Executive summary

Ethical standards in major corporations are coming under increasing scrutiny, and financial institutions have been challenged about conflicts of interest and their investment advice. Big pharmaceutical companies are being criticised for focussing on lifestyle drugs and neglecting major diseases in developing countries. However a number of initiatives and regulations are being developed which place particular emphasis on combating bribery and corruption.

EIRIS conducts ongoing research into the social, environmental and governance practices of 2,800 major companies in 23 countries. This research includes an assessment of the quality of each company’s business ethics code (or policy) and the extent to which business ethics management systems which are in place. For the purpose of this study, EIRIS defines business ethics as how a company conducts its business and the behaviour of its employees. On both policy and systems each company is assigned one of five assessment levels – ‘advanced’, ‘intermediate’, ‘basic’, ‘limited’ and ‘nothing’ in situations where there is no evidence of any business ethics code (or system) whatsoever. This study focuses on a sub-set of the companies regularly analysed by EIRIS, namely, the 1,966 companies on the FTSE All-World Developed index (essentially the largest listed global companies), and an
additional 441 smaller UK companies (to enable an assessment of the FTSE All Share index).

Key findings include:

• In two of the most exposed sectors, oil and gas and aerospace and defence, just under 24% appear to have declared policies for all of the following; anti-bribery policy; a clear whistleblowing system; policy against political donations and monitoring compliance. Given the pressures to pay bribes which exist in these sectors this figure seems low.
• 61% of all high risk companies have an explicit policy against bribery, 58% monitor compliance of their ethics policy and nearly two thirds have whistleblowing procedures
• Over half (54%) of the companies assessed have a meaningful business ethics code or equivalent policy, ('intermediate' level or above)
• A higher percentage (67%) have a business ethics management system (at ‘basic’ level or above), but overall, management systems appear to be less developed than the policies
• Companies in the Netherlands have the most developed policies, with over 86% having meaningful ethical codes, and almost 73% having ‘advanced’ policies
• Over 78% of UK larger cap companies have meaningful ethical codes, although this figure drops to around 31% once the sample is expanded to cover all medium and smaller cap companies (the FTSE All-Share index).
• The Netherlands and the UK are also ahead of other major economies in relation to the quality of their business ethics management systems
• Other countries with relatively high percentages of their leading companies having ethical codes, include the USA, Australia, New Zealand and the Nordic countries

• Companies in Singapore, Hong Kong and Spain are least likely to have ethical codes and Singapore, Hong Kong, Greece, Spain, Ireland and Portugal lag behind when it comes to business ethics management systems.

Of the 1,966 companies on the All-World Developed index just over a third (660) were deemed to be high-risk in relation to bribery and corruption – meaning they were operating in countries where business-related bribery is extensive or in high-risk sectors such as oil, aerospace and construction.

The study also summarises some of the major business-related anti-corruption initiatives which exist, and it provides some examples of corporate best-practice in relation to business ethics codes and management systems.

1. Introduction

The payment of bribes by corporations, especially in developing countries, can undermine economic development, corrode civil society and diminish democratic accountability. However many companies have argued that bribery is unavoidable, that bribes are extorted from them, and in short that they have been required to pay bribes in order to secure or retain contracts. While such pressures are undoubtedly there, paying bribes only perpetuates the negative effects on society. Bribery always requires at least two partners – the bribe-giver and the bribe-taker – and this places an onus on business to play its part in global initiatives to combat bribery.

However, there are often grey areas. When does a gift to a business partner start to look more like a bribe? How are different cultural perceptions around this taken into account? Where
do bribes begin and legitimate political donations end? Who is responsible when bribery takes place in a local subsidiary, especially where management is decentralised?

In the first three months alone of 2005, EIRIS, through its Convention Watch Service, captured 29 major allegations of bribery globally. Types of allegations covered by EIRIS (which relate to the UN Convention against Corruption 2004) include bribes ranging from those given to government officials and others used to secure contracts.

It would be wrong to conclude that corporate corruption is on the increase. Rather, awareness of the issue is growing and scandals are more likely to come to light. In truth, it is difficult to reach firm conclusions in the absence of evidence. While there have been many corruption studies of individual firms or of larger companies, and even extensive studies within particular countries, there is a notable lack of comparable global data. As part of its comprehensive research into the social, environmental and other ethical issues of over 2,800 major companies across the world, Ethical Investment Research Services (EIRIS) evaluates the quality of companies’ business ethics codes and related management systems. For the purpose of this paper, this study focuses on a sub-set of 2,400 companies regularly analysed by EIRIS.

1.1. Results from 2,400 companies

EIRIS analysed 2,400 of the largest companies in the world during 2005 to assess:

1. Whether they have a code of ethics and if so, how extensive it is and whether it encompasses:
   - a commitment to obeying laws and regulations
   - prohibition on giving and receiving bribes
   - restrictions or guidance on giving and receiving gifts
   - restriction of facilitation payments
   - prohibition of donations to political parties
   - restrictions and guidance on conflicts of interest
   - other aspects – such as ‘ethical competition’ (prohibiting covert surveillance for example), prohibition of anti-competitive practices, use of company resources, external activities of employees, cultural sensitivity, and other innovative or sector-specific elements

2. Whether they have appropriate management systems, and if so whether these encompass:
   - employee training
   - whistleblowing procedures
   - compliance monitoring
   - regular reporting of breaches and enforcement
   - regular review of the code

EIRIS defines these elements as ‘business ethics’ to distinguish them in relation to the wider definition of ethics per se.

The data has been integrated to allow each company to be assessed for both its policies and management systems in five broad bands; advanced, intermediate, basic, limited and nothing.

The analysis focuses on 1966 companies on the FTSE All-World Developed index and an additional 441 UK companies on the FTSE All-Share index. The results have been aggregated by country and sector.
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2. Key findings

2.1 Chart 1: Business ethics code/policy by country (2005)

Chart 1 summarises the data for companies on the All-World Developed Index – essentially a comparable group (in terms of size) of large and medium-cap companies listed in the countries indicated. It shows only companies with a policy at the level of ‘basic’ or above. (The percentage figures indicated are advanced codes, these are publicly-available codes, applicable to ALL employees and covering a range of elements such as bribery, regulation of gifts, facilitation payments, commitments to obeying laws, prohibition of political donations, measures to handle conflicts of interest, and other sector-specific aspects e.g. bioethics). The figures show that:

- Overall over half (54%) of companies have a meaningful code of business ethics or equivalent policy (intermediate or advanced).
- Companies in the Netherlands have the most developed policies, with almost 73% having advanced policies and fewer than 5% having a limited code or no code at all.
- Almost 94% of UK companies (larger cap) have business ethics codes; although this figure drops to around 49% once the sample is expanded to cover the complete All-Share index.
- 78% of the UK larger cap companies have meaningful ethical codes, and again this figure drops to around 31% once the sample is expanded to cover all medium and smaller cap companies.
- Other countries with relatively high percentages of their leading companies having ethical codes include USA,
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Australia, New Zealand and the Nordic countries.
• Singapore, Hong Kong and Spain emerge as the least developed in this sphere.

A number of countries, such as the United States and Spain, have recently introduced listings requirements for companies which include ethical codes for directors. Where a company in such countries has a policy, and where this is not clearly applicable to all employees, this is classified as ‘limited’ and does not appear in the above chart.


Chart 2 summarises the data for companies on the All-World Developed Index based on an assessment of their management systems related to business ethics. (The percentage figures indicated are advanced systems, which cover a range of elements such employee training, compliance monitoring, whistleblowing procedures, reporting – including details of breaches and enforcements and a regular review of the code). The very high number of US companies with basic policies flows from the requirements of Sarbanes Oxley.
• 67% of companies overall have a business ethics management system (at ‘basic’ level or above).
• The largest proportion of such systems is at the ‘basic’ level, unlike the assessment of ethics policies which show a more even spread of assessment levels.
• Norway, UK (larger cap) and the Netherlands have the most developed systems.
• Singapore, Hong Kong, Spain, Greece and Portugal lag behind.
3. Companies most at risk

Business ethics affect all companies and all aspects of their business dealings. Using company resources for private purposes, or acting unethically in relation to competitors, are issues that affect most companies, and these are partly regulated by laws against theft or cartels. Similarly, conflicts of interest can emerge in many business situations although they appear most challenging in areas such as investment banking and asset management. Some issues are sector-specific, such as those associated with human rights and drug-testing protocols which are especially complex but largely of interest to pharmaceutical firms, many of whom have been closely associated with the emergence in recent years of the discipline of bioethics.

Companies are increasingly seeing corporate codes of ethics, which includes bribery policies and policies encouraging employees to follow principles of good business behaviour, as an area in which to manage potential business risk. This is especially true for those companies operating in high-risk environments or high-risk sectors. Which companies are most at risk in relation to bribery and corruption? Findings from research conducted by Transparency International (TI) found that companies from certain leading exporting countries are believed to be more likely to pay or offer bribes to win or retain business. A more comprehensive study conducted by the World Bank, drawing on TI and other research and covering almost all countries, includes a ranking of countries by the degree of control over corruption. In conducting a simple risk assessment we have used this ranking to identify 50 countries (not all of them commercially significant) where control of corruption is weakest. These include Russia, China, Indonesia, India, Venezuela, much of central Asia and a large number of sub-Saharan African countries (see Appendix 1 for list). Corruption in these countries can be as much a cause as a result of political instability.

Risk is not only country-related but also sector-related. TI has concluded that certain sectors are significantly more likely to have bribes demanded from them – public works/construction, arms and defence, oil and gas and to a lesser extent real estate, telecomms and energy. It is certainly the case that those sectors where public procurement is central or where public licensing is required are most likely to pay bribes or have bribes demanded of them by corrupt public officials or politicians. For the purpose of conducting a simple risk assessment for bribery and corruption, we have included TI’s conclusions and our own judgement to decide that the most high risk sectors are public works/construction and associated engineering, arms and defence, oil and gas, energy and utilities, property development, telecomms, major gaming and global hotel chains, IT and related activities. EIRIS is in the process of developing a more sophisticated identification process that will be released later this year.

It can be argued that the absence of an ethical code is not suggestive of poor ethics for companies based in countries where public corruption is extremely low (such as Finland). But this argument is less valid where such companies are operating in high risk countries as well as in their home country, especially when they operate in sectors where bribery is often encountered.

For this study, companies are filtered into high-risk and lower risk categories, with the former being companies
engaged in specific activities or sectors, or with operations in high-risk countries (and often both). EIRIS has analysed 660 high-risk companies (a sub-set of the 2,400 companies analysed above).

**High risk companies only (n=660)**

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear whistleblowing system</td>
<td>63%</td>
</tr>
<tr>
<td>Anti-bribery policy</td>
<td>61%</td>
</tr>
<tr>
<td>Policy against political donations</td>
<td>27%</td>
</tr>
<tr>
<td>Monitor compliance of ethics policy</td>
<td>58%</td>
</tr>
<tr>
<td>Overall grading of an advanced code</td>
<td>33%</td>
</tr>
<tr>
<td>Overall grading of an advanced ethics management systems</td>
<td>9%</td>
</tr>
<tr>
<td>Aerospace and Defense (no. of companies =25)</td>
<td>24%</td>
</tr>
<tr>
<td>Oil &amp; Gas (no. of companies = 88)</td>
<td>23%</td>
</tr>
</tbody>
</table>

**3.1. Chart 3: Presents the highlights of the statistics for this subset of high-risk companies (2005)**

This indicates:
- 61% have an explicit policy against bribery
- Over 58% of high-risk companies monitor compliance of their ethics policy
- Nearly two thirds (63%) have an explicit whistleblowing system

In two of the most exposed sectors, oil and gas, and aerospace and defence, just under 24% appear to have declared policies for all of the following; anti-bribery policy, a clear whistleblowing system, policy against political donations and monitoring compliance. This seems a surprisingly low figure given the pressures to pay bribes which exist in these sectors.

Interestingly, over a quarter of high-risk companies have explicit policies banning political donations. This was unusual two or three years ago, and is now increasingly common. Perhaps the controversy and attendant publicity attached to political donations often exceeds their value to companies. Or perhaps the increase in the number of independent directors and greater control of CEOs by investors makes political donations less tenable. In some countries political donations are the subject of regulation.
In the UK details of corporate donations, however small, are included in a public register and political donations from major corporations appear to be becoming less frequent. In Germany, the Parteienfinanzierungs-Gesetz (political donations law) requires that parties accepting donations over EUR 10,000 must publish this. Whilst in Australia, average contributions to political parties by companies have reportedly halved over the past few years, although some of the effect is likely to reflect the vagaries of the electoral cycle and companies do still frequently donate large sums.

4. Initiatives to combat bribery

In recent years a number of major intergovernmental, NGO and private-sector initiatives have focused on the need to combat bribery and corruption and on the underlying need to improve standards of corporate governance, ethics, transparency and integrity. This is not always easy. Until recently a number of European countries continued to allow companies to make foreign bribes tax deductible. At least one oil company signing up to the ‘Publish-What-You-Pay’ initiative has indicated it has been threatened with contracts not being renewed.

The thinking behind recent initiatives has been that either regulation, or an organised refusal by business to pay bribes (supported by legislation), should create a virtuous circle and allow at least large-scale corruption to be challenged. A strong regulatory environment also makes it easier for companies to resist extortion. Recent business-relevant initiatives to combat bribery include:

- The OECD convention on Combating Bribery of Foreign Public Officials (adopted in 1997) makes it a crime to “offer, promise, or give undue pecuniary advantage”, directly or indirectly, to any foreign public official “to obtain or retain business”, and calling on corporations to put effective management systems into place (including training, communication, control systems and whistleblowing procedures). Also relevant are various OECD recommendations, notably one calling for an end to tax deductions for foreign bribes.
- The International Chamber of Commerce (ICC) Rules of Conduct to Combat Extortion and Bribery (revised 1999) oppose extortion and bribery, “off the books” accounts, calling for all corporate payments to be recorded and audited, for payments to political parties to be in accordance with “applicable law” and for appropriate actions against directors or employees in breach.
- Transparency International’s and Social Accountability International’s Business Principles for Countering Bribery, build on the ICC rules and the OECD convention and give detailed guidance to help companies develop anti-bribery policies and management systems.
- Various industry-linked initiatives such as the anti-money-laundering Wolfsberg group of leading banks, the Oil and Gas Producers and ‘Publish What You Pay’ initiatives on bribery, and the International Federation of Consulting Engineering firms (FIDIC).
- Various non-profit initiatives such as TRACE (Transparent Agents and Contracting Entities) which help select business partners committed to higher ethical and transparency standards, and UNICORN, an anti-corruption network of public sector trade unions (www.againstcorruption.org).
- The United Nations recently-adopted Convention against Corruption, oriented more towards governments than...
business, focuses on the identification and recovery of stolen assets and the criminalisation of bribery (from ‘tipping’ to embezzlement). Significantly, in 2004 the Global Compact also adopted a tenth principle against corruption “Business should work against corruption in all its forms, including extortion and bribery”.

The intention of the FTSE4Good index is to include a specific set of anti-bribery criteria for companies to meet before being considered eligible for inclusion in the index.

Various relevant national laws such as the UK’s Terrorism, Crime and Security Act (2001) which defines corruption and makes bribery illegal, even if it takes place abroad; and US regulations such as the Foreign Corrupt Practices Act (FCPA) banning the payment of bribes by US business to foreign officials, and the Federal Sentencing guidelines (1992) which refer to an effective business ethics programme including an individual in charge, written standards/policy, employee training, and a whistleblowing hotline.

The key gap in the various initiatives is the lack of a global enforcement mechanism. A number of governments have introduced legislation including ending the tax-deductibility of bribes. The global regulatory mood, and increased media and investor attention, have also shifted towards increasing intolerance of bribe-paying by corporations. But, with the exception of the FCPA and some recent UK legislation, there are very few clear pieces of legislation threatening corporate executives with serious penalties if caught paying bribes in developing countries.

Legislation appears to be trailing behind public perception and the actual business environment. In the Statoil case for example (See Appendix 3), a consultancy deal, although not illegal under Norwegian law, was nevertheless perceived to be unacceptable, leading to the resignation of the chairman and chief executive.

5. Some best practice examples

Many companies have developed interesting and practical corporate ethics programmes. Best practice in some cases is achieved as a result of major scandals which may become a significant driver for improvement within a particular company. In other cases it is achieved by a company following its own set of values. Some companies who’s policies and systems are among the best examples in this area are the BT Group and SAB Miller in the UK, Proctor and Gamble in the USA, Siemens in Germany, Alcatel in France, Canada’s Talisman Energy, Telenor in Norway, Philips in the Netherlands, and QBE Insurance and BHP Billiton in Australia/UK.

Alcatel and BHP Billiton provide useful examples of well-developed ethics systems. Alcatel has an advanced ethics policy covering a wide range of issues from bribery to the environment, insider trading and child and forced labour. The company also has a detailed employee training system, which includes such initiatives as an e-learning module. In addition to this there are such whistleblowing procedures as a help-line and a specific mail address that employees can use anonymously.

BHP Billiton has an even more detailed Business Conduct Guide. It is written in clear, simple language with each provision accompanied by clear practical examples in question and answer form. For example, facilitation payments are discouraged but not prevented outright and the circumstances in which they may be
Corporate codes of business ethics: an international survey of bribery and ethical standards in companies
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considered acceptable are outlined in some detail.

Only a few years ago Shell hit the headlines when it published details of the number of employees it had dismissed on bribery-related charges in the preceding year. Far from being a sign of weak ethics, such disclosure shows the steps that may be required to uphold standards. There are an increasing number of companies, such as Philips, which publish details of the impact of their ethical policies and in doing so both acknowledge the problem and give analysts a degree of confidence in their systems.

6. Conclusions

It is difficult not to conclude that major global companies, especially those in high risk situations, are exposing themselves to significant risk if they do not have robust ethical guidelines in place as well as systems for managing business ethics. These companies have a clear idea of the practical challenges in this area and most, if not all, will have been approached for bribes either directly or indirectly.

But not only bribery is a risk. Conflicts of interest particularly when not dealt with clearly and firmly can be extremely costly and damaging to corporate reputations as many financial institutions and auditing firms have recently discovered. Engaging in unethical business practices, such as industrial espionage or colluding with competitors, can also prove costly if the company is caught. Recent European Commission fines for anti-competitive behaviour, for example, have sometimes run to hundreds of millions of euros.

All this is well known. The danger is that without a clear and enforced ethical code known to all employees, the normal business pressure on staff to win contracts and expand business may be seen as encouraging the need to do so at any cost. Many corporations have woken up to this and the trend towards improved ethical codes and systems can be expected to continue in the years ahead.

This paper has focussed on corporate bribe giving; however this is only one side of the equation. The other side is the bribe-taking. Even where companies act as responsible corporate citizens and avoid bribe-paying, the taxes they pay are sometimes mis-directed and may still find their way into the off-shore bank accounts of corrupt individuals. The ‘Publish What You Pay’ initiative is an attempt to take the issues beyond bribery and into governance. By asking extractive industry companies to publish what they pay in taxes, politicians in countries where corruption is endemic are likely to become more accountable to their own citizens. However, this initiative is still at an early stage.

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Appendix

Appendix 1 - Methodology

Companies are divided into two categories – those with highest systemic risk of giving or receiving bribes and those having bribes demanded from them. These are defined as companies operating in highest-risk countries or highest risk sectors. The details are:

- Countries - Afghanistan, Albania, Angola, Azerbaijan, Bangladesh, Burundi, Cambodia, Cameroon, Central African Republic, Chad, China, Congo, Congo (DRC), Cote d’Ivoire, Ecuador, Equatorial Guinea, Gambia, Georgia, Haiti, India, Indonesia, Iraq, Kazakhstan, Kenya, Korea (North), Kyrgyz Republic, Laos, Liberia, Malawi, Moldova, Mozambique, Myanmar, Niger, Nigeria, Papua New Guinea, Paraguay, Russia, Solomon Islands, Somalia, Sudan, Tajikistan, Tanzania, Turkey, Turkmenistan, Uganda, Ukraine, Uzbekistan, Venezuela, West Bank/Gaza, Zambia, Zimbabwe
- Sectors - public works/construction and associated engineering, arms and defence, oil and gas, energy and utilities, property development, support services, telecomms, major gaming and global hotel chains (defined in more detail below)

The universe of companies analysed was:

- Companies on the FTSE All-World Developed Index – basically the large and medium cap companies Western Europe, North America, Australasia, Japan, Hong Kong and Singapore. The largest are companies of the size of General Electric and Exxon Mobil. The smallest have a market capitalisation (end February 2005) of about £38m. Number of companies analysed = 1966
- Other companies on the FTSE All-Share index – the smaller cap companies listed on the London Stock Exchange, but not on the AWD. Number of companies analysed = 441.

Research analysts in nine countries assessed each company for the existence and quality of its code of ethics and the extent of its management systems. Researchers used multiple sources but especially annual reports, other company documents or manuals, company websites and responses to a survey. In a limited number of cases the company was contacted directly. Assessments were based on one or a combination of these sources.

Where an annual report (or CSR report or similar) referred to the adoption of a code of ethics but did not provide details, the company was approached for a copy so the contents could be analysed.

One of five grades is then attributed as summarised in Table 1 and Table 2.
Table 1: Policy – how good is the Company’s code of ethics?

<table>
<thead>
<tr>
<th>Elements</th>
<th>No code</th>
<th>Limited *</th>
<th>Basic **</th>
<th>Intermediate</th>
<th>Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Existence of Code of Ethics</td>
<td>No code and no claim to have a code</td>
<td>Company says it has adopted a code of ethics but no details available beyond this</td>
<td>Existence of code and at least one specific element</td>
<td>Existence of code and 4-5 specific elements</td>
<td>Existence plus at least 6 specific elements</td>
</tr>
</tbody>
</table>

Specific elements:
- Obeying laws and regulations
- Bribes
- Gifts
- Facilitation payments
- Political donations
- Conflicts of interest
- ‘Other’

Notes
* Included - a code only applying to senior managers or directors (e.g. SEC rules); and a statement of general commitment to principles such as honesty, integrity, fairness or similar
** Excluded - a code only applying to senior managers or directors

Table 2: Systems – how good is Company’s system for implementing code?

<table>
<thead>
<tr>
<th>Elements</th>
<th>No systems</th>
<th>Limited</th>
<th>Basic</th>
<th>Intermediate</th>
<th>Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee training</td>
<td>Score of 0</td>
<td>only employee training referred to without additional details</td>
<td>Score of 1-4 (unless it is employee training only)</td>
<td>Score of 5-7</td>
<td>Score of 8-10</td>
</tr>
<tr>
<td>Compliance monitoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>‘Whistleblowing’ procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reporting (including details of breaches and enforcements)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular review of code</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes
Points for each element are awarded as follows:
1 Point= basic reference with no detail, or supporting evidence
2 Points= reference made with details, such as descriptions that provide verification or substance, explanations of procedures, actions taken, review of process or outcome etc. which demonstrate that the system has impact and is obviously in place
Table 3: Company activities and sectors deemed high-risk for bribery

<table>
<thead>
<tr>
<th>Companies with activities like this are regarded as high-risk ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public works/construction and associated engineering – including major end components (e.g. turbines) and cement</td>
</tr>
<tr>
<td>Arms and defence producers and contractors, including the provision of security services</td>
</tr>
<tr>
<td>Oil and gas – all aspects related to exploration, production, and refining</td>
</tr>
<tr>
<td>Energy and utilities – producers and suppliers of gas, electricity and water</td>
</tr>
<tr>
<td>Property development – major commercial and residential property developers</td>
</tr>
<tr>
<td>Telecomms – licensed operators of mobile and fixed-line telecommunications services</td>
</tr>
<tr>
<td>Major gaming operators and global hotel chains</td>
</tr>
<tr>
<td>IT and related activities – this sector is considered to be high risk due to the fact it is in the services sector, large contracts/bidding processes are the norm. Companies in this sector are considered at risk where there are large bids involved.</td>
</tr>
</tbody>
</table>

**Note:** Companies in Diversified industrials and Support Services sectors are included with above activities. Diversified industrials are looked at on a case-by-case basis. Support services generally included are Environmental control, Security and Alarm services, with Business Support Services on a case-by-case basis. High risk activities and sectors list contains some research included in Transparency International’s 2002 Bribe Payers Index research.
### Appendix 2 - Survey results

Companies on All-World Developed index (n=1966) and additional companies on FTSE All-Share index (UK) (n=441)

#### Policy/quality of ethics code

<table>
<thead>
<tr>
<th>Country</th>
<th>No or little</th>
<th>Limited</th>
<th>Basic</th>
<th>Intermediate</th>
<th>Advanced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2</td>
<td>8</td>
<td>22</td>
<td>34</td>
<td>45</td>
<td>111</td>
</tr>
<tr>
<td>Austria</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Belgium</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Canada</td>
<td>8</td>
<td>11</td>
<td>7</td>
<td>27</td>
<td>19</td>
<td>72</td>
</tr>
<tr>
<td>Denmark</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>6</td>
<td>9</td>
<td>15</td>
<td>12</td>
<td>19</td>
<td>61</td>
</tr>
<tr>
<td>Germany</td>
<td>12</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>19</td>
<td>49</td>
</tr>
<tr>
<td>Greece</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>63</td>
<td>12</td>
<td>12</td>
<td>8</td>
<td>7</td>
<td>102</td>
</tr>
<tr>
<td>Ireland</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td>0</td>
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Appendix 3 – This is a sample of some recent bribery allegations which were captured by EIRIS’ Convention Watch Service.

BAE Systems (UK)

Saudi Arabia: BAE Systems has been accused of offering bribes and improper facilitation payments to middlemen and agents in relation to arms sales to Saudi Arabia. These allegations are now the subject of an investigation by the Serious Fraud Office (SFO). It is alleged that BAE made payments totalling more than GBP 60m to prominent Saudis to help secure arms contracts in Saudi Arabia from 1989-2002. The Company is also accused of bribing a former civil servant working for the Ministry of Defence’s (MoD’s) arms sales unit. Similar allegations were made in 2003 when it was alleged that the Company was operating a GBP 17m ‘fund’ although the latest allegations are that the money spent was far larger. BAE deny allegations of any wrongdoing. (The Times, 05/05/2004, Company press release 17/11/2004, The Guardian, 04/05/2004, The Sunday Times, 25/07/2004, Sunday Herald 09/05/2004, The Guardian, 04/11/2004, Evening News–Scotland, 04/05/2004)

Indonesia: In December 2004, the UK newspaper The Guardian reported that Alvis paid GBP 16m in bribes to the daughter of Indonesia's ex-president Suharto to obtain a government-backed sale. The newspaper report follows the London High Court judge Justice Park's decision to grant the newspaper access to court documents detailing the accusations of bribery in a case opposing Singapore businessman Chan U Seek and Alvis, which was acquired by BAE Systems last summer. According to the Guardian report, GBP 16.5m was paid into offshore accounts to president Suharto's eldest daughter, Siti Hardiyanti Rukmana, to secure a GBP 160m sale of Scorpion tanks to the Indonesian army in the mid-1990s. The report also alleged that Alvis admitted making these payments which had been routed through accounts kept by anonymous shell companies. Chan U Seek, a former consultant for Alvis, allegedly called the payment ‘a tax’ to seal the deal. BAE Systems has stated that it has carried out its usual due diligence procedures during the Alvis transaction and found no evidence of illegal activity. (The Guardian, 08/12/2004, The Guardian, 09/12/2004, The Guardian, 10/12/2004, Jakarta Post, 13/12/2004, Financial Times, 09/12/2004, Company response to EIRIS, 19/04/2005)

ABB (Switzerland)

ABB has agreed to pay back the US Securities and Exchange Commission USD 5.9m in ‘illicit profits’ after two of its now former subsidiaries, ABB Vetco Gray of Houston and Vetco Gray UK of Aberdeen pleaded guilty to charges of foreign bribery. In a separate action, the two subsidiaries agreed to pay fines totalling USD 10.5m to the U.S Department of Justice for bribery charges. The two subsidiaries were sold in July 2004 to a private equity syndicate for USD 925m and are therefore no longer part of ABB. ABB has undertaken an investigation into the allegations, the results of which were disclosed to the US Department of Justice and the SEC. (Department of Justice Documents 06/07/2004, SEC News Digest 07/07/2004, Upstream 16/07/2004, Company response to EIRIS, 02/11/2004)

Alstom (France)

Bribes to Luz y Fuerz: Alstom has been barred by the Mexican government
from seeking new business with state bodies in the country for two years in connection with a 2001 corruption case. A former Alstom unit, Areva, now owned by French state-controlled energy services, is also the subject of a two-year ban. According to Mexico’s Civil Service Ministry, both companies signed contracts with Inamex SA, which bribed, in exchange for contract awards, officials at Luz y Fuerza de Centro, a state-owned utility that distributes electricity in central Mexico. The contracts were for USD 3.2m (GBP 1.8m) and USD 2.4m, for the acquisition of transformers and switches, said the ministry. In a legal filing with the French stock market regulator at the end of July, Alstom said that it received a ‘resolution’ from Mexico’s Ministry of Civil Service ordering government entities not to do business with Alstom Mexico. ‘Our company is fully committed to the strict compliance of the laws of Mexico and we take the resolution very seriously and with much preoccupation,’ Alain Toubiana, president of Alstom Mexico, noted in a statement. However, Alstom indicated in a further legal filing with the French Stock market regulator in November 2004 and January 2005 that this two year ban order has been suspended by the Mexican court and is subject of further court proceedings which are pending. The Company has also indicated that they have been audited for anti-corruption compliance programs and preventative and corrective measures. (Company response to EIRIS, 12/04/05, Les Echos, 28/07/2004, Agence France Presse, 27/07/2004, Dow Jones Newswires, 29/07/2004)

Bilfinger Berger (Germany)

Two former senior managers of Rheinhold & Mahla Industrier (R&M), a unit of Bilfinger Berger, have been sentenced to eight months in prison after confessing to have corrupted an engineer at Statoil, one of the Company’s clients. According to the charges, the two R&M employees bribed the engineer, who participated in Statoil contract awarding processes from 1997 to 2001, for a total of 400,000 Norwegian crowns (NOK) (GBP 32,662). The Statoil employee was sentenced to ten months in prison. On 19 May 2003, the chairman of R&M informed Statoil that an internal investigation had found strong indications that two R&M previous employees had been making irregular payments to a Statoil engineer over a period of about two years (1998-2000). The two companies mutually agreed that the police should carry out further investigation into the matter and reported the case to the national economic crime agency (Økokrim). Bilfinger Berger has carried out an investigation into the allegations and has terminated the employment of the employees involved. (Company response to EIRIS, 23/03/2005, Statoil Press release, 23/04/2004, Reuters News, 23/04/2004, Platts Commodity News, 23/04/2004, Communication from Company, 23/03/2005, Communications from Statoil, 11/03/2005, Norwegian News Digests, 13/01/2005)

Enel (Italy)

In 2003, managers from Enel’s subsidiary, Enelpower, were accused by Italian prosecutors of demanding payments to secure building and engineering contracts. It is alleged that most of the bribes were paid between 1999 and 2001 by middlemen in the Middle East, where most of the contracts were won. However, investigators have also focused on a EUR 600m contract awarded to Siemens in 2000 for the renewal of
power generation equipment in Italy and a EUR 60m boiler contract awarded to Alstom for an Enel plant in 2000 in Sardinia. The probe has led to the arrest of a former vice chairman and CEO of Enelpower, Luigi Giuffrida, and of its chief operating officer Gabriele Caressa, and the resignation of Enel Produzione chairman Antonina Craparotta. Enel has carried out an investigation into the allegations and has dismissed the employees involved. (Company website 11/07/2003, Financial Times, 05/12/2003, Sunday Business, 15/08/2004)

Statoil (Norway)

Iran: In September 2003, it was reported in various media sources that Statoils’ offices were raided by the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime economic crime bureau (Økokrim) following an investigation into the alleged payments of bribes to an Iranian consultancy firm, Horton Investment. It was alleged that, under the terms of a secret deal signed in June 2002, Statoil agreed to pay USD 15.2m (GBP 8.3m) over an 11 year period for: ‘insight into financial, industrial, legal and social issues associated with business development in Iran’. This type of consultancy deal is not illegal in Norway, however the investigators are understood to have acted on suspicion that some money paid to Horton Investment was really intended as a bribe, so that Statoil could expand its operations in Iran. Horton Investment has close links with executives of the state National Iranian Company, particularly Mehdi Hashemi Rafsanjani, the son of former president Akbar Hashemi Rafsanjani. Statoil has carried out an investigation into the allegations, has taken disciplinary procedures against the employees involved and has stopped using the agent. (Financial Times, 24/09/2003, 13/09/2003, WMRC Daily Analysis, 27/05/2004, Company response to EIRIS, 25/10/2004)

LM Ericsson Telefon (Sweden)

In March 2004, an Ericsson employee was arrested on allegations that he solicited bribes from subcontractors of the Company. Ericsson’s Senior Vice President Corporate Communications Henry Stenson declined to disclose the sums involved but indicated that it represented substantial amounts for an individual. ‘For a Company like Ericsson it doesn't involve big amounts, but for a single person the sums are considerable,’ he said. He added that the arrest was not connected to other criminal investigations involving the Company. LM Ericsson has carried out an investigation and has dismissed the employee involved. (Dow Jones International News, 17/03/2004, Company response to EIRIS, 24/09/2004, Company response to EIRIS, 24/09/2004)

Lucent Technologies (US)

Allegations have been made against Lucent Technologies operations in Saudi Arabia. National Group for Communications and Computers, a Saudi telecomms group, filed the action in New York’s Federal Court accusing Lucent and ACEC of Switzerland of paying USD 15m (GBP 7.8m) in bribes between 1995 and 2002 to Ali Al-Johani, a former minister at Saudi Arabia’s Ministry of Post, Telephone and Telegraph to make decisions in favour of Lucent. The SEC and the Justice Department are investigating Lucent’s Saudi Arabia operations for possible violations of the Foreign Corrupt Practices Act. Lucent Technologies gave the findings of an investigation and an audit to the SEC and the Department of Justice. (The Asian Wall Street Journal,
07/04/2004, RCR Wireless News
12/04/2004, Dow Jones Newswires
13/08/2003, Financial Times
12/08/2003)

BOC Hong Kong (Holdings)

The alleged misconduct involved funds belonging to the predecessors of BOC Hong Kong (BOC HK), which was formed in October 2001 by the merger of several local banks with the state-owned Bank of China's Hong Kong branch. China & South Seas Bank was one of several banks in Hong Kong then controlled by state-owned Bank of China. A former executive at one of the predecessor companies of BOC Hong Kong Holdings was sentenced to an eight-month jail term for bribery. In 1999, Mr Ng Sai-wing, previously the deputy general manager of China & South Sea Bank Ltd., is alleged to have accepted a HKD 380,000 (GBP 26,877) loan from a director of an undisclosed bank's client company. In return, Mr Ng reduced the interest rate the client paid on its credit with the bank, saving it HKD 135,000 (GBP 9,545) a year. Mr Ng was convicted of one charge of making a false statement and one charge of accepting an advantage. In addition to his jail term, he was also ordered to repay the loan. BOC Hong Kong has enhanced its internal control and amending its corporate governance in response to the allegations. (China Daily, 20/08/2004, Dow Jones International News, 21/09/2004, Reuters News, 18/08/2004, Dow Jones International News, 21/09/2004)

EIRIS’ Convention Watch service covers, among other areas, breaches in the UN Convention against corruption. EIRIS does not verify individual allegations and does not attempt to make a direct assessment of whether allegations are true. Instead, its service is based on a rigorous monitoring system to record allegations made by others that EIRIS considers relevant to matters of potential concern to its clients. EIRIS then makes an assessment as to whether or not the allegations (according to EIRIS criteria) have been addressed by the Company concerned.

EIRIS bases its judgment on as wide a range of reliable sources as possible, but it is for EIRIS’ clients to determine whether they wish to invest in or otherwise engage with the companies which are the subject of EIRIS' reports. For further information on EIRIS’s Convention Watch Service please contact Victoria Woodbridge, Phone: +44 (0)20 7840 5701, Email: Victoria.woodbridge@eiris.org.
Appendix 4 - Examples of company analysis

Research is undertaken into each of the 2,800 companies on a round-the-year basis, with records being updated at least once and usually twice per annum as soon as new information becomes available from annual reports, sustainability reports, website checks, survey responses and other communications from the companies.

Clients are provided not only with an assessment of each company’s ethics code/policy and systems, but also a summary of the information available. Two examples, from companies with advanced ethics policies, are included below.

BHP Billiton (UK) has an advanced code of ethics. This includes the following elements:
- a commitment to obeying laws and regulations
- prohibition of giving and receiving bribes
- restricts giving and receiving gifts
- restricts facilitation payments - opposes but does not prohibit
- prohibits donations to political parties
- addresses conflicts of interest
- other significant aspects - ethical competition, use of company resources, external activities of employees, cultural sensitivities, intellectual property

The Company has communicated the code to its employees and made it publicly available.

BHP Billiton (UK) has an advanced system for implementing its ethical code. It has the following elements:
- employee training - the Company’s Guide to Business Conduct (GBC) is translated into eight languages. It gives detailed examples to train employees in what the code means in practice in different situations and countries
- compliance monitoring - details of the procedures are given in the GBC, along with the lines of accountability and the responsibilities of line managers and supervisors
- provision of whistleblowing procedures - details of the Business Conduct Helpline are given in the GBC. It provides an internal worldwide service for employees to question or express concerns about business conduct issues
- reporting, including breaches and enforcements - reporting requirements are laid out in detail in the GBC. All breaches have to be reported to the Chair of the Global Ethics Panel, who advises senior management of steps being taken.
- regular review of the code - the Company makes clear that the code is reviewed through the reporting mechanism, with new initiatives and challenges being taken into account

The Company has indicated that they have a designated senior manager/director with supporting resources, but this is not scored by EIRIS.
(Governance survey response, 17/06/2004, Company website, 17/03/2005)

Alcatel has an advanced code of ethics entitled Code of Conduct as part of its Statement of Business Practices (SBP). This includes the following elements:
- commitment to obeying laws and regulations
- prohibits giving and receiving bribes
- restricts giving and receiving gifts
- restricts facilitation payments
- prohibits donations to political parties
- addresses conflicts of interest
- other significant aspects - prohibits espionage and restricts surveillance of competitors. It also covers
Alcatel has communicated the Code to its employees and made it publicly available on the company website (internet and intranet).

Alcatel has an advanced system for implementing its ethical code. It has the following elements:
- **employee training** - the Company has developed several initiatives and processes to ensure the effective application of the SBP within the group and the supply chain. A dedicated e-learning module is available on the Company intranet since September 2003. Local managers have been explicitly responsible for ensuring that all employees know, understand and respect the SBP. Corporate HQ has developed training modules and communications tools on the SBP to inform and train employees.
- **compliance monitoring** - Alcatel Ethics Committee was created at the end of 2002 and meets every quarter. The Ethics Committee can recommend to the management at an appropriate level any remedial action.
- **provision of whistleblowing procedures** - The Ethics Committee can be contacted through a helpline or/and a specific mail address. An anonymous reporting line was also set up.
- **reporting, including breaches and enforcements** - Alcatel Ethics Committee responds as often as needed to urgent cases, including disciplinary measures, which may be required as a result of its investigations.
- **regular review of the code** - the Statement of Business Practices was published for the first time in 1997, and was updated three times: in 2001 and May 2003 and September 2004.

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Endnotes

i Convention Watch is an EIRIS product that helps clients gain a clear understanding of the many allegations made against companies in negative press articles and through NGO campaigns. It uses the framework of relevant international conventions and norms to analyse how well companies are upholding widely supported principles. Initiatives aimed at the corporate sector such as UN Global Compact (UNGC) (2000) and the UN Human Rights Norms for Business (2003) increasingly make use of existing international law and standards. The UNGC's aim is to bring companies together with UN agencies, labour and civil society to support ten principles in the areas of human rights, labour, the environment, and anti-corruption. EIRIS focuses on the following issues and conventions: Labour Standards, International human rights principles, Corruption, Environment and Anti-personnel landmines. Further conventions are under development. This information is updated quarterly and is available, for a fee, on application.

ii A summary of the methodology is contained in Appendix 1.

iii Appendix 2 contains the exact number of companies in the sample, by country and by sector. Individual assessments on each of these companies are available to EIRIS clients and are regularly updated. Data fields include company name, sector, country, overall policy assessment, overall systems assessment, True/False fields on each of the following components of a corporate ethics code (bribes, gifts, facilitation payments, political donations, commitment to upholding laws, and conflicts of interest), fields based on each of the components of management systems for upholding ethics code (training, whistleblowing, monitoring, regular review, performance reporting) and rated 0,1 or 2 (with 2 being relatively substantial and 0 being no evidence), and whether code covers all companies business (including subsidiaries), and True/False fields on whether in AWD and All-Share indices.

iv Figures for the FTSE All Share, which includes smaller cap UK companies beyond the All-World Developed sample, are included for information.

v The figures may underestimate the true situation, but only slightly. They would not include companies which have no information on the topic on their website or in their public documents, or in response to a survey sent to all companies. It is possible that the information is being kept confidential or that it could exist in internal company documents or on a company intranet, but it is unlikely that many such codes of ethics could be deemed meaningful. Companies with a Limited code are also not included, this is due to the fact that limited codes are often general statements or policies in relation to business ethics, or they are policies that are only applied to senior managers or directors. For the purpose of this paper, only codes that contain specific business ethics elements and are applicable to the whole company are included. Limited policy and systems data can be seen in Appendix 2.

vi Transparency International’s 2002 Bribe Payers index research. It should be stressed that the research has the limitation of being based on a relatively small number of perception surveys.


viii EIRIS is in the process of developing new bribery high risk criteria, due to be released later this year. This criteria focuses on high risk sectors and activities and high risk countries. High risk sectors and activities are identified as public works/construction and related engineering, arms and defence, oil and gas, mining, energy and utilities, property development, major gaming operators, and global hotel and entertainment chains, telecomms, IT and related activities, chemicals and pharmaceuticals. High risk countries are defined using a study carried out by the World Bank and have been given a score of <0, and companies on Transparency International’s Corruption Perceptions Index (CPI) that have a score of <4.

ix ICC’s approach is explicitly gradualist and calls for a focus on “large-scale extortion and bribery involving politicians and senior officials”, rather than on small payments to
expedite routine approvals (facilitation payments). It is opposed to key aspects of the UN Convention, fearing clauses on influence, enrichment and compensation could be interpreted by some governments in unfair and unpredictable ways.

x See for example the 2002 study, ‘The Governance of Bribery and Corruption’, by Friends Ivory & Sime (ISIS) looking at companies in which it had holdings. Two-thirds of 82 companies responded to its survey. Of these, over 87% had policy statements covering corruption, but less than a quarter had clearly defined management systems to back up these policies.

xi See www.alcatel.com/apropos/values/values02.htm

xii See www.bhpbilliton.com/bb/peopleAndEmployment/globalBusinessConductGuide.jsp

xiii This list comprises all those countries in the lowest quartile of World Bank study measuring Control of Corruption, plus high income countries in lowest 50% of that study, plus other very large and high-population economies (from among India, Russia, China, Indonesia, and Brazil) in lowest 50% -- which resulted in inclusion of India and China, with Indonesia and Russia already captured in lowest quartile

xiv The survey was conducted from June 2004 onwards in a range of languages, and ethics was only one of the many topics covered.
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