The agenda for business integrity

The World Economic Forum’s Global Future Council on Transparency and Anti-Corruption has developed a forward-looking framework for business integrity, which supports and aligns with broader work to globally reset and embed a revised purpose of business based on a stakeholder economy. Our purpose is to provide a clearly defined and practical agenda for businesses to pursue integrity in a way that is aligned with the United Nations (UN) Sustainable Development Goals (SDGs), the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The framework is based on four pillars:

1. A conceptual foundation that requires a commitment to ethics and integrity beyond compliance
2. Strengthening corporate culture and incentives to drive continuous improvement and leadership
3. Leveraging innovative technologies to improve data collection, analysis, decision-making, reporting and overall accountability
4. Supporting collective action to increase scale and impact

An Agenda for Business Integrity
Four key pillars of leadership action by companies

1. Commit to ethics and integrity beyond compliance
2. Strengthen corporate culture and incentives to drive continuous learning and improvement
3. Leverage technologies
4. Support collective action to increase scale and impact
Pillar One – Breaking corporate silos: a commitment to ethics and integrity beyond compliance

2.1 Reframing the challenge

Initiatives to enhance ethics and integrity as well as mitigate risk in the workplace typically derive from two related, but conceptually distinct, points of departure:

1. Preventing or reducing unethical conduct (compliance-based) or
2. Encouraging people and organizations to manage business with integrity (values-based)

Increasing business complexity and regulation has driven the evolution and strengthening of compliance programmes, together with the growth in influence and prominence of the function itself, and today there is a clear consensus about the need for such programmes and their key components. Values-based programmes have evolved less consistently, in tandem with the evolution of the corporate social responsibility and business and human rights fields. They have tended to focus on voluntary principles and standards, agreed by international governance bodies such as the OECD, UN and World Economic Forum or industry bodies. The consistency, clarity and influence of such standards has increased exponentially over the last decade. Efforts to improve corporate integrity also encompass initiatives led by human resources designed to improve employee conduct, motivation and retention. In any organization, especially large multinationals, one should expect to find examples of both approaches.

Corporate ethics programmes – the generic name for what companies do to regulate the behaviour of their employees – also have different drivers. Companies pursue these efforts to avoid reputational and legal risks from unethical employees (the business case) and because there is a perceived intrinsic value in doing the right thing (the moral case). For companies to really embrace and sustain ethics programmes with purpose, the ideal is that there should be alignment between the business and the moral case (See Figure 3).
In many companies, such alignment is being driven by the growing importance of materiality of human rights and sustainability issues to the company’s operational and financial performance and reputation, in addition to these being fundamentally ethical issues. When there is a risk of corruption, this can raise a red flag for companies that there is also a high risk of human rights abuses, environmental harm and weak rule of law, in a particular market or sector. This provides an additional rationale for preventing corruption and also identifying and addressing the human rights abuses and other harms that may be caused by corrupt behaviour or payments. Similarly, businesses are asked to commit to prevent and reduce corruption as part of achieving the SDGs – not least because doing so could fund achieving the SDGs.

Today, the value of an aligned approach to business ethics is clear to many companies, but compliance, HR and corporate responsibility/sustainability are still frequently managed as separate functions, with different objectives, mandates, approaches and reporting lines within organizations. This can cause conceptual confusion, internal mixed messaging and inconsistency over the organization’s fundamental ethical foundation, priorities and their management. Even when laws are well conceived and executed, a legal compliance approach does not necessarily provide sufficient conceptual or operational clarity, and accordingly, holistic risk governance, reflecting the fact that the law is a lagging indicator and political dysfunction and polarization is rising in many jurisdictions. Public expectations about corporate efforts to mitigate the impact of climate change, protect the rights of workers in their supply chain and limit the negative societal impacts of their products and services are often far ahead of legal frameworks. For this reason, an integrated perspective throughout functions, clear responsibility for, and involvement in, implementation and oversight by the senior executive team and operations leaders, together with compliance, sustainability and human resource functions, is an optimal approach. Implementation of such efforts by human resources, compliance or sustainability will be far more effective if they have aligned ethical mandates, oversight and visible support from senior leadership.

### 2.2 Adapting to a changing context

Over the past two decades, a number of global trends have transformed the international operating context for business. Today, our global agenda is defined by the devastating humanitarian and economic impacts of the COVID-19 pandemic, widespread public protests against inequality, injustice and climate change, and the risks and opportunities of digital transformation and the Fourth Industrial Revolution. These trends build a powerful case to re-evaluate the longstanding dominant shareholder-first short-term business approach in favour of a more inclusive model of capitalism that consciously considers the needs and interests of all stakeholders. Any widespread and long-term shift from shareholder value to stakeholder capitalism by the global business community is predicated on reconciling the business and moral case for approaches to ethics and integrity beyond compliance.

**Hyper-transparency and its discontents:** One of the most rapid, widespread and consequential technological revolutions in human history is the ongoing adoption of sophisticated information and communications technology (ICT) tools (including mobile devices and internet access), and its integration into all facets of human decision-making and life. In this new environment social media platforms are redefining the nature of information and its use, accelerating polarization, undermining human mental health and well-being, and enabling human rights abuses of vulnerable populations. The situation raises complex questions about privacy, surveillance, transparency and freedom of expression that are most immediate for technology companies, but are an increasingly material concern for all businesses.

Technology has driven individual empowerment and transformed the operating context for business
and introduced “real-time and direct access” accountability. Companies can no longer manage their reputations via contractual provisions and top-down controlled public relations efforts. Disputes about corporate conduct can be identified and amplified by international civil society organizations or individual citizens, including employees, in a manner that immediately raises their visibility and impact, transcending a local context. For example, international environmental groups are increasingly aligning with indigenous rights movements in Latin America and giving global exposure to previously low-profile disputes. In agriculture, extractives and infrastructure, companies historically have differentiated between project-level community engagement and corporate reputation management, but this distinction is increasingly difficult to sustain, especially when effective responses to such situations are now required across a sector and/or at a global level. This is illustrated in tailing dam safety.

At the same time, corporate disclosure is becoming a key element of demonstrating sustainable governance, in conjunction with meeting regulatory requirements and civil society demands that companies seek stakeholder opinion and consent as a formal step in corporate reporting and assessments. Companies need to identify their stakeholders and explain how they have responded to their expectations and interests to comply with the GRI G4 Sustainability Guidelines and UK Stewardship Code, and stakeholder input is required to comply with the UN Guiding Principles framework on human rights impact assessments.

**Rising political and employee activism:** We are in an era of popular protest coalescing around common themes of corruption, environmental justice and human rights, and unfortunately, is escalated by state actions that often seek to shut down civic space, restrict abilities of NGOs to operate and/or attack human rights defenders. While not the central target of protest efforts, this context is forcing business to grapple with increasingly complex and uncomfortable business ethics dilemmas arising from the underlying causes. Business is often expected in these circumstances to be the champion of the rule of law and to speak up on issues that may be linked to their employees, stakeholders or business model. For example, many companies are struggling to delineate their responses to the #BlackLivesMatter movement in the United States and the protests by Hong Kong citizens regarding the protection of civil rights.

In parallel, employees and whistle-blowers are increasingly willing and able to share concerns directly with the public rather than through internal channels or hotlines regarding the integrity and values of their employers, or customers and commercial priorities. Companies now need to anticipate and be able to respond to a growing list of ethical concerns from employees and other stakeholders with the information and tools to publicly challenge unethical leadership decisions and drive real-time accountability.

**Growing momentum for the global business and human rights agenda:** In 2011, the UN Guiding Principles defined the responsibility of the business community to respect human rights and set a path for identifying and mitigating any negative human rights impacts as well as providing access to remedy. While consideration of the impact of a business on people (as opposed to risk to the business) is inherently challenging to evaluate, measure and respond to using standard business approaches and mindsets, many companies recognize the pressing need to work more actively to support the global human rights agenda.

As the business and human rights agenda has become more defined and its integral connection to environmental, social and governance (ESG) more explicit, the regulation of business conduct impacting human rights is gaining momentum and a number of EU jurisdictions now mandate (or have committed to introducing) human rights due diligence in respect of business operations. In turn, this is driving increased awareness of how corruption undermines human rights and necessitating a rethink of enterprise-wide risk management approaches, including how and why third-party due diligence is conducted. Leading companies are finding their ESG and human rights policies and performance is benchmarked and rated to inform investors and the market.

**Shifting generational norms and values:** Millennial and Gen Z employees make up an increasing proportion of our workforces and likely have the greatest digital acumen. They also expect diverse and inclusive workplaces and are concerned about climate change and environmental and social responsibility, as well as the uncertain impact of automation and artificial intelligence on the future of work and their careers. Broader structural changes to the economy have made it harder for them to achieve the financial stability of prior generations as well as professional meaning. As a result, the picture for Gen Z employees looks bleak and frustrating, and the case for respecting existing structures correspondingly weak.

Networked rather than hierarchical organizations are more likely to succeed and leverage the motivation and talent of younger workers. The vast majority of existing private-sector organizations, however, are structured on the assumption that experience and authority correlate and automatically earn respect. Younger employees have not inherited these assumptions and have a far less institutionalized idea of power and a far more fluid idea of how power changes. This all suggests that hierarchical disputes, where newer and younger employees reject direction, instruction and assumptions of authority from older and more experienced employees, may now increase. These trends necessitate new approaches to leadership built on ethics and integrity to meet the expectations of younger workers will be required.

**Momentum in ESG investing:** In 2018, Larry Fink, Chief Executive Officer of BlackRock, declared: “To
No one business or government can solve these challenges alone. Consideration of systemic risks by business is increasing along with an understanding that collaboration throughout the public and private sectors and civil society is a growing imperative.

Prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. This statement was a striking expression of growing investor momentum behind measuring ESG performance as a proxy for effective leadership and corporate governance. There is now a wealth of research showing that long-term economic performance and prioritization of relevant ESG issues are correlated. Companies are responding with alacrity to increased investor interest in ESG and this interest seems to be growing with even more momentum as the coronavirus has increased scrutiny of how companies are balancing share buybacks, dividend payments and executive pay with measures to improve the health and security of their workforces. In response, the World Economic Forum’s International Business Council is working with EY, Deloitte, KPMG and PwC to develop a set of common ESG metrics relevant throughout industry sectors and aligned with other non-financial reporting frameworks. This will only drive further investor engagement and action on this issue in respect of company disclosure and reporting.

A new supply chain oversight imperative: Ethical business conduct is also being renegotiated with the expansion of perceived responsibility beyond the focal organization and into the supply chain. Companies are held responsible for the actions of organizations over which they have no direct control and often very limited influence. Plus, the emerging regulation of human rights issues, such as modern slavery and labour trafficking in Europe, Australia and California is exposing the limitations of approaches that rely heavily on compliance audits and lack visibility beyond the first tier of suppliers.

Visibility and consumer awareness are helping civil society organizations and human rights activists to hold multinationals to account for what goes on in their supply chains throughout a range of products and services. Apparel companies were forced to respond to the Rana Plaza tragedy, construction companies to compelling evidence of forced labour in the Gulf, and technology manufacturers to grapple with the implications of conflict in central Africa, the sourcing of key minerals and the subsequent Dodd Frank provisions. With momentum behind supply chain oversight and the prospect of regulation concerning environmental and social due diligence in a range of jurisdictions, businesses should proactively engage with this issue. Acceptance is growing that large companies cannot rely solely on due diligence and termination of supplier relationships, but need to re-evaluate their dependencies and work collaboratively with their critical suppliers to build capacity and resilience as well as invest in relationships.

A clear agenda for sustainable development: In 1987, the Brundtland Report defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. The concepts of essential needs of the world’s poor, inter-generational equity and the limitations presented by the environment are now fundamental to the sustainable development and corporate sustainability movements. The UN’s 2030 Agenda for Sustainable Development and the 17 resulting SDGs are aimed at governments, but present clarity over how companies can define and align their corporate responsibility efforts with the wider development agenda. This is an essential step in moving corporate responsibility rhetoric and action beyond self-serving “green or bluewashing” for reputational purposes and towards an integrated approach based on business model transformation and social and environmental progress. By actively supporting the sustainable development agenda, leading companies are not preaching socialism, but rather promoting sustainability in the most original and fundamental sense of the word: the ability to continue operating as a going concern.

Accelerating tragedies of the commons: Corruption, climate change, global health crises, biodiversity, money laundering, tax evasion and avoidance, economic inequality and the human rights impacts of technology are just some of the collective action problems faced today. Business efforts to manage and mitigate risk and maintain business continuity are insufficient in this context, as are mechanical calculations of organizational self-interest. No one business or government can solve these challenges alone. While still at an early stage, consideration of systemic risks by business is increasing – such as in the context of public health or racial injustice – as is an understanding that collaboration throughout the public and private sectors and civil society is a growing imperative.

These trends are leading to the emergence of a new multi-polar and multi-conceptual world, where many of the old “battle lines” have lost their relevance. In response the World Economic Forum has called for the Great Reset. The Great Reset provides a framework with three main components:

- Fair regulation to support a stakeholder economy
- Economic stimulus packages guided by ESG metrics
- Harnessing the innovations of the Fourth Industrial Revolution to support the public good

Time will tell whether we have reached a new era of rapprochement. Companies will need to demonstrate that they are able to integrate new ideas into governance structures, corporate strategy, business models, decision-making, as well as products and services throughout their value chain. This challenge has assumed even greater resonance in guiding businesses through the COVID-19 pandemic in a manner that prepares them for such a reset.
2.3 Committing to integrity beyond compliance

How can companies demonstrate leadership and commit to implementing ethics and integrity beyond compliance? While our integrity pillars provide detailed guidance on implementation, several guiding principles can be used to set overall direction and reframe ideas of value.

– **Explicitly consider stakeholder interests and trade-offs** – the idea that business is about more than short-term profit and the interests of the shareholders is becoming increasingly mainstream. One of the most powerful examples is the statement of the influential US chief executive officer network, the Business Roundtable, which in August 2019 formally called for an end to shareholder value, in favour of stakeholder capitalism.7

– **Acknowledge complexity** – in business, very often there is no clear right answer. While regulation tries to catch up, new solutions and problems are generated and context is critical when deciding between right and wrong. Similarly, provided no universal ethical principle (such as dignity and human rights) is transgressed in the process, respect for local customs or traditions can result in different ethical solutions to the same issue (based on the context) and over time. We have seen this exemplified in the development of the UN Guiding Principles on Business and Human Rights in mediating a framework for business to demonstrate its universal responsibility to respect human rights in the context of its operations and business relationships. This is not a simple proposition and requires business to grapple with complex dilemmas, but the commitment to doing so is what remains consistent.

– **Embrace integration** – clear distinctions between legal compliance efforts to reduce wrongdoing and corporate sustainability efforts to drive more positive environmental and social impact tend to make less sense in the context of shifting trends, norms and expectations. Momentum today is behind transparency and traceability in the supply chain, the convergence of human rights and anti-corruption agendas, increasing clarity concerning the importance of an integrated approach to ESG issues, including standards, performance metrics and reporting. These trends necessitate rethinking corporate governance structures, due diligence efforts and risk management approaches as well as overall consideration of the external landscape.

– **Embed resilience** – organizational resilience requires considering the impact of systemic ESG risks throughout decision-making, people, skills and relationships to provide a “risk resiliency” buffer and governance for business decisions. It is especially important over time and in complex operating environments, where local laws are contrary to or lower than international standards, absent or not enforced, and enable a business to “mind the gap” between legal compliance and social accountability risk as well as embed stakeholder trust. It also reflects a prudent understanding that a business will be judged against the standards on exit rather than entry into a situation.

This foundation provides an opportunity for leading organizations to fully leverage the power of purpose through aligned integrity, innovation, agility and resilience in a manner that moves beyond “buzzword bingo”. It enables businesses to harness not only the full scope of different types of capital within their control to create positive and sustainable impact, but also underpins achieving all the SDGs for business and all its stakeholders, including governments and society.
Conclusion: The way forward

The following three pillars seek to guide companies in structuring their implementation activities – internal and external, as well as company-specific and collective:

- A strong corporate culture, supported by appropriate incentives, the promotion of which is the task of the board of directors and senior executives of any organization
- The ability to leverage innovative technologies to improve and align data collection, analysis and decision-making
- No organization can achieve this on its own, but even if it could, it would not have the desired scale and impact. That is why collective action is required.

These implementation pillars of the framework for business integrity are discussed in subsequent papers of this series.
Appendix: Global Future Council on Transparency and Anti-Corruption 2019-2020

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This paper has been written by the World Economic Forum's Global Future Council on Transparency and Anti-Corruption 2019-2020. The findings, interpretations and conclusions expressed herein are a result of a collaborative process facilitated and endorsed by the World Economic Forum, but whose results do not necessarily represent the views of the World Economic Forum, nor the entirety of its Members, Partners or other stakeholders, nor the individual Global Future Council members listed as contributors, or their organizations.

This paper is part of the Agenda for Business Integrity and focuses on Pillar 1: Commit to ethics and integrity beyond mere compliance.
1. Figure 1: The Agenda for Integrity, World Economic Forum
2. Figure 2: Different points of departure, based on Daniel Malan’s research
3. Figure 3: The business case and the moral case, based on Daniel Malan’s research
7. Professor Tom Donaldson and Professor Jim Walsh have argued that there is a disconnect between what we regard as value for an individual business, and value for business in general. They have proposed the term “optimized collective value” to describe the purpose of business in general, in the same way as justice and health describe the purpose of law and medicine, respectively. More can be found here: Donaldson, T., & Walsh, J. P. (2015). Toward a Theory of Business. Research in Organizational Behaviour, 35 181-207. http://dx.doi.org/10.1016/j.riob.2015.10.002
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