Overview: The Role of Integrity and Ethics in the HCBM

Spring Meetings 2019

As part of the Human Centered Business Model (HCBM) initiative, a team is analyzing the role that integrity and ethics should play in the HCBM. To this end, the team is undertaking research into traditional and modern concepts of ethical business practice, relevant international standards and the potential role of behavioral science in incentivizing ethical business practices with a view to proposing specific integrity principles for the HCBM.

This paper summarizes the research undertaken so far, and seeks inputs and feedback from peer reviewers to guide the team’s ongoing work.

Please note: This paper is provided by way of background on the topic, but is not intended for discussion at this week’s Spring Meeting event. Email addresses are provided at the end of the paper for those who are interested in providing feedback to the team.

The Role of Integrity in the HCBM

Integrity and ethics lies at the heart of what a human-centered business model is all about. What is ethics, after all, if not a concern for human beings and their well-being? And what are behaviors such as corruption, fraud, embezzlement, collusion, undue political influence, anti-competitive behavior, anti-trust and monopoly practices and tax evasion other than human beings seeking unfair advantage over other human beings through unethical means?

The HCBM model calls for a re-examination of certain assumptions about human nature as purely self-interested. In line with modern research and taking into account principles at the very basis of human coexistence, the HCBM endorses a more nuanced vision of human nature, one that recognizes that humans act on a whole range of motivations, including altruism—a sincere concern
for others—in the truest sense of the word. Moreover, the HCBM calls for the recognition that that all human beings share some fundamental similarities and are interdependent on one another in a way that demands that we all act with integrity and ethics.

These are principles that many of the world’s religious and philosophical traditions across time and cultures have taught us, and ones that the HCBM includes as part of its fundamental values.

When individuals engage in corrupt and other unethical or socially or environmentally irresponsible acts, they ignore these principles and put themselves above and at odds with the rest of society. This is both socially unjust and, in the long run, unsustainable.

And when we talk about HCBM’s focus on social impacts, we are all familiar with the pernicious effects of corruption in particular on the social fabric. How it undermines trust in government and among social groups and individuals and undermines economic development and the rule of law.

Therefore, one of the key pillars of the HCBM is the promotion of integrity. Consistent with its broad vision, HCBM uses the term “integrity” in its broadest sense, one that includes anti-corruption, but also encompasses actions against such related ills as money laundering, embezzlement, tax evasion and undue political influence. All these wrongs are different unethical ways in which human beings seek unfair advantage over others.

Promoting business integrity under the HCBM means more than just fighting corrupt and other unethical behavior per se—as essential as that is—but it has an important positive role in encouraging value-based behaviors and decisions that promote the public welfare over self-serving ones, resulting in a more integrated society and a more sustainable development model. If the HCBM can achieve that, then inevitably less corrupt and less unethical behavior will follow and good practices will prevail in a contagious, natural manner.

Overview of the HCBM Integrity Pillar

The team is envisaging the integrity pillar of the HCBM as multi-faceted. It starts with a broad vision of business ethics grounded in long-standing religious and philosophical traditions that cross cultural and temporal lines, but then also draws on modern international business ethical standards, as well as international best practice for integrity compliance. It also recognizes the special challenges facing SMEs, drawing again on best practice to provide practical guidance for putting
together an effective compliance program and resisting pressures to engage in corruption and other unethical business practices. Finally, it offers the behavioral sciences perspective on corruption identifying behavioral changes needed to embrace and promote integrity.

**Religious and Philosophical Underpinnings**

The integrity pillar of the HCBM seeks to promote the highest standards of ethics, starting from drawing on **religious and philosophical teaching**. Research conducted by the team has shown convergence among these teachings on a number of fundamental concepts and principles, including:

- Human beings are not simply self-interested creatures but moral ones as well. Nurturing their inherent morality is an essential component to reframing our understanding of the world and human behavior, and ultimately to combatting corruption and having ethical institutions and companies.
- Approaches to leadership for SMEs in a human-centered model, at all levels, must therefore be informed by a recognition of the organic unity and interdependence — or the oneness — of humanity.
- Ethical business practice should be informed by **certain fundamental and universal values** which religious and philosophical traditions across time and cultures teach us—four Abrahamic religions of Judaism, Christianity, Islam and the Bahá’í Faith, but also Confucianism, Hinduism, Buddhism for example. These values include generosity and unselfishness, help for the injured, the sick, the needy and the oppressed, patience and fortitude, truthfulness, fidelity to promises, restraint in speech/respectful to listeners/condemn backbiting, humility, justice and impartiality. The challenge for the HCBM will be to translate these universal values into actionable recommendations.

**Questions for peer reviewers:**

- **Do you agree that the principles elucidated from religious traditions would be relevant to an enterprise seeking to follow the HCBM?** And if so, how would you envisage such principles being implemented in the day to day business of an HCMB enterprise?
- **Are there other religious traditions the team should be inquiring into?**
• Do peer reviewers see any important divergences among religious or philosophical thinking about ethical business practices that merit inquiry?
• Sometimes religious countries are also very corrupt – do we need to define what we mean by religion in engaging in this discussion?
• What secular philosophical traditions do they think have particular relevance to HCBM?
• Any other suggestions with regards to principles founded in religious and philosophical traditions?

Modern International Standards of Business Ethics

The team has identified several modern international standards of ethical business practice on which it can draw in developing HCBM ethical principles, such as the UN Global Compact’s 10 Principles for Conducting Business, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the ICC’s guidelines on Ethics and Compliance, Corporate Responsibility, Conflicts of Interest, as well as its Advertising and Marketing Communications Code as well as the Global Sullivan Principles.

All of these modern standards embrace some common fundamental principles such as the need for compliance with applicable laws and other legal requirements, robust corporate governance, a commitment to honesty, integrity, fairness and transparency, a sense of corporate responsibility for the well-being of stakeholders and the environment, a concern for the health and safety of employees, respect for human rights, and a concern for sustainable development.

When we look at these principles, we see a common thread: putting the well-being of human beings and their environment at the center of a firm’s concerns, and this in the firm’s best interest as well. This is what the Human Centered Business Model is all about.

Our research, including a survey of major multinational corporations from different regions and sectors, confirms that firms across the world are taking up these common principles of ethical business practices—whether or not they explicitly reference the standards issued by UN, OECD, ICC—and embedding them in the relevant corporate compliance programs.
Anti-Corruption

And while it encompasses a range of ethical concerns, a very central concern of the integrity pillar of the HCBM is anti-corruption, of course. **Anti-corruption is at the heart of this human centered business model because corruption comes at a terrible human cost**, especially for the poor and vulnerable, who are disproportionately impacted by corruption.

And in addition to its toll on individuals, **corruption harms society as a whole**. Corruption is anti-competitive, leading to distorted prices and disadvantaging honest companies that do not pay bribes. It increases the cost of doing business globally and inflates the value of government contracts in developing countries. Corruption adds additional costs to a transaction.

There are multiple **international best practice standards** for business who seek to prevent and combat corruption, but our research shows that there is **significant convergence among these standards in setting out the key components that any effective anti-corruption policy should present**. These are all relevant for any enterprise that wishes to follow HCBM Principles. The major components include:

- **Tone from the Top**. Senior Management should firmly commit to the enterprise’s anti-corruption policy. There should be a compliance officer with an “open door” policy for employees and a hotline/mailbox should be offered to report suspected misconduct on an anonymous basis.

- **Integrity Compliance Program**. The enterprise should adopt an integrity compliance program designed in such a way that it is easy for operational personnel to understand and to implement the program in their daily business operations. The program should include, among other things, risk-based due diligence on both prospective employees and third parties and appropriate remedial actions when instances of corruption may occur. Management needs to make sure that employees are made aware of the program, including through continuous dedicated training as well as special events like an “Integrity Compliance and Ethics Day”. Adequate staffing and resources should be dedicated to the program.

- **Code of Ethics and Business Integrity Guide**. The HCBM enterprise should develop and adopt a Code of Ethics and Business Integrity Guide, tailored to its specific conditions and
needs, reflecting HCBM Principles. The Code and Guide need to be communicated to all new and existing staff, and training provided, including for HR staff.

- **Gifts and Hospitality, Donations and Sponsorship Rules and Controls.** Enterprises should establish clear guidelines on gifts and hospitality, donations and sponsorships along with adequate controls and procedures to monitor what is being received and given.

**Special Challenges Facing SMEs**

And, in line with its overall approach, the team is inquiring into the **special challenges facing small and medium-sized enterprises** (SMEs). SMEs are also especially vulnerable to corruption. SMEs lack sophistication and resources, as well as bargaining power, and once they are drawn into the cycle of corrupt practices to sustain their businesses, it becomes difficult to extract themselves from it.

At the same time, SMEs are under pressure—and rightly so—to meet international standards for ethical business practices, including (but not limited to) integrity compliance, not least from international partners. Fortunately, help for SMEs does exist. The team has identified a number of publicly available guidelines, including ones issued by the G20/B20, designed to help SMEs circumvent corruption and other ethical pitfalls within their limited means to put into place ‘fit for purpose’ integrity programs and guidance on how even SMEs can resist the pressure to engage in corruption. One way for companies to address these risks is to engage into **“collective action”** activities with other partners that may face the same challenges. Collective action is a collaborative and sustained process of cooperation among stakeholders; another way of cooperation is mentorship between SMEs.

**Cognitive and Behavioral Sciences**

The team is also researching insights from cognitive and behavioral sciences that can be leveraged to incentivize integrity. In fact, studies show that the cost-benefit calculations of engaging in corruption or not are not only based on logic. Often, they are influenced by mental shortcuts, false intuitions, how individuals process and organize information, emotions and social norms. A behavioral approach against corruption is based on an understanding of corruption, and it takes into account communication and social aspects. Behavioral practices can take several forms, such as information campaigns, collective deliberations, promotion of intrinsic motivation and civic
engagement, among others. These practices should be taken into account when designing, implementing and improving compliance programs.

**Questions for peer reviewers:**

- Do you agree that the international standards mentioned above are the most important and relevant ones for an enterprise seeking to adopt the HCBM?
- Would you suggest any other standards that the team should include in its analysis?
- If these principles are adopted, what implications should they have for day to day operations of an enterprise operating under the HCBM?
- What do you see as the main challenges facing SMEs are?
- Do you agree that behavioral science can be leveraged to incentive integrity? If so, which would you recommend the work of particular behavioral scientists for inquiry?

**Participants are kindly invited to send their feedback to**

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