence to a code of corporate conduct such as the Convention on Business Integrity will help to prepare a company for such challenge and give it an edge over competitors.

By the same token, a demonstrable compliance with certain minimum ethical standards are becoming an increasing factor in choosing between near equal bids. A major company that subscribes to the Convention on Business Integrity may choose between two otherwise equal sub-contractors on the basis of their ethical record, not only out of fellow feeling but in order to protect itself from the possible legal complications that may occur from using a sub-contractor that does not share its core values.

### **CLARIFICATION OF GREY AREAS**

A substantial number of companies are transnational in the sense that they operate in more than one country. This, however, means that the operating milieu of the company varies from country to country. As such, what is considered wrong in one country may be quite permissible in another and subscription to a common code of conduct with other companies in the same country may not only guide against likely transgressions of the law but also help to identify other areas of concern for possible countervailing action. For instance, the lines of what is acceptable and what is wrong may be blurred in the area of gift-giving and hospitality, the use of intermediaries, and what exactly constitutes a conflict of interest. The perception of such practices obviously varies according to local custom and many companies would benefit from a commonly accepted set of rules that apply not only to relations with the public sector but also within the private sector.

### **BENEFITS TO THE NATIONAL ECONOMY**

The reduction of any form of corruption in Nigeria is a public good in the sense that such benefit is available to all members of society. Corruption is expensive in the sense that it squanders resources that could be used for developmental purposes. Private sector entities therefore stand to benefit in an environment of less corruption because of reduced costs of doing business ranging from the elimination of bribery to cheaper and more efficient public services. Quite naturally, there is the temptation to 'free-ride' by waiting for others to do the work and then coming up to share the benefits, but it should be borne in mind that without reaching a critical mass of serious stakeholders, minimising corruption in the business environment will take longer. For this reason, therefore, business entities in Nigeria should see adhering to the Convention on Business Integrity as their own contribution to achieving national economic growth.

### **INCREASING FOREIGN INVESTMENT**

A study undertaken by the International Finance Corporation (IFC) in 1998 reveals that Nigeria has the capacity of increasing foreign investment inflows substantially if it succeeds in reducing the level of corruption. The study stated that corruption and the absence of a credible rule of law are the two greatest impediments

to foreign investment attraction in world economy. Analysts said that the fact that Nigeria is perceived as one of the most corrupt countries significantly reduces the inflow of genuine foreign investments.

### **TALENT PAYS AND SOCIETY GAINS**

At the micro level it can be observed that in a corrupt society, which lack properly enforced transparent rules, talented citizens without means and connections seldom rise. This is a waste of such human capital, which is desperately needed in developing countries. The total productivity of society will grow if the opportunities are equalised. If those with power can see that they are not jeopardising their own interests or losing power, but are using their power to facilitate someone else's expression or contribution then society itself is the ultimate beneficiary.

## THIS IS THE TIME TO DEFEAT CORRUPTION

The re-launch of the Convention on Business Integrity is timely. From various actors there is an increasing awareness of the need to fight corruption within several areas and several levels of society. The international community and international organisations, and on the national level, civil society and the business community, are taking different actions.

### INTERNATIONAL AWARENESS

In the developed economies, concern about the harmful effects of corruption has led to the adoption of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. The OECD Convention, which was signed by 33 countries in December 1997 and entered into force in February 1999, realises that businesses have a role to play in reducing the scale of corruption in international business transactions. Thus, it obliges parties to make it a criminal offence subject to effective, proportionate, dissuasive sanctions, comparable to those applicable to domestic bribery, to bribe foreign officials in order to obtain or retain business. The OECD Convention only covers the conduct of the

person offering the bribe, not the conduct of the bribe recipient. The target of the OECD's work is the offering side of the bribery bargain and is essentially an effort to cut off the supply of bribes to foreign officials, with each country taking responsibility for the activities of its companies. As the OECD Convention realises, the private sector has an important role to play in checking corruption. This, however, should go beyond just the criminal aspect but should also involve voluntary action, which could be beneficial to both the national economy and individual businesses. The level of corruption in the private sector is moderated by the quality of internal control systems and corporate governance. The Convention on Business Integrity follows the same line of thought as the OECD Convention, thus targeting those offering bribes. The Convention on Business Integrity seeks to encourage Nigerian companies to take responsibility for their activities and not only await a change within the public sector.

There was a time when some of the multilateral donors seemed willing to overlook limited corruption provided that they could argue that reform was making progress elsewhere in the economy. This attitude is changing. Today, there is overwhelming evidence to show that corruption slows as well as distorts economic growth, cuts into profits, deters investment and breeds political instability. Strong support for anti-corruption reform is coming from outside of Nigeria. International organisations and foreign governments are among those in the forefront of promoting anti-corruption efforts. Development agencies support the fight against corruption in various ways, and mainly along two lines: prevention of corruption in donor-funded activities, and support of national anti-corruption campaigns and good governance efforts. The support from donors has hitherto focused mainly on the public sector. However, since much corruption takes place in the interface between the public and private sector it is important to also extend the efforts to include the offering side. Corruption must be fought simultaneously on several battlefields.

### **NATIONAL DETERMINATION**

Several developing countries have taken steps to stem corrupt practices in domestic business transactions and in the specific instance of Nigeria the Obasanjo administration has taken several steps to tackle the scourge of corruption in public and private life, including the revision of contract awards and replacement of heads of government parastatals and agencies, and The Corrupt Practices and Other Related Offences Act, which was passed into law in 2000. The Independent Corrupt Practices and Other Related Offences Commission (ICPC) was established with wide ranging powers of education, prevention, investigation and punishment of the corrupt practices described in the Act.

The National Programme on Governance for Sustainable Human Development (NPGSHD) has recently been developed in co-operation between the Federal Government of Nigeria, through the National Planning Commission, and UNDP, with input from Nigerian stakeholders representing government agencies, civil society and the private sector. The national governance programme has 14 major components, of which one consists of support for promoting transparency, accountability and integrity in both public and private sectors. The proposed action plan seeks to integrate civil society in the anti-corruption strategy and points at the need for the enforcement of codes of conduct and codes of ethics in public and private institutions. One expected result of the programme is effective oversight of the civil service by watchdog institutions and civil society. To this end the programme identifies the need to help develop a code of business ethics that all private enterprises should adopt to regulate their dealings with the public sector.



## **INTEGRITY**

95 Igboere Road

Lagos Nigeria

Tel. +234 -1- 2 63 45 96

+234 -1- 2 63 12 35

<http://www.integrity.kabissa.org>

[integrity@kabissa.org](mailto:integrity@kabissa.org)



Sponsored by:



## **SAP AG**

Global Corporate

Communications

Neurottstraße 16

69190 Walldorf

Germany

Tel. +49/62 27/74 63 11

Fax +49/62 27/74 63 31

[press@sap.com](mailto:press@sap.com)

[www.sap.com](http://www.sap.com)

500 49 214

© 2002 by SAP AG. All rights reserved. SAP, mySAP, mySAP.com, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and in several other countries all over the world. MarketSet and Enterprise Buyer are jointly owned trademarks of SAPMarkets and Commerce One. All other product and service names mentioned are the trademarks of their respective owners.

Printed on environmentally friendly paper.