Charter of Integrity for Small and Medium Enterprises - SMEs

Inspiring Ethical Practices in Business
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Message from

**British Deputy High Commissioner/ Director of Trade in Pakistan**

It gives me great pleasure to present to you the ‘Business Integrity Charter’ which has been developed by our partners, Seed Ventures, as part of UK Government’s Business Integrity Initiative (BII).

The BII project has been carrying out various activities over the last year to improve the business ethics environment in Pakistan and provide unbiased information to UK companies about how to navigate integrity issues. Pakistan was selected as one of three pilot countries for this initiative as it offer enormous business potential for the UK. The charter provides practical guidance to companies in Pakistan on how to embed ethics and integrity in daily business decisions. It aims to help firms protect and strengthen brand reputation, enjoy more sustainable commercial success, and minimise the risk of unethical (or illegal) practices. This document is mainly targeted at small and medium-sized enterprises (SMEs) because these businesses tend to be more vulnerable to the scourge of bribery and corruption, face specific challenges in doing business and often do not have adequate resources to develop suitable policies or mitigation strategies.

Compliance with various laws and standards is ever increasing as businesses operate in different markets, interact with diverse cultures and engage with global customers. For Pakistani companies to succeed globally they have to adopt policies and best practice for issues like anti-corruption, human rights and modern slavery. Environmental protection laws also have to be a core consideration and be implemented rigorously. Companies that educate and train their employees on the various aspects of ethical business mentioned in this guide stand to benefit. All these efforts will, in the long run, result in a better business environment and greater economic prosperity for organisations and society.

I commend the ‘Business Integrity Charter’ to you.

**Mike Nithavrianakis**
Message from

CEO & Co-Founder, SEED

We at SEED, are proud to present the Business Integrity Charter developed for Small and Medium Enterprises in Pakistan. Business growth requires certain measures adhering to ethical business practices is vital to the process of growth.

We have, after in depth research and conversations with SMEs, Business Associations and Chambers of Commerce, developed a document that is relevant and provides practical guidelines on how SMEs in Pakistan can integrate ethical practices and integrity into their business functions and operations. The Charter that we have developed constitutes eight Integrity Principles. It has been designed in a way that any company that chooses to institute this Charter will have an understanding of ethical issues such as corruption, bribery, fraud, conflict of interest, human right violations, health and safety and environmental hazards. The most important part is, on the one hand, where this charter highlights issues, it also provides an action plan to the readers on how to deal with those particular issues.

Internationally, businesses are becoming more aware and cognizant of the aforementioned issues. Global expansion will eventually become very difficult for SMEs in Pakistan. If they do not strive towards bringing in more transparency and demonstrating ethical and responsible business behavior. An integration and adherence to this charter in one’s business practices can enable an SME to develop a sound reputation within the business community at a global and local level. Consequently, this will allow them to create more opportunities for them to partner and collaborate with international players.

We hope that organizations will endeavor to integrate this, and be able to see the long term impacts of ethical business practices.

Faraz Khan
A Note by Author

I am delighted to present this Charter of Integrity for Small and Medium Enterprises. As I wrote this charter, I was persistently reminded of the phrase ‘codes are in the eyes of the beholder’. Corporate integrity should be more into practices then in writing. As all know, integrity is a profitable business but overlooked at the same time. This charter is a set of business principles, which are explained in an easiest way. This charter provides strong ethical foundation, which leads to strong ethical reputation.

Charter objectives are simplicity and manifestation of knowledge management. The term code and charter are often used interchangeably. This charter seeks to provide clarity by including manageable and latest available information. Each principle contains a repository of relevant tools to practice which companies should put in place, based on their business and risk size.

This charter will be useful for the companies, which are interested in integrity and ethical management for their business and trying to upscale their practices. Companies should consider this charter as a reference guide to use a particular or all of the principles to quantify the best practices given. Leadership should understand the importance of this charter in managing ethical issues. Strong integrity is a virtue of ethical leadership. By investing their time to understand the typology of the principles, leadership will be able to create an ethical workplace and showing their commitment. It is recommended, a copy of this charter should be shared with all employees and a recurring exercise to be held with them annually.

Here, I would like to acknowledge the support of our knowledge partner Association of Chartered Certified Accountants, ACCA for their invaluable commentary and recommendations. I am thankful to the business associations for connecting relevant members and providing timely information. I am also grateful to those people who shared their valuable time to be interviewed for this charter and to those in future who would take this agenda ahead.

Muhammad Talib Uz Zaman, CCEP-I
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Lead: Charter of Integrity (Business Integrity Initiative)
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Introduction

Small and Medium Enterprises (SMEs) are integral components of national economies around the world. They account for over 95% of all enterprises in OECD countries. They can be a ‘one-stop shop’ for generating revenue, creating employment, supporting diversity and product and market development. According to the World Bank and the European Bank for Reconstruction and Development (EBRD), it is evident that unethical business practices discourage SMEs in achieving their growth. More than 70% percent of SMEs in transition economies perceive corruption as an impediment to their business and one-third of SMEs see corruption as a major business obstacle.

International Chamber of Commerce’s Business Integrity Compendium recommends, SMEs must develop robust anti-corruption ethics and compliance procedures to ensure they minimize the risk of corruption and adhere to international anti-corruption standards. Ethical businesses practice, however increase employee loyalty, decrease cost of borrowing, bring open and innovate culture, attract high quality staff, provide opportunities of growth and mitigate the potential business risks.

In Pakistan, 99% of around 5 million business enterprises are SMEs, but unlike established companies, they suffer from a number of integrity issues, mainly related to corruption and human rights. These firms tend to lack the resources needed for due diligence, legal defense, audit and compliance. Since SMEs are heavily engaged in day-to-day business activities, they have fewer opportunities to understand and making policies on integrity and ethics. With stringent compliance requirement and sustainability, international companies prefer doing business with companies having ethical practices, as a commitment and practice.

Charter of Integrity for SMEs

Charter of Integrity for SMEs, also called ‘Code of Conduct/ Ethics’ is the first step for an SME to show commitment on following integrity practices. The study, ‘Integrity Risks for International Business in Pakistan’, conducted by U4 Anti-Corruption Resource Centre, highlights the need of proportionate written policies and procedure (a code) to manage integrity risks in business operations. This charter spells out key principles of anti-corruption and bribery, fraud and conflict of interest, human rights issues such as modern slavery, bonded and forced labor, occupational health and safety, environment and responsibility towards society and effective compliance.

Why we call it a ‘Charter’?

Charter of Integrity is a comprehensive tool for implementing organizational policies. It is a tool which combines both a ‘code of ethics’ and a ‘code of conduct’. The code of ethics explains organizational values and principles whereas code of conduct translates these values into practices. By having both elements (principles and practices), this charter would serve as a tool of best practices. By adopting this as a tool for decision-making, business practices could be re-aligned, focused and productive in getting more business and better brand image. This charter is produced in a simple and easy to understand language and translated in Urdu as well. At the end of the charter, a repository of relevant integrity standards is mentioned for further guidance.

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<th>Integrity Talk:</th>
<th><em>SMEs interested in becoming part of the supply chain of larger corporation, specially multinationals, need to proactively address environment and social sustainability risks such as forced or child labour and work safety</em></th>
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1. The Business Environment and Enterprise Performance Survey (BEEPS)
3. Business Ethics for SMEs, briefing by Institute of Business Ethics
The Charter Road Map

This charter would serve as a basic business-guiding tool for SMEs. For knowing their perspective on codes of conduct already play into the market, what gaps they would envisage in translating policies into practices, and how a new code (a charter) can fill those gaps, a detailed research was carried out with SMEs around the country. Business associations and chambers of commerce across Pakistan were consulted for the research and with their assistance, interviews and meetings were conducted with 75 SME owners and business professionals. These SMEs represented textile, surgical, leather, sports, agro- products and other sectors. A stocktaking exercise was also conducted to understand local and international practices, reviewed surveys and gathered opinions from industry experts.

This charter will be launched in major cities of Pakistan. Members of business associations, SME owners, regulatory bodies, foreign and diplomatic corps, media and other stakeholders would be invited to the launch ceremonies. In next step, which is embedding the charter, 25 SMEs will be selected across Pakistan and they will be invited to attend three days hands-on practitioner workshops. These workshops will be focusing on introducing the charter principles, discussing the integrity challenges, building their capacity on understanding and resolution of ethical dilemmas and, designing of execution and implementation plan to use this charter.

Theme of the Charter

**Principles of Justice, Fair Treatment and Transparency**

Charter of Integrity is one of the tools, which should guide SMEs to understand the associated risks to the business and making relevant policies and procedures. This charter aims to consolidate the relevant integrity standards in one place and encourage businesses to consider this as a tool for behavior management and decision-making. This Charter neither substitutes nor contests the country’s legislation but aims to serve SMEs in conducting of business with fair treatment, justice and transparency.

**Integrity Talk:** “A company is better protected from the risks of misconduct when its culture is ethically strong.” — Ethisphere Institute

Statement of ‘effective’ Charter of Integrity

The best code is the one, which is effective in implementation.

For an effective code,

- Leadership of the company should support it and lead by example
- SMEs are encouraged to customise this code as per their business needs and should consider this as a first step to following integrity practices
- SMEs should make efforts to communicate the principles given to their employees and other stakeholders
- Companies should arrange regular training programmes to educate their employees on this charter
- Companies should review the charter annually and amend the principles according to the risk areas identified
- This charter should also be served as a guiding tool for the employees to understand the acceptable and unacceptable practices
- Employers should introduce this charter to all employees and include its compliance as a performance indicator. A yearly charter sign-off activity and series of trainings are recommend- ed with employees and associates to refresh their knowledge and make them aware of the changes in the charter
- Employees should understand their organisation’s code, get guidance when needed and they should know the incentives for adhering to the code, and penalties for non-compliance and report the breaches to the management (for escalation process, see the annexure A).
Business should clearly understand the potential benefits of adopting a charter. Compliance requirements are increasing all over the world. GSP plus status and other trade incentives require that companies making use of these concessions behave ethically and follow and implement all laws etc. especially on governance, human rights and environmental issues. Effective compliance would show commitment on best practices to the market. It may assist companies in reducing cost of borrowing, engaging quality workforce, maintaining healthy business relationships, product branding and image, linkage with international market and opportunities for growth.

Business associations should promote this charter to their new and existing members. For every new member, a sign-off of this charter may become mandatory. It should be send to all of the existing members. Business associations may establish a ‘Charter of Integrity committee’ and arrange regular meetings to discuss the charter principles, and implementation challenges.

(for further guidance, see Box 7: Business Associations as Point of Collaboration, Sharing Best Practices, Providing Direction and Support to SMEs)

Charter Monitoring Tools

Monitoring is a key component of integrity programme success. This ensures focus of leadership in effective use of this charter as a business tool, exploring and understanding of the risk factors, detection of violations of the charter and achievement of the results. Monitoring is an ongoing process. In this charter, a number of monitoring tools are given under each principle. These tools would be helpful for the company to monitor their performance and identifying the shortcomings in the policies. Similarly, by making a schedule, these tools will serve as a reminder of what needs to be done at any particular time. Remember, these would be considered as tools of best practices. Organisations are encouraged to use these alone or in combination with others, as per their business requirements.
Principle 1: Anti-corruption and bribery

“We are committed to do business without corruption and bribery.”

Corruption is the abuse of entrusted power for private gain and is ‘the single greatest obstacle’ to economic and social development around the world. Transparency International defines bribery, the most common form of corruption, as the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action, which is illegal, unethical, or a breach of trust. This covers ‘active bribery’ whereby an employee of the company offers, promises or gives an advantage, and ‘passive bribery’ which is when an employee requests, agrees to receive or accepts an advantage.

Box 1: Common Types of Business Corruption*

Facilitation Payment: These are small payments or gifts commonly termed as ‘grease payments’ made to government employees or other employees related to expedite or to facilitate the process. It does not include payments made directly to obtain or retain business.

Favours: These are the ‘favors’ to please a company or person in order to gain benefits, such as sponsoring unrequired visits to secure a business deal.

Gifts and Hospitality: To or from corporation’s supply chain professional, government and enforcement officers, politicians etc.

Conflict of Interest: Gaining or providing opportunities to underserving persons with no matching qualifications. Doing personal work on company’s time and money.

Kickbacks: A commission given to encourage the other party to cooperate in an illegal scheme.

Charitable Contribution and Sponsorship: Another form of bribery. These contributions should not be made as a favour for any business deal. It should be given directly to the organisation, not the individual.

Political Contribution: Contribution/payment to political parties that are in control to obtain contracts or permits pertaining to the company.

Falsifying Payment Documents: Claiming from company or vendors, using false invoices or marking up rates in the supporting invoices that do not reflect the actual costs incurred. *(Speak Up Against Corruption, Employees Hand Book for SMEs, by Transparency International, Malaysia)*

Common Red Flags to Understand as Potential Areas of Corruption

Following could be the risky areas, which the organisations, employees and their associates need to consider carefully in doing business. Any or all of them in combination may indicate possible indication of corruption and unethical practices.

- Excess use of petty cash
- Inadequate or no use of hotline/reporting channel
- Invoices paid too quickly, usually in cash
- Lack of due diligence on third party, customers, business partner etc.
- Lack of experience in particular area of work
- Lack of written agreements/poor documentation of records
- Little or no previous work experience-applicable on the employees and third parties
- Misrepresentation of invoices/records, missing or incomplete documentation

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4 Clean Business is Good Business, joint publication by the International Chamber of Commerce, Transparency International, the United Nations Global Compact and World Economic Forum Partnering against Corruption Initiative

5 https://www.antibriberyguidance.org/guidance/5-what-bribery/guidance#1
• Undue preference given to specific third parties or organisations
• Repetitive business with one vendor or selected company without soliciting proposals/quotes from others
• Repetitive exchange of gifts/travels
• Paying unusual high fees or commissions

Guidelines for Corruption Risk Assessment and Risk Management

Companies are required to monitor their business activities and mitigate the risky areas with the help of a risk management plan. Following should be the guidelines for risk assessment and management.

• Identify the major functional areas of the organisation i.e. procurement, marketing, distribution
• Identify the risks for each functional areas and assess the extent of these risks
• Identify the significant risks and assess the probability of those risks occurring
• Identify responses to risk areas
• Select the best response
• Develop risk management measures
• Formalize and document a risk management plan
• Implement the plan
• Review and evaluate the plan and its implementation

Our Best Practices

• Company discourages the influencing or obtaining personal advantage of employees or its third parties by obtaining payment or anything of value, directly or indirectly
• Company as a best practice, avoids any activity that would breach the applicable local and international laws
• Company avoids paying facilitation payments
• Company arranges regular workshops, training sessions to discuss and address the challenges faced by company in order to ensure their capacity to uphold business integrity

Integrity Talk: “This charter should not be taken by SMEs just as a piece of paper, rather to use as a guide in daily business operations. Corporate leaders and senior managers should place copies of the charter on their desks.”

• Company promotes awareness of policies through different communication mediums and describe process of compliance
• Company commits to do business with clean companies. We conduct due diligence which is a regular practice of assessing potential risks
• Employees are expected to report breach of unethical behavior or corrupt conduct if supported by reasonable ground to suspect it
• Accepting and giving gifts could pose a conflict of interest and influence. Employees are encouraged to discuss this matter with the management or their assigned supervisor

CHECKLIST

✓ A yearly sign-off activity will be arranged with the employees to test their understanding on this charter and the principle on anti-corruption and bribery
✓ This principle will be included in business contracts, employees performance indicators, website and other communication channels
✓ Orientation on the charter will be given to the new partners and employees
✓ A claim reporting and investigation system will be established
✓ We will conduct a yearly awareness and training programme for the employees and people of supply chain on this principle
Principle 2: Conflict of Interest

“We are committed to perform business with impartiality and avoid potential, actual or perceived avenues of conflict of interest during business dealings and our activities.”

Broadly, conflict of interest is a situation where an individual or the entity for which they work is confronted with choosing between the duties and demands of their position and their own private interests. This applied broadly to the leadership, officers, employees and third party. Conflict of interest increases the risk of poor judgment but could also smudge public image and trust.

Conflict of Interest Triggers Corruption Risks

Conflict of interest creates corruption risk. It may arises when the private interests of an individual or of his/her close relatives, friends or business contacts diverge from those of the Enterprise or the organisation to which the individual belongs. These situations should be disclosed and, wherever possible, avoided because they can affect an individual’s judgment in the performance of his/her duties and responsibilities.

Following are the common examples of conflict of interest

- Use of company information for private benefits
- Financial interest or a connection such as a relative or friend
- Employees running their own companies
- Involvement in external activities such as political or community organisations
- Employment and future job prospects (moonlighting)
- Part-time employment with or consultancy to another company
- Recruiting a relative or friend in order to secure a business advantage
- Third party relationships like embezzlement, kickbacks, favors
- Insider trading or acting in breach of duty to the existing employer
- Provide employment to friends and family without merit

Our Best Practices

- Company maintains high standard of integrity in the conduct of business activities and the activities with third parties
- Company encourages employees and associates to maintain ethical standards in activities where their personal interest could conflict with the interest of the company
- Company encourages its employees to avoid using their official titles, position or any form of information, readily available to them to benefit themselves, their associates or any person or organisation whom this information or position could be helpful

**Integrity Talk:** “Company should sign off the conflict of interest disclosure declaration each year from employees. It will keep them updated with the policy and the changes over time, acknowledges their understanding what and how to act in that scenario and answering their queries.”

- Company conducts periodic risk assessment, conflict management and resolution and update the policies and procedures
- Regular trainings are conducted to train the employees on the issues of conflict of interest, compliance of relevant laws, prohibited conduct and their consequences, expected behavior and decision management
- Employees are required to disclose actual or potential conflict of interest immediately to the relevant department and seek further guidance
- We conducts regular due diligence on future employees and their background checks

**CHECKLIST**

- ✔ A yearly training and awareness session with employees and people of supply chain will be arranged to provide them guidance on how to deal with integrity when conflict of situation arises
- ✔ A log of conflict of interest cases would be made to understand the nature of cases reported, resolution timelines and procedure
- ✔ A reporting channel will be made to highlight conflict of interest and other cases. If already exists that channel, a yearly exercise will be conducted to test its effectiveness

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7. Speak Up Against Corruption, Employees Hand Book for SMEs, by Transparency International, Malaysia
8. https://www.antibribeguidance.org/guidance/11-conflicts-interest/guidance#1
Principe 3: Fraud

“We are committed to create an anti-fraud culture across our business”

The term fraud refers to an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain an unjust or illegal advantage. Fraud is one of the recurring threat for SMEs globally. In UK, SMEs are losing over £9bn through invoice fraud every year. Because of vibrancy of issues and risks and lack of understanding, the extent of fraudulent activities are on the rise.

Box 2: Examples of Fraud*

- Tempering the documents with false information, preparing false entries in systems or making false statements to obtain a financial or other benefit for oneself or another/others
- Add false information in documents, making false statements, preparing false entries in systems or other deceptive acts to the detriment of those someone seeks to disfavor, or to discredit a person, programme or the organisation
- Conflict of Interest or other anti-competitive scheme between suppliers during a procurement process
- Providing information in relation to a medical insurance claim or another entitlement which are false
- Forging the signature of a staff member or forging a document claiming to be from to induce a party outside to act

- Using another’s computer system identity or password, or creating false identities/passwords, without consent or authority to manipulate processes or cause the approval or denial of actions
- Accepting hospitality such as meals or entertainment from a vendor without considering the specifications mentioned in the related policy
- Misrepresenting employment status to obtain a benefit from a government or private sector entity
- Failing to disclose a financial or family member interest in a business or outside party while participating in the award/management of a contract to the benefit of that business or outside party
- Processing the cost of personal travel as part of an official travel *(UNDP Policy against Fraud and other Corrupt Practices)

Our Best Practices

- Company priorities maintaining of high ethical culture that discourages opportunities of fraud in business activities and activities with third parties
- Employees are encouraged to understand the dynamics of personal and business interest and they are responsible to act with integrity and honesty and should comply with the standards defined
- Company conducts regular exercises to identify key areas of potential activities to detect fraud, prioritize the issues and take necessary actions

**Integrity Talk:** “Your people are the ‘eyes’ and ‘ears’. Leadership should train them, empower them. Ownership should be given to them to take decisions, in compliance with the policies.”
• Company encourages its people to monitor the business activities and alert the management immediately
• Regular trainings are conducted with employees and associates to keep them informed about the policies and procedures, any changes in the law, prevention and reporting mechanism
• Employees are responsible to attend the trainings, understand the expected behavior and seek guidance for any issues they have
• A reporting mechanism should be used to report or alert any fraudulent activity, within the prime business or business with third parties. Issues reported will be treated as per the speaking-up and listening policy of the company
• Company maintain adequate internal controls and conduct regular risk analysis

CHECKLIST

✓ A yearly training and awareness session with employees and people of supply chain will be arranged to provide guidance on types of frauds, provide tools and techniques as a best practice to avoid and handle this issue. Management along with regular employee should make sure to attend these sessions

✓ A training session will be conducted on effective usage of hotline to report fraud related cases

✓ A mechanism will be made to report conflict of interest cases

✓ An IT based payment system will be established to reduce cash transaction
**Principle 4: Speaking up and Listening**

“We are committed to empower our people in reporting existence of unethical practices. These acts should be reported to the relevant authority for an unbiased and required resolution without creating a fear of retaliation.”

One of the important elements to create culture of integrity in the organisation is to set up a ‘speak-up and listening culture.’ This mechanism allows employees to report corrupt acts, violations and grievances, share concerns and ask questions on policies and procedures. In general, reporting of wrongdoing within an organisation by one of its employees in known as whistleblowing.  

A system of open access should be established by management and supported by the leadership to motivate employees and associates to speak up on the issues with full trust. To avoid fear of retaliation and inculcate a sense of trust in the process, company should include a non-retaliation policy in their code. This policy clearly highlights a firm commitment to discipline anyone, and acts as a guide with respect to what is needed to be done if they may observe any retaliation.

**Common Areas of Speak-up**

- Accounting and finance related issues
- Corruption, bribery, theft
- Stealing of company assets
- Misrepresentation, cheating
- Misuse of information and power
- Issues related to third parties, violations
- Harassment
- Human rights, labour violation
- Regulatory risks
- Environment related concerns
- Employment breaches
- Policy and process related issues
- General concerns

**Box 3: Directions for Speaking Up the Concerns**

- Consult company policy and seek guidance before reporting the issue
- Whom you should contact?
- Understand the escalation process
- Should you speak-up in confidentially?
- Existence of non-retaliation policy
- What comes next after reporting concerns? Understand the process and timeline
- What to do if you will not satisfy with the outcome?

**Our Best Practices**

- Company promotes speak-up and open door access culture
- Employees and associates are free to report unethical practices, complaints and reservations without fear of retaliation and revelation of their identity
- Due care will be taken during the assessment of the reported incident and necessary action will be observed, in line with the relevant polices and standards

**Integrity Talk:** “Depends on the nature of business and dynamics of workforce, company should establish a hotline, in combination of telephone and web based mediums.”

- Regular trainings are held with employees and associates to guide them about the value of speaking up with the help of real life scenarios, analysing ethical dilemmas and understanding of reporting mechanisms
- Employees are expected to understand the reporting mechanism, process of escalation and attend regular trainings

12 CPE-anti-corruption compliance guide for mid-sized companies
13 For escalation mechanism, see Annexure A
CHECKLIST

✓ A reporting channel will be established (email/telephone or both) to listen and discuss unethical conduct

✓ Policy of non-retaliation will be made and shared with the employees and people of supply chain

✓ A yearly training session will be conducted on speaking-up along with the procedure to guide them on escalation

✓ Procedure of reporting, investigation and decision making to be shared with employees, as well as with people of supply chain. This will be considered as a quarterly exercise
Principle 5: Human Rights and Modern Slavery

“We are committed to avoid all forms of forced labour. We are committed to respect our people’s individual rights, provide them equal treatment and best possible working environment.”

United Nations Global Compact is calling on businesses to adopt a principle-based approach to place human rights at the core of their strategy. Out of their ten principles, six are directly linked with human rights and labour best practices. Ethical Trading Initiative's Base Code is an internationally recognized set of labour standards, based on International Labour Organisation’ conventions. This code could provide in-depth guidance and support to drive improvements in working conditions. (check the section 'useful resources' for tools and guidance on modern slavery and human rights).

Guidelines to Implement Human Rights and Modern Slavery Principle

Inspired by Ethical Trading Initiative model, companies are encouraged to establish an implementation mechanism by considering following steps:

1 **High Level Commitment**: Leadership should come up with firm commitment and eagerness to follow human rights standards. They should take ownership, include relevant policies in the code, and establish a mechanism to follow. Results should be visible when leadership support this framework by their own to set an example.

2 **Identification of Human Rights Issues**: Employees should be encouraged to report human rights and labour issues to the management immediately. They should be motivated to discuss the issues without fear of retaliation. Management may also take other measures to identify these issues by conducting internal surveys, interviews, monitoring the trends of cases reported, internal audit and due diligence.

3 **Prevention and Mitigations**: After exploring potential threats and issues, companies should design a prevention and mitigation framework. Most risky areas should be given priority and the matrix should be designed to analyze those risks based on severity and occurrence. Company may re-visit the existing policies, code of conduct and amend as per the need. Check the available communication mechanism and equip or change it with the best practices available. Module wise training programmes should be conducted and it should be made mandatory for human resource and people of supply chain to attend these. A yearly ‘endorsement exercise’ should also be conducted with employees to know their understanding regarding policies and principles, and ask them for endorsement.

4 **Communication and Way-forward**: Companies should establish a schedule of training, method of disseminating key information, extracting expectations from the employees, employing changes in the laws and standards, make intact the hotline. As a best practice, companies should highlight the reported cases, dilemmas, and provide solutions to the workforce.

Our Best Practices

- Company discourages the use of all types of forced and bonded labour into business operations
- Company complies to the relevant industry standards, encourages equal participation of all groups in the workforce, respects their opinion without any physical, mental or verbal abuse
- Employees are expected to act with dignity, respect and fair dealing with fellow colleagues, associates and customers
- Company ensures that children are not part of their labour force

14 https://www.unglobalcompact.org/what-is-gc/mission/principles
**Integrity Talk:** “Company culture is most important for engagement on human rights.” Survey by ILO and International Organisation of Employees

- Company is committed to pay its employees their remuneration and other facilities as per the standards and provides avenues to record their grievances
- Company respects its people’s dignity and promotes their active participation without involvement in discrimination in hiring, promoting, compensation, training on the basis of language, colour, religion, origin, age, gender, disability, and other perceptions
- Company respects communities where it works without discriminating on the basis of language, colour, religion, origin, age, gender, disability and other perceptions

**CHECKLIST**

- This principle will be included in business contracts, website and other communication channels
- Regular training programmes, ideally two in a year will be conducted with employees to aware and train them on relevant laws, expected behavior, tools and techniques on how to act in accordance with this principle and reporting the incidents
- For leadership, a yearly awareness session will be arranged
- Hire human resource personnel with the knowledge and experience of human rights and modern slavery
- A yearly skills audit will be conducted by an H.R. consultant

**Box 4: Facts about Slavery**

**20.9 million**
people are in modern slavery across the world

**5.5 million**
children are in slavery across the world

**11.7 million**
people are in slavery in the Asia-Pacific region, mostly in bonded labour

**14.2 million**
slavery victims are exploited in economic activities

**4.5 million**
people are forced into sexual exploitation

**98%**
of people trafficked for sexual exploitation are women and girls

**US$ 150 billion**
illegal profits generated by the private economy through forced labour per year

*All estimates by International Labour Organisation*
Principle 6: Occupational Health and Safety

“We are committed to provide our people safe, healthy and injury-free working conditions.”

Occupational health and safety is one of the most important but highly ignored areas in SME businesses across the world. International Labour Organisation (ILO) indicates that while 2.2 million people die every year due to work-related accidents or illnesses, more than 270 million workers are injured and an estimated 160 million suffer from work-related illnesses. Unsafe and unhygienic working conditions expose human resource and their families to the risk of illness and life-threatening hazards.

Cost of Injuries and Accidents

Unforeseen incidents like injuries, accidents are never predicted but their frequency of occurrence can be minimized by following standards and policies. Businesses should understand the associated cost of non-compliance of health and safety standards, resulted low productivity, replacement of human resources and incident of financial burden etc.

- Loss of labour time due to injuries, illness
- Loss or damage of machinery, equipment and facility
- Treatment, rehabilitation and paying dues, insurance claims to employee, sometime early retirement
- Loss of meeting production targets
- Time loss of other employees because of incident
- Replacement time to recruiting, training and deployment of a new employee
- Possible selection of low skilled employee
- Fear of future incidents on employees and on their morals
- Tarnishing public image of the company and its reputation

Box 5: Basic Elements for Good Health and Safety Management Systems

Management Commitment and Employee Involvement. The manager or management team leads the way by setting policy, assigning and supporting responsibility, setting an example, and involving employees

Worksite Analysis. The worksite is continually analyzed to identify all existing and potential hazards

Hazard Prevention and Control. Methods to prevent or control existing or potential hazards are put in place and maintained

Training for Employees, Supervisors and Managers. Managers, supervisors, and employees are trained to understand and deal with worksite hazards

Follow-up. To determine what is working well and what changes are needed

*(World Bank’s Occupational Health and Safety Management guidance for SMEs)*

Our Best Practices

- Company prioritizes safety and security of its employees and the people associated
- Company complies to the laws and standards related to occupational health and safety and these are explained to employees in an easy to understand language
- Company policies and procedures are regularly reviewed and updated
- Company conducts regular and detailed inspection of its facilities to avoid potential threats of health and safety

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Safe & Healthy Talk: “Health and Safety accidents are reported, recorded and investigated and should be checked according to the standards. Suitable actions should be taken to maintain accountability and consistency of policies.”

- Company commits to providing employees and associates, good hygienic working conditions, including lighting, ventilation and suitable temperature
- Company arranges regular trainings and mock exercises to guide employees and associates about precautionary measures, handling of equipment, accident and health related hazards, and how to handle the emergency incidents
- Employees are responsible to attend these trainings, build their understanding on standards and guidelines and seek guidance when required
- Employees are encouraged to work by following safety standards and guidelines. They are also expected to take due care and safety of other people at work

CHECKLIST

- Review and update yearly the occupational health and safety policy and the procedures. This would be helpful in showing commitment to continuously improving safety and health facilities for the employees
- An active monitoring mechanism will be established to review the performance and maintenance of our equipments, company premises and the processes to avoid injuries and accidents
- Regular training programmes, ideally two in a year will be conducted with employees to aware and train them on relevant laws, compliance, expected behavior, tools and techniques on how to act in accordance with this principles
- A series of mock exercises, drills etc. will be arranged with all employees in every quarter on using emergency equipments and avoiding accidents
- A record of injuries, bad health, hygiene related complaints, accidental loss will be compiled
Principle 7: Environment Protection and Sustainability

“We are committed to be recognized as an environment friendly organisation. We are aiming to reduce the impact of business operations on the environment, and, to follow the environment management practices for business sustainability.”

The business climate of today greatly focuses on reducing and managing the environmental impact. Despite their individual business share, the aggregate impact of SMEs on the environment is significant. The UK Carbon Trust poll found 66% of consumers want to purchase products from environmentally responsible companies. One of the important standards that highlight environmental compliance is ISO 14000, which could be valuable for companies to manage environmental issues.

Our Best Practices

- Company cares for its people, business and the environment where it operates
- Company is committed to reducing release of substances that may damage environment and is careful in using renewable natural resources
- Company is committed to monitoring the impact of waste disposal and is compliant of relevant environmental laws and standards
- Company regularly conduct trainings and awareness sessions for its people to inform them about the sustainable use of natural resources and taking due care to protect the environment
- Employees are encouraged to attend these trainings and awareness sessions and follow the guidelines

CHECKLIST

- Environment Management System- EMS will be established for making procedure of checking and monitoring the impact of business operations into the environment
- Educate employees to follow compliance with relevant local environmental regulations, their responsibilities by conducting yearly trainings
- This principle will be provided to all employees, communicated to business partners, displayed in the workplace and on the website
- A focal point will be assigned to respond the related queries and assist employees

Environment Talk: “From Where to Start? Important question with an easy answer. Business Associations, Chambers of Commerce should take lead and with the help of their research department, disseminate helpful information, such as standards, codes, surveys, business cases, courses, web based information etc. to the SMEs.”

- Company is committed to minimize the risks related to environment, to its people and associates

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Principle 8: Compliance with the Charter

“We are committed to use this charter as a guiding and decision making tool. It is the responsibility of our people to understand, comply with the principles given in the charter, seek clarification for any doubts and provide suggestions.”

This charter should be considered as a ‘living document’. Living in the meanings of implementing and testing of principles in entire organisation and monitoring of impact. The best and effective code is the one, which is easy to understand and readily fit to implement. It is the responsibility of a company to explain the elements of the charter to the employees, and resolve their grievances. This charter should also be considered as a tool of risk-assessment and decision making by the leadership, employees and people from third parties. ACCA survey on combating corruption in SME sector” finds necessity of developing an anti-corruption code and guide companies to design several interventions to translate all the principles into procedure for effectiveness of the measures. Employees as well as the associates from third parties are responsible to act in accordance with the principles enlisted in the charter.

Box 6: Simple Strategy of Compliance and Dealing with Ethical Dilemmas

When facing a potential unethical behavior the staff member should ask her/himself the following questions:

- Is it legal?
- Is it in accordance with the company’s practices and policies? (charter of integrity)
- Is what I am doing in the company’s interest or just my own interest?
- Is it reflecting values of the company and my values?

Our Best Practices

- Company is responsible to translate and explain the principle and standards to its people and people belonging to third parties
- Company conducts regular trainings, assessments, monitoring exercises and share their results
- It is the personal responsibility of all employees to understand the elements of charter and comply
- Company encourages department head, team leaders to ensure understanding of this charter, communicating it to their team members, as well as the people of third parties
- Employees are required to attend trainings and sign a yearly understanding statement of compliance

**Compliance Talk:** "For effective results, companies should educate charter points to the employees regularly. Remember, training is periodic, education is ongoing. Make the charter practical and relevant to daily duties."

- For any fall in issues or guidance to the charter, company encourages its people to immediately approach their managers, hotline or the person assigned. They are also encouraged to report their suggestions for improvement in the charter
- In case of non-compliance of the charter, principles and standards, employee will be subject to disciplinary action. It is the responsibility of every employee to clearly understand his or her roles, expected behavior and possible measures taken in case of non-compliance.

Measures may be under the form of: verbal or written warning, memos, transfer, suspension and dismissal

Box 7: Business Associations as Point of Collaboration, Sharing Best Practices, Providing Direction and Support to SMEs

- Business associations and Chamber of Commerce offer many benefits to members, including free advice on many technical, legal, compliance and commercial nature issues, reports on market conditions, laws and standards on labour, corruption, environment and human rights, trends in the sector, and consultancy services, etc. (www.taforum.org)

- Associations are seen as the voice of their sector and able to represent all their members at every level

- Associations facilitate the opportunity for members to network with their peers at conferences, exhibitions and other events while they are learning about issues, which may affect their business

- Associations can conduct research on pressing integrity issues with the members and based on the results, may arrange a call of action; arrange training programmes, build collaborations with local and international players and approach law makers for policy directions and revision

- Associations provide immediate updates regarding changes in industry technical standards, policy and news, which are disseminated to members and provide an early warning system with advice on how to deal with the issues which may be encountered as a result.

- Their should be a sector wise collaboration of sharing best business practices. For example, if towel association members achieves significant results by adopting code of conduct principles and procedure, they should share their learning with the member of knitwear or hosiery association for better results

- Like sharing of best practices, a repository of relevant standards, laws and regulations should be developed and shared with other associations
Corruption and Bribery in SMEs- Situational Analysis and Way Forward by Association of Chartered Certified Accountants, ACCA

While bribery and corruption are long-standing and widespread features of business life, there is increasing recognition at official levels of the harm that they cause and an increasing determination to combat them. Corrupt practices within businesses can lead to very substantial criminal penalties for companies found guilty. They also have a corrosive effect on the level of trust held by ordinary people in business and government, and for this reason alone are rightly regarded as a social evil which should be combated. Briefly, bribery and corruption distort fair competition in business transactions, increase the cost of doing business and betray the trust of stakeholders.

At the core face of bribery and corruption are Small and Medium Enterprises (SMEs) which in Pakistan’s economy number some 8 million, their vulnerability hinges on their need to survive and often corrupt officials can break a bona fide business. ACCA believes that accountants are in a pivotal position to make a difference in this area and we are determined to ensure that our members across the world have the skills, training and the professional encouragement to do so. ACCA itself has made a special effort to associate itself with the cause of ethical business conduct.

ACCA has in recent years sought to raise awareness of the relevance of these issues to the SME sector. According to ACCA’s 2019 study on Combatting Bribery in the SME sector, bribery, so much a part of the grand corruption phenomenon, is all too often found far closer to home, and with far more insidious effects for small businesses, local communities, and struggling families. A bribe of $100,000 to a government minister will inevitably come from a wealthy source, and if that source is a large business then the cost will be shared across hundreds or thousands of employees. The direct impact of providing the resources on those funding the crime may be almost imperceptible, however great its effect upon the payee or those at the mercy of their decisions. SME bribery works in the opposite direction. For the government official demanding $50 to clear goods through customs, it is only the aggregate of many such payments that will make a real difference to their lifestyle. But for a small business struggling with cash flow, the incremental impact of lost investment opportunities can be amplified over the life of the venture, tipping the balance away from growth, and the increased wealth that this would bring to the whole local economy.

Ethics is now an integral element of ACCA’s training framework and all members, whatever their occupational background, are now required to update their knowledge and awareness of ethical issues on a regular basis. Accordingly, ACCA is committed to joining forces with the efforts of government and civil society organisations to oppose bribery and corruption in both the public and private sectors.

Arif Masud Mirza
Head of Policy MESA
ACCA
The Eight Integrity Principles

**Anti-corruption and bribery**
We are committed to do business without corruption and bribery.

**Conflict of Interest**
We are committed to perform business with impartiality and avoid potential, actual or perceived avenues of conflict of interest during business dealings and our activities.

**Fraud**
We are committed to create an anti-fraud culture across our business.

**Speaking Up and Listening**
We are committed to empower our people in reporting existence of unethical practices. These acts should be reported to the relevant authority for an unbiased and required resolution without creating a fear of retaliation.

**Human Rights and Modern Slavery**
We are committed to avoid all forms of forced labour. We are committed to respect our people’s individual rights, provide them equal treatment and best possible working environment.

**Occupational Health and Safety**
We are committed to provide our people safe, healthy and injury-free working conditions.

**Environment Protection and Sustainability**
We are committed to be recognized as an environment friendly organisation. We are aiming to reduce the impact of business operations on the environment and, to follow the environment management practices for business sustainability.

**Compliance with the Charter**
We are committed to use this charter as a guiding and decision making tool. It is the responsibility of our people to understand, comply with the principles given in the charter, seek clarification for any doubts and provide suggestions.
Annexure A: Reporting Escalation Mechanism

1. Consult with Immediate Manager / Supervisor
2. Resolve and make record
3. Disclose the outcome
4. Conduct investigation and respond
5. Review and resolve/ Reported to the Management
### Annexure B: Table of Consolidation of Labour Legislations

The first column of the following table highlights various Ordinances that have either been promulgated or are expected to be promulgated in the near future. The second column delineates the labour laws to be repeated or consolidated as identified in the Labour Policy 2002.

| I. | Industrial Relation Ordinance, 2002 |
| II. | Conditions of Employment Ordinance |
| III. | Payment of Wages Ordinance |
| IV. | Occupational Safety & Health Ordinance |
| V. | Human Resources Department & Control of Employment Ordinance |
| VI. | Labor Welfare & Social Security Ordinance |

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<td>IRO 1969 and</td>
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<td>2.</td>
<td>Section 27B, Banking Companies Amendment Act, 1997</td>
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<td>3.</td>
<td>Employment (Record of Services) Act, 1951</td>
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<td>4.</td>
<td>Standing Order, 1968</td>
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<td>5.</td>
<td>Shops &amp; Establishment Ordinance, 1969</td>
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<td>8.</td>
<td>Payment of Wages Act, 1937</td>
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<td>10.</td>
<td>Employees Cost of Living (Relief) Act, 1973</td>
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<td>11.</td>
<td>Mines Act, 1923</td>
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<td>12.</td>
<td>Factories Act, 1934</td>
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<td>13.</td>
<td>Dock Laborers Act, 1934</td>
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<td>15.</td>
<td>Control of Employment Ordinance, 1965</td>
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<td>16.</td>
<td>Provincial Employees Social Security Ordinance, 1965</td>
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<td>18.</td>
<td>Workers Welfare Fund Ordinance, 1971</td>
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<td>19.</td>
<td>Workers Children Education Ordinance, 1972</td>
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<tr>
<td>20.</td>
<td>Employees Old Age Benefit Act, 1976</td>
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Useful Resources

- ACCA: Combating Bribery in the SME Sector, 2019  

- Adequate Procedures and the UK Bribery Act  
  (https://www.transparency.org.uk/publications/adequate-procedures-annex-8/)

- Anti-slavery  
  (https://www.anti slavery.org/)

- Centre for International Private Enterprise: Anti-Corruption Compliance Guide for Mid-Sized Companies in Emerging Markets in English  
  in Urdu  

- Ethical Trading Initiative Base Code  
  (https://www.ethicaltrade.org/eti-base-code)

- ICC Business Integrity Compendium 2017  
  (https://iccwbo.org/publication/icc-business-integrity-compendium-2017/)

- ICC Guidelines on Whistleblowing  
  (https://iccwbo.org/publication/icc-guidelines-on-whistleblowing/)

- International Chamber of Commerce: Rules on Combating Corruption  
  (https://iccwbo.org/publication/icc-rules-on-combating-corruption/)

- International Labour Organization Standards on Health and Safety  
• Organisation for Economic Cooperation and Development
  (https://www.oecd.org/)

• The Equator Principle - risk management framework for environmental
  and social risk in projects
  (https://equator-principles.com/about/)

• The FCPA Blog
  (https://fcpablog.com/)

• The Prevention Of Corruption Act, 1947, Pakistan
  (www.fia.gov.pk/en/law/Offences/5.pdf)

• The UK Bribery Act
  (https://www.transparency.org.uk/our-work/business-integrity/bribery-act/)

• Transparency International: Business Principles for
  Countering Bribery for SMEs
  (https://www.transparency.org/whatwedo/publication/business_principles_for_countering_bribery_small_and_medium_enterprise_sme)

• Transparency International: How to Bribe, a typology
  of Bribe- Paying and How to Stop it

• United Nations Convention against Corruption

• United Nations Global Compact
  (https://www.unglobalcompact.org/what-is-gc/mis-sion/principles)