



Baseline Study on Existing Business Integrity Practices in the Local Value Chain



FAIR BIZ

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1. Background

One of the most concerning issues shared among the ASEAN countries is corruption, as it affects several aspects of the countries' development such as the ease to make business.¹ Expectedly, most ASEAN countries are ranked at the bottom half of the Corruption Perception Index (CPI), with the exception of Singapore and Brunei. The ASEAN countries have an average CPI of 41.6 (on a scale of 0 to 100, where a higher score indicates lower corruption perception) which has remained stagnant over the last three years. While a slight improvement has been observed in the case of the Philippines (CPI of 34 in 2017 and 36 in 2018),² the disclosure of publicly stated commitment to integrity practices in the country remains unsatisfactory.³ The ease of doing business index (EODB) ranks countries (190 economies) based on how the regulatory environment and regulations enforcement is conducive of business operations. Thus, this metric can be considered as a good indicator for the attractiveness of a country for businesses investments as well as for the country regional competitiveness. Here again, one can see a disparity for the case of ASEAN countries. For instance, while Singapore, Malaysia and Thailand (2, 12 and 21) were part of the top 30 economies in 2019, Cambodia, Laos and Myanmar ranked at the bottom (144, 154 and 165). Interestingly, the Philippines presented an important improvement by passing from position 125 in 2018 to 95 in 2019. However, if one considers that the EODB assesses quantitative indicators in several regulation dimensions process for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting

minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency), then one will find that the jump of the Philippines is mainly attributed to a higher score in protecting measures to minority investors, with little to no change in other dimensions. Interestingly, despite of a slight improvement in the process of starting business in 2019 relative to 2018, the Philippines ranks 171, which is attributed to the lengthy procedures and high costs required to open a business in the country.⁴

There are various international and regional initiatives created to alleviate corruption in the Asia Pacific region. Some examples are the United Nations Convention against Corruption (UNCAC) and the framework of the Asian Development Bank (ADB)/OECD Anti-Corruption Initiative. Additionally, several organizations are promoting programs to enable transparency and integrity in the public and private sectors such as the United Nations Global Compact (UNGC), UN Principles for Responsible Investment (UNPRI), UN Development Programme (UNDP), Transparency International Integrity Pacts, Business Call to Action, and United Kingdom's Foreign & Commonwealth Office to mention a few. However, despite the existence of several initiatives, an effort to coordinate actions of all stakeholders, from an ecosystem perspective, is still needed to achieve relevant results. Specific issues to address are the poor participation of companies in the private sector on embracing integrity initiatives and the lack of external implementation (e.g. suppliers) of integrity measures by large companies.⁵

¹ Economic Research Institute for ASEAN and East Asia, 2017

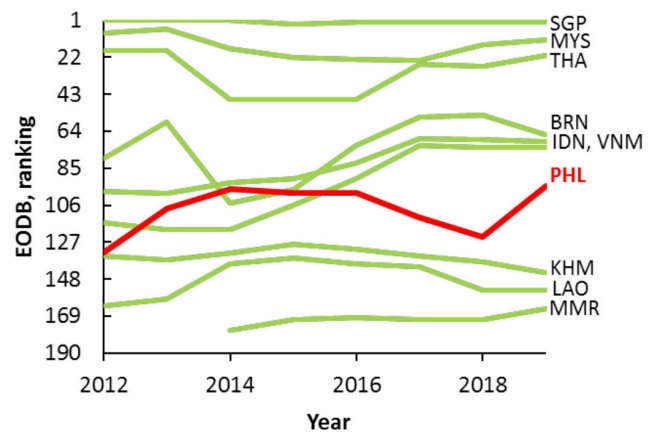
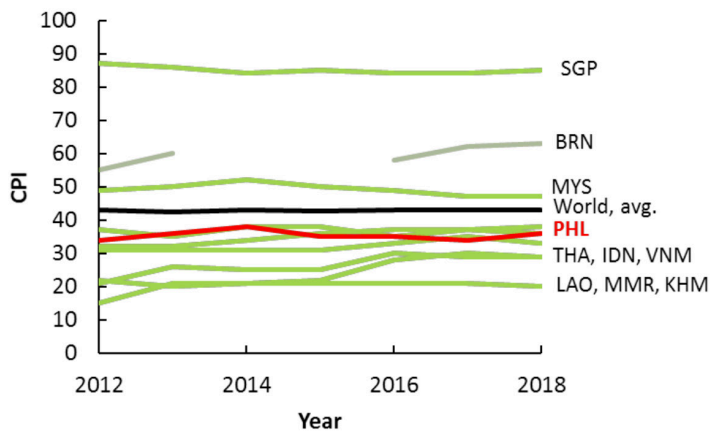
² <https://www.transparency.org/cpi2018>

³ Corporate disclosure on business integrity in ASEAN. August 2018. http://asean-csr-network.org/c/images/ARBF2018/240818_Corporate_Disclosure_on_Business_Integrity_2018_-_Final.pdf. Last accessed on September 7th 2019.

⁴ <https://www.doingbusiness.org/en/data/exploreeconomies/philippines>

⁵ <https://www.transparency.org/cpi2018>, <https://tradingeconomics.com>

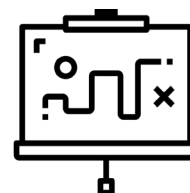
Business Integrity indicators of ASEAN countries⁵



2. Project Goals

The goals of this work are:

1. To document successful integrity business practices of companies in the Philippines towards achieving a triple-bottom line approach;
2. To determine compliance gaps and competitiveness challenges of incorporating business integrity practices involving local value chains, particularly SME business partners of conglomerates, in the Philippines; and
3. To generate a plan for gathering primary data to generate a baseline on current practices of large business buyers and small/medium business suppliers to address issues and create policies in avoiding corruption.



3. Results

To accomplish the above cited goals, we performed a desktop research on companies in the Philippines that are already signatories or members of national and/or international integrity/ethics and compliance (I/E&C)-based programs, with a particular focus on anti-corruption, under the hypothesis that such commitment become a catalyst for these companies (big corporations and their SME suppliers) to incorporate responsible practices, including gender diversity, that promote the achievement of SDG 16.5-16.7s.

The I/E&C-based programs analyzed in this research were Business Call to Action, Integrity Initiative (II), UN Global

Compact (UNGC), and UN Principles of Responsible Investment.

Additionally, we performed a literature search on factors that hinder the adoption of integrity practices by SMEs in the Philippines.

From Table 1, only the UNGC and II have a representative number of signatory companies from the Philippines. Hence, further discussion focuses on the more widely accepted I/E&C-based programs in the Philippines, namely UNGC and II programs.

Table 1. Number of companies in the Philippines that are signatories/members of I/E&C - based programs

Initiatives	No. of signatory companies in the Philippines
Integrity Initiative	2386
UN Global Compact	19
Business Call to Action	1 ⁶
UN Principles of Responsible Investment	0

3.1 UN Global Compact

In 2004, to align with the adoption of the United Nations Convention against Corruption (UNCAC), the UNGC included its 10th Principle:

“Business should work against corruption in all its forms, including extortion and bribery.”

Business adopting the 10th principle should not only prevent engaging in corruption practices but actively

create policies and programs to tackle corruption internally and externally within their supply chains. To that end, The UNGC recommends the use of the UNGC Management Model, which guides companies to continuously improve by adopting, on an annual basis, the cyclical process of committing to, assessing, defining, implementing, measuring, and communicating a corporate sustainability strategy.

⁶ This pertains to BCtA member from the Philippines with active status that identified initiatives contributing to the achievement of SDG 16, as per the website.

The cyclical process of improvement, as applied to addressing corruption, may involve the following steps:

1. **Commit** - establish clear leadership commitment and transparent governance structure to mainstream anti-corruption measures in business operations;
2. **Assess** - understand the company context, and determine financial and non-financial risks (e.g. legal, reputational, financial, security, erosion of internal trust and confidence, etc.) and opportunities in business operations when establishing anti-corruption measures;
3. **Define** - establish goals, protocols (e.g. code of ethics) and measurable key indicators to programs addressing anti-corruption;
4. **Implement** - cascade anti-corruption program to internal and external (i.e., supply chain) actors through information awareness, capacity building trainings, and reporting mechanisms.
5. **Measure** - evaluate and monitor key indicators to programs addressing anti-corruption; and,
6. **Communicate** - stakeholders should be informed of all company actions and transactions to foster a culture of transparency, accountability, change, and innovation when addressing anti- corruption.

Reporting requirements

UNGC requires an annual communication of progress (COPs) report comprising of three points: 1) commitment to fight corruption, 2) implementation of policies, programs and systems to fight corruption, 3) outcomes and impact of the policy/program/system implementation to fight corruption.

Companies are encouraged to follow the Reporting Guidance on the 10th Principle against corruption, which sets

the basis for best practices for fighting corruption.⁷ The use of relevant Global Reporting Initiative (GRI) indicators is also recommended. For instance, in relation to the 10th principle, the following GRI indicators are:

- Percentage and total number of business units analyzed for risks related to corruption.
- Percentage of employees trained in organization's anti-corruption policies and procedures.
- Actions taken in response to incidents of corruption.

In the Philippines there are a total of 18 private company signatories and 1 participant of the UNGC Principles framework. Ten of these companies are large corporations and nine correspond to SMEs.

We proceeded to scrutinize the COPs reported by the 19 UNGC companies to assess their compliance with the UNGC reporting guidelines and recommendations. The 19 UNGC companies, along with the relevant findings gathered in the analysis, are summarized in Annexes 1 and 2.



UN Global Compact Cyclical Management Model

⁷ Reporting Guidance on the 10th Principle Against Corruption. <https://www.unglobalcompact.org/library/154>.

⁸ <https://www.unglobalcompact.org/engage-locally/asia/philippines>. Participants actively engage with the UN Global Compact at the global level, and at their national or regional level. Participants must make a required yearly financial contribution, based on their annual gross sales or revenue. Signatories actively engage with the UN Global Compact at their national or regional level. At the signatory level, businesses with revenue over USD 50 million must make a required annual financial contribution, based on their annual gross sales or revenue. The contribution is voluntary for smaller businesses and is only required if the company wish to fully engage with the local network in their country.

3.1.1. Large corporation signatories of the UNGC

In the following, we provide a synopsis on those companies committed or already implementing high standard reporting frameworks highlighting those anti-corruption, integrity, and gender equality measures reported in their latest COPs. This description establishes a baseline on successful integrity practices as reported by those companies that are signatories of the UNGC.

- **Globe Telecom, Inc.** Globe, a strategic partner of AC, is committed to submit the communication of progress one year after joining and also to submit progress in their Annual Integrated Report in accordance with the integrated reporting framework, the GRI standards, the UN SDGs, the principles in the ASEAN Corporate Governance Scorecard (ACGS), and the Philippines' Securities and Exchange Commission's (SEC) integrated annual corporate governance report.
- **Ayala Corporation (AC).** In its 2018 integrated report⁹, AC revisited its top risks under the umbrella of sustainability and performed a prioritization of 13 risk categories. As a result, AC determined that the top six risk priorities are (in descending order from highest to lowest priority): political and regulatory, business resilience, portfolio management, competition, brand and reputation and information security. The political and regulatory risk is defined as the inability to anticipate changes in the regulatory and political landscapes that might affect the company's profitability and brand value. Among the company's risks, brand and reputation and governance and controls (ranked 10th) are highly interconnected with the company's integrity position (i.e. AC stated being known for its good governance and integrity, a stature being maintained by the company to be able to create and/or maximize value for all stakeholders).

AC performed a materiality assessment based on the Global Reporting Initiative (GRI) G4 reporting framework,¹⁰ which led to the company's 360° sustainability reporting framework getting further aligned with the UN Sustainable Development Goals (SDGs). The materiality

assessment focused on the economic resilience, environmental stewardship, and social segments. The latter was further divided into three: meaningful jobs, human rights adherence, and good governance.

In relation to upholding human rights principles, AC assessed the company policies on child labor, anti-corruption, diversity, equal opportunity, and anti-discrimination in their operations and dealings with suppliers. On good governance, AC looked at their group-wide performance on anti-corruption, security, and data privacy. In terms to the externalization of these assessments, AC ensures that its supply chain is free from forced and child labor, and other unethical practices by requiring to the suppliers to undergo an accreditation and regular evaluation processes. In order to identify negatively performing suppliers, AC claims to apply various procurement measures and maintains an updated list of both reliable and delinquent suppliers through Ayala ProcurementNet.¹¹

AC recognizes the importance of employee diversity to maintain their competitiveness. In line with this, AC reported that of the total hired population in 2018, 44% are male while 56% are female.

Additionally, AC reported that 40% of the senior management and executive positions were filled by women.

AC has a code of conduct and ethics, which include anti-bribery/anti-corruption and whistleblower policies.⁵ AC states its commitment to doing business with integrity at the highest ethical standards and adopting a zero-tolerance policy towards fraud, corruption, bribery, and all unethical practices. The whistleblower policy expands to suppliers, contractors, subcontractors and other parties.¹²

AC also provides a corporate governance report and ASEAN corporate governance scorecards.¹³

Overall, it can be concluded that AC is a successful case of implementation with its integrity-based practices.

⁹ 2018 Integrated Report. Disruption Innovation Strategy. <https://ayala.com.ph/investors/annual-reports>

¹⁰ <https://www.globalreporting.org/Pages/default.aspx>

¹¹ Supplier contractor selection process section. <https://www.ayala.com.ph/role-stakeholder>



However, the risk analysis of the company unveils an important gap wherein corruption and bribery practices are not considered a risk per se but a component of a major risk on AC's brand and reputation. Furthermore, the company does not publicly disclose the KPIs utilized to assess outcomes and impact of their anti-corruption/anti-bribery policy implementation. Finally, the company states not having reports on corruption, bribery, etc. practices, which leads to assume that either 1) the integrity program is working to perfection, with no further learning or improvements necessary; or, 2) that non-integrity practices are so entangled in the ecosystem hindering their more nuanced reporting.

- **Manila Doctors Hospital (MDH).** In its 2nd COP, MDH expanded the advocacy of 10th principle to all members of the CSR circle of partners and to all suppliers- with partners and suppliers' adoption of the 10th principle as part of their deliverables. MDH states to sharing its practice of integrative values with its CSR Program partners with specific focus on resource utilization transparency and sustainability. MDH also introduced integrative value in dealing with suppliers who are not able to comply with accreditation. However, no further details are provided on how MDH works with non-complying suppliers to achieve their accreditation.

In its most recent COP MDH expounded on the functions and responsibilities of the Committee on Purchases, Investments, and Contracts (COPIC). Notable highlights are:

- To apply principles of efficient and effective procurement management; and
- To protect the stakeholder's interest and encourage ethical business practices.
- **Bolton International Inc.** Bolton International stated a company policy to encourage staff to promptly report any potentially illegal, improper, and/or unethical conduct that they become aware of at their workplace or in connection with their work. This may include:
 - Fraud, which includes but is not limited to deliberate

asset overstatement/liability understatement, improper management estimates, improper accounting, including intercompany accounting, improper disclosures (e.g. misrepresentation of the company through news reports or misrepresentation in management discussions), and asset misappropriation.

- Money laundering, commercial bribery, expenses fraud, insider trading, improper related party transactions, intentionally or recklessly prejudicing Bolton International's reputation or relations with clients/suppliers, breach of confidentiality and breach of data protection laws (e.g. DPA Act), an unlawful act or omission, either civil or criminal, endangering the health or safety of an individual or individuals, a failure to comply with a regulatory duty, or a deliberate cover-up of any wrongdoing.

Bolton International maintains an anonymous and confidential helpline for employees reporting wrongdoing actions. However, there is no explicit statement of the mechanisms for policy communication nor measurement of impact of this whistleblower practice. Bolton International also discloses that wrongdoing reports are kept on file for reference on how to handle them and to measure the company's compliance with the Code of Discipline. Finally, no significant differences were observed among the COPs submitted by the company in relation to relevant policies or actions on anti-corruption.

3.1.2. SME signatories of the UNGC

Following details are given below for those small and medium companies that provided the most complete and latest COPs.

- **Adec Innovations Corporation.** Adec Innovations submitted the 2018 Sustainability Report, which observed the Reporting Principles of the 2016 GRI Standards.¹⁴ The company identified two major risks, namely market and credit risk, which included forex, interest rate, credit, liquidity, natural disaster, technological competition,

¹² <https://www.ayala.com.ph/business-conduct-and-ethics>

¹³ <https://www.ayala.com.ph/governance>

¹⁴ https://s3-us-west-2.amazonaws.com/ungc-production/attachments/cop_2019/475868/original/Communication_on_Progress_ADEC_Sustainability_Report_2018.pdf?1561372167



and information security risks. The company follows a Global Code of Ethics and Business Conduct, which contains an Anti-Bribery and Anti-Corruption Policy, and a Global Procurement Policy. Adec Innovations further externalizes its commitment to integrity practices via a vendor and supplier accreditation and performance evaluation which ensures that the company only transacts with suppliers that comply with government regulatory requirements and conform to ISO international guidelines on information security management system (ISMS) and environmental management system (EMS).

- **Taesung Philippines Co., Inc.** Although no risk assessment report is provided, Taesung Philippines states adhering to Philippine's government legal initiatives in combating corruption by briefing of managers and staff to not participate in any corruption activity. The company's anti-corruption and bribery policies are contained in its Business Ethics and Code of Conduct policy. The protection of recognized human rights, which includes equal opportunity and non-discrimination, is included in the company rules and regulations (Code of Employee Discipline). Importantly, the company reports no involvement in any corruption of bribery event with internal or external agencies since it started operations.¹⁵

3.2. Integrity Initiative

The Integrity Initiative initiated in December 2010 with the goal of promoting common ethical and acceptable integrity standards leading to promote honesty, transparency, and fairness in conducting business in the Philippines. To accomplish this task, II proposes the following process:¹⁶

1. Voluntary signing of the integrity pledge by a company's top management representative;
2. Adoption of the Unified Code of Conduct for Business;
3. Self-assessment via the online integrity tool to determine a company's level of integrity practices, strengths and weaknesses;

4. Integrity validation by an external body;
5. Interventions to address gaps presented in the integrity validation outcomes; and,
6. Certification.

Completion of the process ends in the company certification (in progress), with the potential to increase competitive advantage in doing business with consumers, companies or end-users, that value integrity and transparent practices.

3.2.1. Large corporation signatories of the II

For the purpose of information sufficiency and data richness, our analysis focused on five big corporations' signatories of the II given their recognized integrity and anti-corruption practices.¹⁷ In the next section, we describe the companies' programs/features which represent relevant cases to reach the goals of the present project.

- **Phinma Group.** The company established an Integrity Assurance Program in 2014. The program presents as key component the adoption of a formal Code of Business Conduct for all its member companies. Phinma organizes an Integrity Summit each year as part of the implementation strategy of the Integrity Assurance Program.

Phinma was rated as advanced in terms of compliance with the integrity pledge, encouraging key vendors and business partners to sign the pledge as part of the Phinma vendor integrity program. The company reports that 200 vendors and partners have submitted their own signed integrity.¹⁸

Phinma is one of the few studied companies that reported in its website to have documented various misconduct/fraud reports submitted by identified whistle blowers.

¹⁵ https://s3-us-west-2.amazonaws.com/ungc-production/attachments/cop_2019/476876/original/COP-2019.pdf?1563845348

¹⁶ <https://integrityinitiative.com/integrity-building-process/business-sector/>

¹⁷ Transformational Business. Philippines business contributions to the United Nations Sustainable Development Goals. <http://www.ph.undp.org/content/philippines/en/home/library/privatesectorsustainabledevt/transformational-business.html>



The company states to have investigated such reports and proceeded to act according to policy guidelines.

shall comply, at all times, with all applicable anti-bribery and corruption laws.²⁰

- **Energy Development Corporation (EDC).** The company has reported its economic, environmental, and social impacts through a financial and sustainability report prepared in accordance to GRI standards, which highlights EDC's commitment to promote a triple bottom line framework.¹⁹

The company has adopted a Code of Conduct and Business Ethics and a Code of Conduct and Discipline to promote a culture of integrity, transparency and accountability in the performance of duties. In addition to this, EDC implemented the policy on Related Party Transaction (RPT) to ensure the integrity and transparency of RPTs.

- **Manila Electric Company (MERALCO).** In relation to integrity practices, the company adopted the following policies: Anti-Bribery and Corruption, Conflict of Interest and Solicitation and Acceptance of Gifts. Additionally, the company externalized its commitment to act with integrity by implementing the Amended Suppliers Business Conduct. This conduct dictates that suppliers

- **SEAOIL.** The company was featured as one of the benchmark companies during the 2nd integrity summit of the II (2012), in reference to its CARES program (as it cares for its employees, partners, and the environment).²¹

- **Aboitiz Group.** The company has an established sustainability program with initiatives supporting the triple bottom line of people, planet, and profit. The company has a Code of Ethics and Business Conduct and several policies (e.g. Related-Party Transactions, Policy on Conflict of Interest Situations and Whistle-Blowing) to guide its employees on committing to integrity practices.

3.2.2. General observations

Only a small percent of private businesses in the Philippines signed the integrity pledge with poor progress towards fulfilling the obligations, including the certification (subject to externalities on the part of Integrity Initiative in the realization of a certification program), they committed to implement up to date.²²

¹⁸ The Phinma integrity assurance program. <https://www.phinma.com.ph/>

¹⁹ <https://www.energy.com.ph/sustainability/>

²⁰ <https://company.meralco.com.ph/corporate-governance/other-policies>

²¹ <https://www.seaoil.com.ph/news/2013/05/seaoil-signs-the-integrity-pledge>

²² <https://businessmirror.com.ph/2019/02/05/would-you-sign-an-integrity-pledge/>



4. Issues on compliance to integrity body's recommendations by signatory companies

Despite the weak enforcement of legal provisions on corruption and bribery involving the private sector in the Philippines, the existence of companies implementing I/E&C programs indicate a willingness of these companies, on their own volition, to incorporate the triple-bottom line into their business operations. But after almost a decade of embarking on this integrity journey (at least for II signatories), the analysis derived from the desk research unveiled a lack of compliance on the reporting guidelines recommended by integrity bodies among the companies that have supported independent I/E&C frameworks and agreements. Indeed, the COPs of UNCG analyzed in this study did not contain the recommended GRI indicators associated with the principle on anti-corruption. Without companies becoming fully aware of their risk exposure stemming from anti-corruption practices and regularly reporting on the policy/interventions to eliminate anti-corruption and measurement of outcomes and impacts, the commitment to stay on the path of integrity in business operations, including local supply chain relations, becomes extremely challenging.

5. Gaps and issues for the adherence to integrity practices by SMEs in the Philippines

A recent policy report unveiled that SMEs in the Philippines are challenged on adhering to anticorruption practices given the complexity and poor implementation of government's policies, originally created to uphold government integrity and improve ease of doing business. The report highlighted that the situation is further aggravated by the constant amendment and passage of laws with similar content, which lengthens and complicates permits and licenses' processing due to innumerable overlapping requirements and pertaining public agencies. This is an important policy gap, which strongly interferes with the operations and limited resources of SMEs.²³⁻²⁴

²³ Small Business Advocacy to Reduce the Space for Corruption, being carried out by the Ramon V. Del Rosario Sr. Center for Corporate Responsibility (RVR Center), in partnership with the Center for International Private Enterprise (CIPE) in Washington, DC. <https://www.sunstar.com.ph/article/152175>

²⁴ The Philippines: 2018 ASPI country profile. <https://www.oecd-ilibrary.org/docserver/9789264305328-22-en.pdf?expires=1574693691&id=id&accname=guest&checksum=9B3AFE0FF0882B7062D247E348054D98>



6. Workplan

This study attempts to determine the strategies followed by Philippine conglomerates to have their SME business partners adopt practices to address integrity issues and competitiveness challenges along the value chain. Therefore, we started the study by targeting those companies which have explicitly externalized their integrity programs to actors in the value chain. Specific cases selected from this desktop research study are Phinma Group and Ayala Corporation, which are among the companies that have adopted the UN SDGs, encourage suppliers to sign integrity pledges and/or maintain a database of suppliers. In principle, this combination of factors sets the basis to establish a triple-bottom line framework in supply chains.

To complement the desk research and to have a concrete evidence on the successful integrity-based practices and more importantly the compliance gaps among actors in the value chain, an I/E&C benchmarking questionnaire was circulated to members of consortium partners, particularly UNGC Philippines, II, Makati Business Club and Philippine Chamber of Commerce and Industry. To capture these gaps from the SMEs business partners perspective, the respondents from the consortium partner members were encouraged to send the questionnaire link to their relevant business partners/suppliers, consistent with the snowball technique. Key informant interviews (KIIs) were also performed to gain a deeper understanding of the compliance gaps and factors interfering with a successful implementation of integrity practices in supply chains in the Philippines.

A soft copy of the questionnaire (PDF) and the online survey link was sent to the consortium partner contacts to be forwarded to their members- along with an endorsement letter from the consortium partner contact to encourage participation in the study. Because of the sensitivity the information being gathered in the questionnaire, the list of companies (and their representatives as respondents) are only available upon request and with the express consent of the respondents.

6.1 Questionnaire

The questions selected for this study were adapted from the report by Rho (2018), which examined eight benchmarking studies of an anti-corruption ethics and compliance program.²⁵ Rho focused on compliance and anti-corruption practices in the private sector on an organizational level and studies covering multiple industries and countries; thus, providing a generic instrument to evaluate integrity practices. Furthermore, Rho analyzed the questions used by the studies under review with a three-level I/E&C benchmarking framework comprising of:

- 1. The I/E&C program itself** (risk assessment, declaration, monitoring and detection, post- detection and communication).
- 2. The I/E&C program's management system** (environment, goal, planning, implementation, monitoring, evaluation/auditing/certification), and
- 3. The I/E&C program's organizational supports** (leadership, financial, personnel, structural and cultural).

Besides examining the coherence of the elements of the program itself, this questionnaire takes into account two components- the system adopted to manage the program (management system) and the supporting mechanisms provided by the organization (organizational supports), both of which are important for the successful implementation of the program.

²⁵ Rho, H. K. (2018). A Review of Benchmarking Studies on Anti-Corruption Compliance Programmes. IACA Research Paper, (1).



3. Resource Support

a. Leadership (2)

b. Financial (4)

c. Personnel (3)

d. Structural (2)

e. Cultural (0)

f. Ecosystem (3)

2. Management System

a. Environment (7)

b. Goal/objective (3)

c. Planning (0)

d. Implementation (0)

e. Monitoring (0)

f. Evaluation/Auditing/
Certification (12)

1. Program (Integrity/ethics & compliance)

a. Risk Assessment (15)

b. Public declaration of
commitment (5)

c. Monitoring and
detection (7)

d. Post-detection action (3)

e. Communication (13)

It is important to remark that the Rho's framework is aligned with the UN global compact (UNGC) and integrity initiative (II) anti-corruption processes as described below, further justifying its application in the present work.

The UNGC recommends the use of the UNGC Management Model for the implementation of an anti- corruption program. The model suggests engaging in a continuously improving cyclic process of committing to, assessing, defining, implementing, measuring, and communicating.²⁶

The II's attempts to promote common ethical and acceptable integrity standards in conducting business in the Philippines via the following process: 1) signing of the integrity pledge, 2) adoption of the Unified Code of Conduct for Business, 3) integrity practices self-assessment, 4) integrity external validation, 5) interventions to address gaps presented on the integrity validation outcomes and 6) certification.²⁷

While overlaps between the UNGC's management framework and the II's process with the management framework proposed by Rho are clearly identified, Rho's framework offers a more specific view of the "how to" of the program. Additionally, Rho's framework proposes an expanded application to two other dimensions: 1) organization's value chain and 2) countries other than the organization's home country (an important consideration for companies with international operations). Importantly, a result from Rho's analysis on published frameworks indicate the lack of questions assessing corrective measures, planning, monitoring, external auditing and/or certification and organization's cultural support. Furthermore, we expanded Rho's framework by adding an ecosystem factor in the organization support component. The ecosystem factor comprises those external entities (e.g. UNGC, government, etc.) that can have an effect in the implementation of the program.

²⁶ <https://www.unglobalcompact.org>

²⁷ <https://integrityinitiative.com/integrity-building-process/business-sector/>

6.1.1. Questionnaire data analysis.

There was a total of 25 company representatives who initially registered to answer the questionnaire. Despite the approximate completion time of the entire survey being clocked at 30 minutes or less, seven of these participants did not complete the survey or did not reach at least 40% survey completion. Feedback from one potential respondent mentioned the need for several departments within the company to be involved in providing the data necessary to complete the survey. Hence, these cases were left out of the analysis. Among the companies included in the analysis (18), 9 were categorized as big corporations and 9 as SMEs, based on the number of full-time equivalent employees they hire within a given year. Additionally, there are 4 entries from the same conglomerate (including the holding company and 3 subsidiaries) and 4 suppliers corresponding to one of this conglomerate's subsidiaries.

The 18 companies represent the following industries: business services, manufactured goods, real state, consumer products, insurance, automotive, food products, construction materials and construction and engineering.

The data was coded into numerical values and then subsequently analyzed. The analysis was performed as follows:

1. General analysis of the full data set.
2. Comparative analysis between the set of large corporations and that of the SMEs.
3. Comparative analysis between the conglomerate group and the conglomerate subsidiary's suppliers.

The comparative analysis focused only on those points where one can find differences that were either statistically significant ($\alpha = 0.05$, t-student test), when mean values were compared or larger discrepancies observed, when percentages or ranking items were evaluated.

The results were categorized following Rho's three-level compliance benchmarking framework categories.²⁵

6.1.1.1. General insights from analysis of the full data set

Program. a) Risk Assessment

The top two risks selected by the questionnaire respondents were:

- Brand and reputation
- Political and regulatory

This data agrees with what is reported for Ayala corporation and the gaps and issues for the adherence to integrity practices by SMEs in the Philippines. Furthermore, corruption ranked 5th among the 9 risks indicated in the survey.

Interestingly, bribery and corruption was selected as the major concern when dealing with third party providers. Further interviews revealed that this was in relation to procurement procedures- which have been addressed in codes of conduct for both employees (in dealing with third parties) and suppliers (as third-party providers).

Approximately 32% of the respondents indicated that their companies DO NOT prioritize the I/E&C program risk in a quantitative way and that not all written risk assessment processes ended up in written reports.

Program. b) Public Declaration of Commitment

One third of the respondents indicated not having documented guidelines on how to create and distribute new policies in relation to the I/E&C program.

Program. c) Monitoring and Detection

A large proportion of the respondents indicated evaluating third parties prior to engaging with them as part of their due diligence. Moreover, most questionnaire respondents reported to performing due diligence in $\leq 50\%$ of the third parties. As revealed in interviews, certain criteria on materiality (e.g., with respect to risk nature of the service/ product being procured and the amount of the contract) being applied to decisions when performing third party due diligence. Due diligence of 100% of their third parties translates into a large expense for most corporations, hence hindering its practical application.



Program. d) Post-detection

The top two reasons that respondents considered as an explanation why potential third parties failed to meet the I/E&C program standards were: general reputational or integrity concerns and conflicts of interest.

The two main reasons stated that explained when issues appeared post-onboarding of the I/E&C program to third parties:

- Not existing issues or risks at the time of onboarding.
- Third party concealed issues upfront

In certain instances, it has been revealed that having contingency measures (i.e., trial or grace period) when dealing with third parties, particularly the first-time suppliers, are necessary to surface any issues that may be concealed. The events that may occur with the third party post-boarding, wherein risks and issues (including conflicts of interest) arise, may be beyond the control of the company and often outside the scope of a regular due diligence cycle.

Program. e) Communication

On average, the number of I/E&C program training courses provided annually for non-management employees and third parties is higher than the number of courses offered to senior leaders and middle managers. The topics most frequently offered during the I/E&C program training courses are bribery and corruption, conflicts of interest, and cyber security and data privacy. The cyber security and data privacy has been confirmed as salient topics more recently due to the new regulations that have been enacted.

In many cases NOT ALL I/E&C program training courses were mandatory (only 1-59% being mandatory) and there was a reported trend to add courses to cover more risk areas. Furthermore, there is still some compulsory courses (30.8%) which present low completion rates ($\leq 60\%$).

While one can argue that the number and selection of topics of the I/E&C program training courses are appropriate, the lack of compulsory character of such courses dilutes the effort and effectivity of the training program. Also, the lack of customization of the I/E&C program trainings (in terms of language and regionality) may attenuate the effective delivery of the message to its intended audience. For the respondents that have started expanding overseas, this question has given them food for thought in improving the current state of their I/E&C program training courses.

Management System. a) Environment

The top two perceived risks of the I/E&C program are: third party violations and lack of resources for proper controls.

In terms of policy management, the top challenge is keeping policies up to date with new and changing regulations. Reporting and measuring effectiveness were reported as the most relevant challenges with regards to the prevalence and implementation of I/E&C program. In relation to external challenges of the third-party risk management program the respondents selected getting 3Ps to enforce I/E&C policies in their organizations as the most important issue. As for the I/E&C training measuring effectiveness, limited training time and low quality/unengaging content were considered the top three challenges.

Respondents mentioned that inconsistent or inexistent disciplinary measures and fear of employees to speak up out due to concerns of retaliation are the two major aspects that could undermine I/E&C program compliance training. With the traditional Filipino culture being characterized by high power distance²⁸ (where those in lower levels defer to the authority of the higher level person, accepting the situation as the natural order), speaking out against authority may not come naturally. Even when a company interviewed has provided strong measures to prevent retaliation, in their whistleblower policy and practices, it took a number of years before employees started using this mechanism to undergird what they learn in the I/E&C program compliance training and report integrity violations.

²⁸ <https://hbr.org/2012/04/in-asia-power-gets-in-the-way>



Management System. b) Program goal/objective

The top three program I/E&C objectives selected by the questionnaire respondents were:

- Evolving and deepening a culture of integrity, ethics and respect
- Address existing issues or misconduct
- Implement preventative measures and practices to avoid future issues or misconduct

The top three risk management program objectives were:

- Create a culture of trust and transparency (i.e., environment conducive to fair business dealings)
- Protect the organization from risk and damage
- Comply with laws and regulations

The top three I/E&C program training objectives were:

- Create a culture of ethics and respect
- Improve employee understanding of compliance priorities and obligations
- Comply with laws and regulations

Management System. f) Evaluation/Auditing/Certification

Completion rates constitute the most common metric (26.2%) utilized to measure the effectiveness of the I/E&C program. Interestingly, reduction in legal and regulatory fines, negative audit findings and policy driven compliance failures combined, constitute only 19.0% of the monitoring metrics.

Although, some of these metrics can be related to the

bottom line of a company, there seems to be a void in terms of the effects of the I/E&C program on the company's competitiveness. However, the efficacy of the I/E&C training program is determined by the business results.

Consistent with results from earlier questions, the top I/E&C program implementation concerns indicated by respondents were employees not using their speak-up avenues and ability to produce meaningful metrics in a short period of time.

Resource and Support. b) Financial

62.5% respondents indicated that the annual spending for I/E&C program ≤ Php 2 M

For many cases the budget for third party risk management and I/E&C training is either non-existent or unknown. Considering the main concern of companies on third party violations, the lack of financial resources devoted to managing the risk from third parties is contrarian.

Resource and Support. f) Ecosystem

39% of the questionnaire's respondents indicated to be signatories of national, regional or international I/E&C conventions, and 71% of those were part of the II pledge.

Among the observable organizational changes and benefits as a result of joining an I/E&C initiative, the respondents listed:

- Employee communication on the commitment to the convention
- Implementation/change of the code of conduct/anti-corruption policies
- Trainings offered in I/E&C
- Revision in compliance/reporting practices



6.1.1.2. Comparative analysis between the set of large corporations and those of the SMEs

Program. a) Risk assessment

During the risk assessment process employee, capabilities for jobs with substantial authority and SEC/DOJ regulatory enforcement trends are accounted for less by large corporations (5.9 and 4.4% respectively) than by SMEs (10.3 and 7.7%, respectively). Contrarily, compliance is more relevant to big corporations (8.8%) than to SMEs (3.8%).

Internal documentation review and interviews of leadership and employees constitute the two most important methodologies used to conduct the organization's risk assessment of big corporations. For SMEs the most important methodologies are Internal and external document review while interviews of leadership and employees is among the least used methods. Additionally, unlike big corporations, SMEs rely in specific committees to perform the risk assessment process.

SMEs outsource I/E&C program due diligence activities at a higher proportion than big corporations. This can be attributed to SMEs having fewer financial resources than big corporations to have an internal I/E&C program due diligence group.

In terms of the red flags inside the company brought up by the outsourced I/E&C program due diligence provider found in big companies but not in SMEs are government watch list and political exposure. Key informant interviews confirm the reality for big companies being subjected to higher scrutiny by political and governmental actors. Additionally, inconsistent information provided appeared as the most frequent red flag found for SMEs (internally and in relation to their mother company) from a third-party due diligence provider, while this was not reported for big companies.

Brand and reputation is considered the most important risk faced by SMEs and second most important risk for large companies. Furthermore, political and regulatory corresponded to the first and fifth most important risk for large companies and SMEs, respectively. Bribery and corruption is ranked second and sixth in importance for SMEs and large companies, respectively. This result shows an important gap in relation to perception between large companies and SMEs in relation to bribery and corruption. One can also conclude

that while SMEs recognize the political and regulatory factor to be detrimental for business performance, it is not in the form of a constantly changing, complicated regulation that affects them per se but the result of this- presumably bribery. Interestingly, both large corporations and SMEs indicated that bribery is their major concern when dealing with third parties.

A larger percent of respondents from SMEs (71%) compared to big corporations (44%) indicated that the I/E&C program risk assessment results in a written report (primarily the output of their reliance to an outsourced partner for due diligence revealed in an earlier section). Also, 22% of respondents from big corporations indicated not to be aware if their company produces such written reports- alluding to tendencies, even of larger companies, to not having a specific system in place for routinely assessing I/E&C program risk (different from overall risk management process) that includes written report as an output to document and more importantly communicate to stakeholders.

Program. b) Public Declaration of Commitment

Roughly 60% of SMEs's representatives indicated that there is a lack of guidelines to create and distribute new policies derived from their I/E&C program. This contrasts with only 11% respondents from big corporations attesting to the lack of guidelines. However, 33% respondents from big corporations also indicated not knowing or being informed on the existence of such guidelines.

There is a relatively high number of respondents from SMEs (43%), who are very satisfied with the quality of the policy derived from the I/E&C program. Contrastingly, the number of representatives of big corporations highly satisfied with the policy is low (~13%). Further interviews pointed to the to greater heterogeneity in expectations of multiple stakeholders regarding the I/E&C policy in big companies as compared to SMEs, such that it is harder to establish a best policy that fits for all. Nonetheless, the percent of respondents satisfied with the overall policy of the I/E&C program is 50%.

When it comes to the frequency of policy revisions to ensure the policies in the I/E&C program are current and updated with applicable laws and regulations, SMEs adopt a more reactive approach (i.e., when potential issues are raised) than big corporations that review proactively but not based on a specific schedule.



Program. c) Monitoring and Detection

The allegation that is most reported to big companies in relation to third parties is business integrity (37.5%) and the lastly reported allegation is in relation to accounting, auditing and financial reporting (6.3%). This is opposite to what is reported by SMEs, where accounting, auditing and financial reporting is the most reported issue (33.3%) and business integrity the less reported (8.3%).

Web submission was the most common media used for reporting I/E&C issues in big companies and helpline and other methods were the most common methods for reporting problems in SMEs. This supports the informants' statements on getting a reporting system that is easily accessible with wider coverage for monitoring and detecting I/E&C issues in big companies versus a personalized reporting system (requiring personal interaction) for SMEs.

Program. d) Post-detection

Big companies experiencing I/E&C program issues with third parties post-onboarding cited that the major cause why the issue occurred is that such issues did not exist during the onboarding process. Moreover, while this was also one of the important factors mentioned by SMEs respondents, a non-disclosure of issues by third parties was also selected as an equally important reason for issues arising post the onboarding of third parties.

Legal, ethical or compliance issues with third parties, which were detected after conduction of due diligence, were most frequently discovered by an audit process in the case of big corporations (33.3%) and by an ongoing monitoring process in the case SMEs (36.4%).

Program. e) Communication

As for the requirement of all employees to formally attest to one or more policies of the I/E&C program, majority of big company and SMEs respondents indicated yes (85.7% and 71.4% respectively). Moreover, a negative response was recorded for a fraction of SMEs' respondents (14.3%) and none for big companies' participants.

Big corporations utilize online and in-person training as main delivery channels to educate their employees on policies of the I/E&C program. SMEs employs in-person training and newsletters/internal communications. The difference can

be attributed to the number of employees handled in each case, which is bigger for big companies, hence requiring a means of communication that can reach a wider audience. Furthermore, an evaluation on the understanding of the policies through surveys is more frequently done by big corporations (18.8%) than SMEs (6.7%).

In general, big corporations offer twice as many I/E&C training programs a year than SMEs.

SMEs offered more customized I/E&C program training in terms of language (for non-English learners) and region of training. Big corporation's respondents did not indicate to have such options in place. The expectation among big corporations that English is the accepted medium of communication is not necessarily presumed in SMEs- and when taken in context of the sensitivity of concepts and issues covered in the I/E&C program training, customized training modules can be advantageous to foster a training environment of openness and trust.

The average completion rate for mandatory I/E&C program courses is lower for SMEs (mode falls in 1- 69% completion rate) than for big corporations (mode falls in 90-99% completion rate).

Management System. a) Environment

Insufficient monitoring capabilities is considered as the top risk of the I/E&C program of SMEs in the past year. Third party violations top the list of risks for large corporations.

The top three I/E&C policy management challenges as indicated by big companies' respondents were:

1. Keeping policies up to date with new and changing regulations (20.0%)

1. Creating and updating documents easily (20.0%)

2. Records management (15.0%)

The top three I/E&C policy management challenges as indicated by SMEs' respondents were:

1. Keeping policies up to date with new and changing regulations (21.7%)



2. Training employees on policies (17.4%)
3. Meeting the demands of legal compliance, records management and creating audit trails and tracking completions (8.7% each)

Together with data from interviews, analysis of the responses in relation to the implementation of the I/E&C program indicated that the two most prevalent issues were getting buy-in and reporting effectiveness for the case of big corporations and reporting and measuring effectiveness for SMEs.

Furthermore, the data in relation to challenges in the third-party risk management program indicated that getting 3Ps to enforce I/E&C policies in their organizations is the major challenge confronted by large companies and SMEs. Moreover, getting certified for compliance with the program policies and training on the policies and compliance requirements also appeared as relevant issues for SMEs.

The top two reported challenges faced by large corporations in relation to I/E&C training were measuring effectiveness and limited hours available for training. SMEs, on the other hand, indicated low quality/unengaging content and difficulty covering all topics of relevance to their industry to be the top two challenges. The top two internal issues that could undermine the I/E&C program effectiveness in big corporations corresponded to: 1) gathering, integrating, analyzing, and making use of 3P data and 2) no clear ownership for the program; and for SMEs these issues were: 1) difficulty monitoring third party relationships and 2) no adherence of employees to the third party risk management process and limited resources.

It is important to add that several respondents commented not knowing all the information required to complete the questionnaire, which relates to the unclear ownership of the program by a key person within the organization.

Management System. b) Program goal/objective

Both large corporations and SMEs coincided about their top overall I/E&C program objectives, namely: evolving and deepening a culture of integrity, ethics, to implement preventative measures and practices to avoid and meet audit or certification requirements. The same concordance was observed in relation to the top objectives of their third-party risk management program: protect the organization from risk

and damage, create a culture of trust and transparency and comply with laws and regulations. Big companies and SMEs also shared common top I/E&C program training objectives: create a culture of ethics and respect, improve employee understanding of compliance priorities and obligations and comply with laws and regulations.

Management System. f) Evaluation/Auditing/Certification

Both large companies and SMEs report employing completion rates as the top metric to measure the effectiveness of their I/E&C program. However, the rest of the metrics used by large corporations gravitate towards reducing legal, regulatory, compliance and policy issues while for SMEs the focus is on the ease of use in internal investigation and accessibility/ability to search and find policies quickly and employee user experience. Interestingly, big corporations report to have benefited more on reducing times to resolve issues than avoiding costs from their I/E&C policy management program, while for SMEs, the benefit was higher in avoiding action costs. This finding, along with in-depth interviews, support the difference in instrumentality mindset- with large corporations using I/E&C policy management program as a proactive mechanism to resolve issues with potential adverse risks versus SMEs using the same as a defensive mechanism to avoiding action costs.

One important difference between large corporations and SMEs is that by establishing a formal training plan the former reported to have greatly benefited identifying gaps in their I/E&C program while this is not an aspect where SMEs encounter a huge benefit.

Measuring business results appears as the preferred metrics to determine the effectiveness of the I/E&C training program for both large companies and SMEs. Interestingly, while for large corporations post- training quizzes constitute the second most important parameter used to measure effectiveness of their training program, SMEs do not report to use post-training quizzes. Post-training quizzes is a tool to measure effectiveness that can be directly related to the training program. Additionally, neither large companies nor SMEs apply pre-training quizzes, which will be an important baseline to determine a learning effectiveness of the program's design along with its delivery.

On one hand, SMEs report monitoring most of the third parties they interact with. On the other hand, large corporations mainly focus on monitoring third parties that are crucial for their business. This can be explained by the number of third



parties each business engages, which is directly related to the amount of resources needed to monitor the interacting parts.

Resource and Support. b) Financial

While fifty percent of the SMEs report not to have an allocated budget for the I/E&C training program, all big corporations indicated to have an allocated budget.

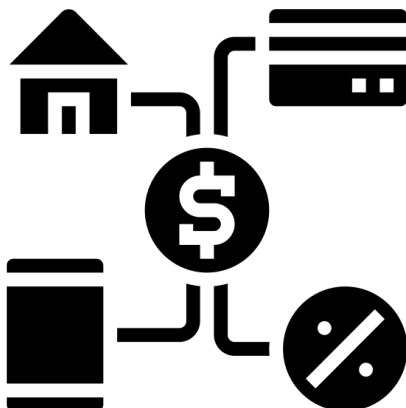
Resource and Support. c) Personnel

Majority of big corporations (80%) reported to have between 2-3 full-time employee equivalents (FTE) assigned to I/E&C activities. For the case of SMEs this number is ≤ 1 . A similar trend is observed in the FTE assigned to manage third party risk management.

Resource and Support. f) Ecosystem

Among the big corporations, five reported to be signatories of national, regional or international I/E&C conventions, (4-integrative initiative pledge, 2- UN global compact and 1-APEC code of conduct; one company is signatory of three conventions simultaneously). This contrasts with the SMEs, wherein only two indicated to be part of an I/E&C convention (1-integrative initiative pledge, 1- UN global compact and 1-APEC code of conduct; one company is signatory of two conventions simultaneously). 2 SMEs and 1 big corporation respondents indicated not being aware of the existence of such conventions.

Importantly, only a relatively small number of respondents indicated not to have observed any change in their organization after joining I/E&C-related convention (1 respondent each from SMEs and large corporations) with the most frequent observable benefit being the implementation/change of the code of conduct.



6.1.1.3. Comparative analysis between the set of conglomerate group (and its subsidiaries) and conglomerate subsidiary's suppliers.

As mentioned before one of the objectives of this study was to determine compliance gaps and competitiveness challenges of incorporating business integrity practices involving local value chains, particularly SME business partners of conglomerates, in the Philippines. Hence, a comparative analysis between a large corporation and its suppliers should provide insights on the level of externalization of the mother company's I/E&C program and the degree of adoption of its suppliers. This data set included 4 respondents from the conglomerate group side and 4 from a conglomerate subsidiary supplier side. The questionnaire for suppliers, although basically the same in terms of the nature and number of the questions, was adapted to fit the role of the companies as suppliers of the conglomerate's subsidiary.

Upon initial assessment of the data it stands out that suppliers were not able to fully complete the questionnaire (an average completion of 65% for suppliers vs 100% for the conglomerate group). This simple parameter might indicate that suppliers have not internalized the I/E&C program of the parent conglomerate or a lack of communication among the involved parties (given that issues on the questionnaire of conglomerate respondents were clarified in person and conglomerate contacts chose to pass the questionnaire to their chosen suppliers).

We next performed a side by side comparison of responses in the questionnaire. Relevant differences are given below. The term Conglomerate will be used to refer to the large corporation and its affiliates and the term suppliers will be used to refer to Conglomerate Subsidiary's suppliers.

Program. a) Risk Assessment

Brand and reputation and political and regulatory constitute the two major risks faced by the Conglomerate. Suppliers, on the other hand, indicate that governance and controls is the major risk they face followed by brand and reputation. Bribery and corruption is considered the least of the risks faced by suppliers.

Only 33.3% of suppliers' respondents indicated that their organization's I/E&C program risk assessment results in a written report, while 100% of Conglomerate's respondents



reported to have a written document as an output to their risk assessment process.

Program. b) Public Declaration of Commitment

Documentation covering aspects of conflicts of interest was not part of the records of the I/E&C program managed by suppliers but appear in the documentation managed by the Conglomerate.

While the existence of documented guidelines to create and distribute new policies of the I/E&C program was acknowledge by 66.7% of the suppliers, half of Conglomerate respondents (50%) did not know if such guidelines exist and 25% indicated not to have documented guidelines.

Conglomerate respondents appear to have a higher degree of satisfaction with the quality of the I/E&C policies than the suppliers.

Program. c) Monitoring and Detection

Red flags or negative information from third parties has been mainly transmitted by web submission in the case of suppliers and via helpline in the case of the Conglomerate.

Program. d) Post-detection

Conglomerate respondents indicated that the two most frequent reasons why potential third parties fail to meet their I/E&C program standards are general reputational and integrity concerns and conflicts of interests. The latter correlates with the lack of conflict of interests' documentation reported by suppliers. However, from the supplier side, the two major reasons of failure to meet I/E&C program standards were: unusual contract and payment structures and questionable relationships with potentially exposed persons.

Conglomerate representatives indicate that the main reason why issues with suppliers appear post- onboarding to the I/E&C program was because the due diligence assessment did not return risk-relevant information, a reason that was also considered important from the suppliers point of view. Furthermore, suppliers indicate that this problem might be

attributed to improper selection of due diligence scope, something that was not recognized by the Conglomerate's respondents. The Conglomerate also indicated that issues or risks did not exist at the time of onboarding, something that suppliers did select as a possible reason on why third-party issues surface post-onboarding.

Both Conglomerate and suppliers reported audit of the third party and ongoing monitoring as the processes used to identify legal, ethical, or compliance issues with third parties after reported due diligence had been conducted. Furthermore, the Conglomerate also indicated to use ad-hoc diligence, which was not selected as a response by suppliers and the suppliers disclosed regulatory enforcement, which was not indicated by the Conglomerate.

Program. e) Communication

Reports of the I/E&C program are regularly provided to the board for the case of the Conglomerate. However, suppliers (with only one respondent registered in this question) indicated that the board, CEO, company's president or owner does not ask for detail reports of the I/E&C program.

Half of the suppliers' respondents indicated not to requiring all their employees to formally attest to one or more policies, with regards to I/E&C program. All of the Conglomerate's respondents, on the other hand, reported to require such policy attesting.

While suppliers report in-person training as the only tactic to guarantee that people understand the content of their I/E&C policies, the Conglomerate utilizes several techniques (online training, internal communications, quizzes and surveys) for such purpose.

Suppliers (one response) report to translate materials of their I/E&C training program for non-English learners. However, the Conglomerate's representatives do not report to perform such translation.

The completion rate of mandatory I/E&C program courses appears higher for the Conglomerate (≥ 90 %) than for suppliers (reporting cases of 100% and 1-69% completion rate).



Management System. a) Environment

The Conglomerate and its subsidiary's suppliers coincide in most of the risks faced by their I/E&C program. However, there was one mention from the side of the suppliers about perceiving the lack of support for the compliance program from internal leadership as an important risk and correlates with one communication issue indicated before where top leaders do not ask for detail reports of the I/E&C program in the case of suppliers. This same risk was not mentioned by the Conglomerate.

In relation to the external challenges faced by the risk management program, the Conglomerate accounted for

getting suppliers to fill questionnaires out, something not considered as a risk by suppliers. Moreover, the Conglomerate's respondents did not consider that getting suppliers to enforce Conglomerate's I/E&C policies and structure was a risk, something that suppliers recognized as an important risk source.

Resource and Support. f) Ecosystem

The Conglomerate is a signatory of the integrity initiative pledge. Moreover, none among the set of supplier respondents were part of any signatory of national, regional or international I/E&C conventions.

7. Conclusions

To document successful integrity business practices in the Philippines, this study targeted those companies that are signatories of I/E&C-based programs either locally or internationally, under the hypothesis that commitment to such programs not only catalyzes the incorporation of responsible practices in local supply chains but it also provides a platform to integrate sustainability development goals into the business while aiming for a triple-bottom line performance.

Findings from this study point to a small, hopefully growing, number of Philippine's companies that are signatories of I/E&C programs. The nascent, in the last 10 years, involvement of Philippine companies with such integrity/ethics-based programs show the uneven implementation from a usually siloed approach- giving an appearance of the companies committed to such programs inability to internalize the program's recommended guidelines. Importantly, for these companies, corruption is not perceived as a priority risk, which can subsequently affect the commitment, or lack of, to address it. This result agrees with a previous study, which reported that while voluntary initiatives to prevent corruption have a limited impact, the more traditional regulation

approaches are important influences on corruption prevention.²⁹

There was a relatively small number of respondents to the I/E&C benchmarking questionnaire, the tool used to identify compliance gaps and competitiveness challenges upon the incorporation of integrity practices in value chains, employed in this study. Overall, the low participation rate indicates a reluctance to open up to discussions on integrity practices in the Philippines. Insights derived from this tool is that brand and reputation and political and regulatory risks are the two most important risks. Political and regulatory risks exert a negative impact on the compliance of integrity practices given the complexity and poor implementation of government's policies and constant amendment and passage of related but at times contradicting laws. This uncertain and complex regulatory environment affects SMEs the most (given their limited resources), provoking their distrust within their value chain (e.g. the top perceived risks in I/E&C programs is third party violations and lack of resources for proper controls).

From an operational perspective one can conclude that an inappropriate training program hinders effectiveness of

²⁹ Carr, I., & Outhwaite, O. (2009). Corruption and business integrity: law, policy and company practices. Manchester J. Int'l Econ. L., 6, 16.



integrity programs. This again is further compounded by a constant change on regulations.

Important gaps exist in the evaluation of the I/E&C program risks in quantitative way and reporting and measuring program effectiveness. These two points are of relevance given their connection to business performance and the effects on value chains competitiveness. A lack of accurate, quantifiable evaluation and monitoring around I/E&C programs further produces negative spillovers from lack of budgets, inappropriate assignment of resources, and eventually a lack of commitment to the I/E&C program itself.

Finally, one can conclude that within a supply chain, internal and external miscommunication/lack of information with the large company buyer and supply chain actors prevents the holistic integration of integrity initiatives within the entire ecosystem.

8. Moving forward

This baseline study is an effort at having an evidence-based view on the existing landscape of integrity/ethics-based programs by companies of any size, large/multinational enterprises and SMEs. It is our hope that this report can hopefully inform and engage stakeholders in meaningful discourse to form effective partnerships that can improve the transparency and accountability among sustainable enterprises.



Annex 1. 10 large corporations that are signatories of the UNGC

Company Name	Sector	Joined	Remarks
Globe Telecom, Inc.	Mobile Telecommunications	15 Aug 2019	<ul style="list-style-type: none"> 1st COP due on 15 Aug 2020
SM Investment Corporation	Diversified	26 Mar 2019	<ul style="list-style-type: none"> 1st COP due on 30-Apr-2020
RDF Feed, Livestock, & Foods Inc.	Diversified	30 Jul 2018	<ul style="list-style-type: none"> In its 1st COP, stated existence of general anti-corruption policies in Employee Handbook and Guide No specifics on implementation or measurement of outcomes provided
Ayala Corporation	Diversified	28 Mar 2017	<ul style="list-style-type: none"> Since 2016, provides integrated reports incorporating COP and contributions to SDGs
Manila Doctors Hospital	Health Care Equipment & Services	11 Jun 2014	<ul style="list-style-type: none"> In its 4th COP, expounded on functions of its Committee on Purchases, Investments and Contracts (COPIC) Complied with voluntary contributions in 2015-16.
Atlas Metal Products MFG CO Inc.	General industries	21 Apr 2014	<ul style="list-style-type: none"> States continued compliance with its business ethics of no corruption policy and reports no complaints received
Bolton International Inc.	Support Services	4 Oct 2013	<ul style="list-style-type: none"> Describes whistleblower practice but no explicit statements on policy communication nor measurement of outcomes and impact Complied with voluntary contributions in 2013 and 2015.
Philake Metal Corporation ³⁰	General industries	7 May 2012	<ul style="list-style-type: none"> In its 7th COP report, information appears unchanged vs. precedent reports References Code of Ethics and Business Conduct and compliance with current laws and regulations Complied with voluntary contributions in 2012, 2013 and 2017.
Shinkozan Corporation	Industrial Engineering	11 Apr 2012	<ul style="list-style-type: none"> No detailed COP submitted to UNGC. Complied with voluntary contribution in 2013.
CS Garment, Inc.	Personal Goods	20 Jun 2002	<ul style="list-style-type: none"> Only participant company⁸ Highlighted signing of Integrity Initiative pledge on December 5, 2011 as proof of commitment to prohibit bribery but no details on implementation and monitoring provided. Complied with voluntary contribution in 2010 and 2012-2016.

³⁰ Located in an export processing zone: One can assume that companies located in an export processing zone are export-oriented and are more likely to be subjected to compliance on the anti-corruption commitments of their international buyers.



Annex 2. SME³¹ signatories of the UNGC

Company Name	Sector	Joined	Remarks
Morination Agricultural Products	Food producers	5 Sep 2019	<ul style="list-style-type: none"> 1st COP due on 5 Sep 2020.
Verde Solutions and Innovations Corp.	Support services	20 Dec 2018	<ul style="list-style-type: none"> 1st COP due on 20 Dec 2019.
FundLife International	Support services	9 Jun 2017	<ul style="list-style-type: none"> Submitted express COP but no further details provided
Omon Group Inc.	General industries	24 Mar 2017	<ul style="list-style-type: none"> Reported using basic COP template online No details on the risk assessment process, policies and their implementation provided States to have shared its business ethics and code of conduct policy for employees, suppliers and sub-contractors
Kou Fu Packaging Corporation	Support services	21 Dec 2015	<ul style="list-style-type: none"> Did not report on risk analysis or anti- corruption policies Reported its CSR code of conduct, which focuses on human rights and labor- with the company successfully eliminating gender gap at all employee levels (56.4 % females vs 43.6% male)
Subic International Management and Consultancy, Inc. (SIMC)	Support services	10 Dec 2014	<ul style="list-style-type: none"> Submitted express COP but no further details provided
Adec Innovations Corporation	Software & Computer Services	24 Jul 2014	<ul style="list-style-type: none"> Complied with voluntary contributions from 2014-17.
Taesung Phils. Co., Inc.	Industrial Metals & Mining	6 May 2009	<ul style="list-style-type: none"> Complied with voluntary contributions in 2016.
Mabuhay Vinyl Corporation	Chemical	30 May 2002	<ul style="list-style-type: none"> Complied with voluntary contributions from 2009-2010, 2013 and 2015 Anti-corruption and bribery provisions established for suppliers and contractors in COP of 2011. Code of Business Conduct first mentioned in COP of 2014

³¹ Defined based on their asset size as small for Php3,000, 001- 15,000,000 and medium for Php 15,000, 001- 100,000,000 and/ or with 10 to 199 employees. http://www.dict.gov.ph/wp-content/uploads/2016/07/8.-SMEs-in- the-Philippines-_Empowering-LGUs-through-ICT-Partnership-with-SUCs.pdf

