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Business Plan

Building International Corruption Prevention Standards and Tools for the Construction & Engineering Sector

A simple and practical innovation modelled on international quality systems

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ABSTRACT

International standards such as ISO9000, tools such as 6 Sigma and various professional registrations are all important in the marketing effort for companies in their pursuit of major projects. The associated logos appear on business cards, presentations and in tender submissions. In fact, many of these accreditations are expected of companies responding to tenders as well as of the project owners.

This is especially the case in the engineering and construction industry throughout the world.

But what if there was an international standard, modelled on ISO9000 methodology, which was accompanied by a strong brand recognition that acknowledged a lower risk of potential corruption within companies providing services or for specific projects? Surely the owners of the projects (often Government) or those tendering for the projects would hold such a public and high profile accreditation as one that is desirable to achieve – potentially even mandatory to have.

It is a simple idea, which could be industry led, creating an accreditation system to audit, monitor and certify engineering and construction companies and individual projects for their level of risk from corruption.

It is also more than just a passive monitoring system. While it achieves that purpose - in both forcing internal monitoring within organisations and through external monitoring by third party auditing bodies - in building a corruption prevention brand it becomes a desirable accreditation that actively fights corruption through the self-perpetuating nature of recognised accreditations and competitive forces in the industry.

The result:- a self regulating, self promoting corruption prevention system across industry that is independently monitored but largely re-enforced and perpetuated by the industry it serves.

Please note: Due to the word limit this document does assume some working knowledge of the structure, purpose, use and methodology of ISO9000 series quality system and the philosophy behind 6 Sigma Quality Tools.

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Major construction projects, whether they are government or privately sponsored, often carry a very high risk of corruption.

The processes that are gone through to create a major project have large risk factors and sometimes the dollar size, complexity, competitive forces and governance of projects seem to practically invite corruption.

Each stage of a multi-million or multi-billion dollar project is susceptible - from competing for the tender, negotiating the bid price to the complex procurement of high value and high volume materials. Complicating this further is the large number of people involved and the often lax account keeping and governance.

As developing economies continue down their paths the risks of corruption in major projects only gets greater. Economic development perpetuates major projects, the scale and breadth of which can be seen most evidently in the development story in China.

What can also be seen in many developing countries is a sadder story, one that fights the very fabric of economic development – where corruption is accepted as simply a cost of doing business.

So while projects are completed they cost up to and beyond 30% more than they should. This impact is multiplied by the number and scale of projects. The wealth intended to be used to build productivity into an economy is instead concentrated in the hands of a few and no longer has the economic multiplier impact of each dollar spent on major infrastructure.

But can a single company implement a corruption monitoring system and achieve tangible affects in their industry. Realistically, the answer is probably best reflected in the analogy of throwing a pebble into a sea of yoghurt – after an initial localised impact, no ripples.

Following, if that monitoring system did not also incorporate commercial imperatives or advantages an even more accurate analogy could be that of throwing a marshmallow into a sea of concrete – no impact at all.

The question becomes what to do about this. How to make a difference that will be adopted and led by an industry. What is needed is a way of reducing the risk of corruption, fighting what can be cultural norms and ensuring what is often public money is spent on productive assets that benefit the whole economy.

This is a challenge and one that can be answered.

Establish the Rules

Some would argue that the rules for corruption prevention in any organisation appear to be straight forward but in many cases the procedures that need to be followed are not understood, are not complemented by other procedures in the organisation, or are distorted for the purpose of avoiding them. Additionally, proven corruption prevention tools are rarely implemented and perhaps there is even ignorance of what tools are needed.

This was certainly the case at the beginning of the Quality movement which began in Japan after WWII and has evolved to include 'passive' quality Standards such as ISO9000 and 'proactive' quality tools such as 6 Sigma.

ISO9000 is a 'passive' Standard as it provides guidance on where procedures are required in a organisation's operating areas. It is passive because it does not dictate what the particular procedure should be. 6 Sigma is a set of developed tools that compliment the existence of procedures and is 'proactive'.

The combination of a passive Standards and proactive tools have provided enormous benefit in the area of quality management. The same principles are transferable to corruption prevention.

Just as ISO9000 and 6 Sigma have moved from the manufacturing sector into other industries there is no reason why an internationally developed and recognised corruption prevention methodology combining both passive procedures and proactive tools could not be developed initially for the construction industry and then propagated into other industries.

Establishing the rules is about agreeing on a standard methodology and providing well developed tools that give organisations anywhere in the world the best chance of minimising their corruption risk.

Obviously, ISO9000 and 6 Sigma are in themselves not corruption prevention methodologies but the principles behind their creation, use and propagation are transferable to corruption prevention.

Just as quality systems have rules and standards so could corruption prevention. However, rules, procedures and tools are not enough.

A brand - a meaningful symbol of attainment and accreditation is really what has made ISO9000 and 6 Sigma such a success worldwide.

So what are the rules for corruption prevention? An easy question to ask but one that is complex to answer.

What is being proposed by this business plan is that using the principles behind ISO9000 quality standards and the methodologies behind the tools and intention of 6 Sigma, the corruption prevention community in cooperation with the construction industry could develop a set of standardised resources that can be implemented across borders and carry an internationally recognised symbol and brand.

It is suggested the initial work should be directed at the construction industry to provide the activity with focus – just as was done with the creation of ISO9000 for the manufacturing sector.

The key elements that would require examination and the development of Standards are:

- Education on what constitutes corruption
- Key processes in the business – especially tendering and material procurement
- Monitoring of responsibilities
- Record keeping
- Random audits and monitoring
- Reviewing individual processes and the system itself to gauge effectiveness

Just as with ISO9000, companies and government authorities would be expected to use the guidance of the internationally developed Standards and rules to model their own systems and procedures.

There is no reason why implementing this corruption risk reduction accreditation would be any more difficult or time consuming than implementing ISO9000 or another quality system – something routinely achieved by government and private organisations worldwide.

The principles behind 6 Sigma are basically the reduction in variation of any process undertaken.

As a guide, tools could be created that are standardised and practical. The principles behind these tools would include:

- Continuous efforts to achieve stable results
- Business processes have characteristics that can be measured, analyzed, improved and controlled
- Special anti-corruption Champions and networks within the business

On the audited accreditation of the proposed corruption prevention Standards and the demonstrable implementation of corruption prevention tools a company or government authority or even an individual

project would be awarded the right to use the symbol and branding representing a public recognition that the organisation has implemented best practice corruption prevention.

So why couldn't one single entity or company just adopt this approach and use it as a monitoring system for themselves? The answer is that they could. They may even be able to use existing elements of their own quality system to do this. However, why would a commercial entity do this if it was operating in an environment where corruption is part of doing business and in fact considered a cost of doing business?

In implementing any new system in a company or government authority there needs to be a commercial advantage or imperative. Looking to the history of ISO9000, accreditation to this Standard began as a commercial advantage and has become a commercial imperative in the manufacturing, construction and services industries throughout the world. This is because of the way it is structured and the recognition of what its brand represents.

This progress has not been perpetuated by a single company implementing an innovative system but by the industry adopting an innovation that is demonstrably aligned with their own operational and commercial interests.

The same is possible in corruption prevention.

ISO stands for International Organisation for Standardization. Formed in 1947, it is an NGO based in Switzerland that updates quality standards, accredits certifiers and promotes the use internationally of quality systems.

Potentially they could be engaged to assist in the development of risk reduction and monitoring Standards for corruption.

Organise along existing models

There is simply no need to reinvent the wheel in order to be innovative.

Step 1: Create an International Corruption Prevention Organisation responsible for developing the Standards and tools needed.

The roles and process already undertaken in establishing ISO9000 Standards and promoting accreditation have been proven to be effective throughout the developed and developing world. The use of standardised guides, implementation of procedures, followed by third part accreditation is an ideal methodology for similar corruption monitoring and prevention approaches.

Like with the ongoing development of ISO9000 Quality Standards, the industry would be a major stakeholder in the development of the Standards and tools. Also modelled on the original development of ISO9000 the initial work would be focused on a single industry.

Using this methodology to think beyond what a single company could achieve is the same vision that delivered the Quality movement.

Endemic corruption is not something a single company can tackle, in some markets it would put that company at such a commercial disadvantage that it could not operate. The only solution is an industry wide approach.

Fortunately, this approach does not have to be completely invented and there is a proven model to be built and innovated upon.

International Corruption Prevention Organisation:

- Develops Standards and tools
- Certifies auditors to the Standards and tools
- Provides the Standards and tools as guides to any organisation seeking accreditation
- Recognises and licences their brand to organisations that have achieved accreditation
- Promotes risk reduction in corruption world-wide through the integrity of their brand



Third Party Certification Body (Auditors):

- Accounting firms, system auditing consultancies, potentially that same auditing organisations undertaking ISO9000 certification
- Audits compliance with the international Standards and tools that have been developed
- Recommends accreditation or requires improvements of those seeking accreditation
- Promotes the need for accreditation



Organisations Wishing to Accreditate:

- Obtains the Standards and guides from the International Organisation
- Appoints a Champion to implement
- Engages the third party certification body
- Promotes the accreditation they have achieved within their industry as a market differentiator or even eventually as a necessary standard attainment



The Community:

- Sees an internationally recognised accreditation that an organisation or project has undertaken in its best endeavours to remain corruption free
- Will expect to see any organisation involved with public funds attain the accreditation or risk not being considered as a supplier of services
- Will desire to work for organisations that have achieved accreditation

Licence certification bodies

The role of the certification body is to audit and certify that a company, government authority, or even part of an organisation, meets the requirements of the International Standard.

Just as in the case of ISO9000 accreditation, certification bodies would be paid to conduct the audit of the systems and tools by those seeking accreditation. The certification bodies also pay a licence fee to the international organisation that has developed the Standards in return for being allowed to accredit and provide the brand or symbol of the international organisation to their client.

The benefit in having licensed certification bodies is:

- They provide a local presence
- As the service is a commercial one, they promote the benefits of accreditation
- They provide an income stream for the international organisation that has developed the Standards and tools
- They contribute to continuous improvement of the Standards and tools through feedback
- They bring their own corporate credibility to the Standards and tools
- They actively monitor their clients to ensure compliance
- They can act swiftly to remove accreditation from an organisation that does not comply

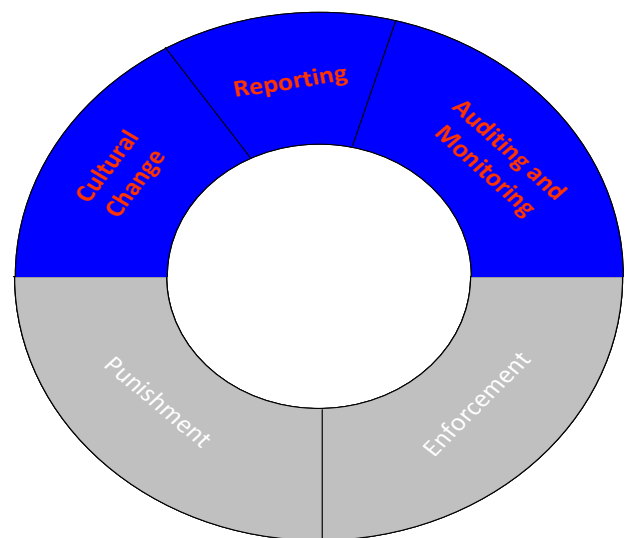
Licensed certification bodies are an essential group within this monitoring and risk reduction strategy. Ideally, companies such as international accounting firms, law firms and specialist consultancies would apply to

be licensed as a certifier of the Standards and tools.

The licensed certifiers are also the proactive and enthusiastic promoters of two of the major elements needed in reducing the risk of corruption:

- Driving cultural change
- Reporting
- Auditing and monitoring

While there are many factors that impact on reducing or preventing corruption, five of the key factors and the estimated proportional impact of each is demonstrated below.



The importance of licensed certification bodies can be clearly seen in that they impact on half of these five major elements in corruption prevention. They even potentially perform an enforcement and punishment role through removal of accreditation for organisations that do not comply with the Standards.

Promote to perpetuate

The real power in creating an international set of corruption prevention Standards and tools, and in establishing a network of licensed distributors to promote the system and accredit organisations, is in the desirability of the accreditation as a symbol that an organisation would be a good partner, supplier or client as they have active corruption prevention and monitoring in place.

This set of Standards and tools, if well developed in cooperation with international stakeholders and experts, has the potential to build an extremely desirable brand just as ISO9000 has done. This would be further enhanced by the recognition of international NGOs, governments and major accounting, legal and auditing organisations

ISO9000 has been able to achieve a position whereby, in many countries, and especially in the construction industry, it is an absolute requirement of those wishing to supply services to major projects. There is no reason why a corruption prevention Standard could not emulate this. In fact there is no reason why corruption prevention Standard could not be seen as even more desirable.

If the Standards existed in countries where corruption is a major issue for projects within the construction industry the question would become how could a company without the accreditation compete in a public or even private tender with others that have achieved accreditation to the Standards.

Additionally, why would a credible and ethical organisation want to supply services to a client that has not achieved the corruption prevention Standards accreditation?

Also major companies and government authorities are likely to welcome the opportunity to accredit to such a Standard as it is a proactive and public step in addressing corruption.

These public and proactive steps, being something highly desirable within the community especially in developing nations.

Once major companies or government authorities seek and gain the accreditation the need for it is self perpetuating throughout the entire industry sector – just as is the case with ISO9000.

Accreditation to the Standards and tools would be accompanied by the right to use the logo and symbolism of the International Organisation that has been created to develop the Standards and tools.

This logo could then be used on company or government project promotional material as a way of stating that the organisation is internationally recognised and third-party audited as having systems and tools in place to not only monitor but also prevent corruption.

The higher the visibility and profile of the Standard and the more that it appears in tender documents as a requirement of respondents, - the greater the uptake and popularity of the Standards will be. Until such a time that accreditation is expected and perpetuated throughout the industry by the industry itself, it will be impossible to fight endemic corruption on a large scale that is tacitly supported by commercial realities and cultural norms.

Timing

The business plan seeks to address the issue of timing by providing an estimate of 2 years as guidance for Stage 1 which would include the establishment of:

- An international corruption prevention organisation to develop the standard
- The terms of reference for that organisation
- Adequate funding for the operation of the organisation
- A management and advisory group for the organisation
- The stakeholder engagement strategy for that organisation
- The systems and procedures to create the Standards
- The systems and procedures to create the tools
- All necessary documentation and promotional materials
- A website and communication protocols

Stage 2 would last 3 years and include:

- Identification of a target region for implementation
- Identification, training and accreditation of auditing bodies to carry out certification activities within the target region
- Targeting of large international or local contractors operating in that region and promotion of the accreditation process to them
- Targeting large sponsors of major construction projects in government and private sectors to promote the Standard
- Establish accreditation as mandatory for World Bank and other Development Bank sponsored projects

Stage 3 would be an ongoing activity which included:

- Promotion of the accreditation internationally
- Selection of the next region to focus on
- Partnerships with international organisations capable of conducting certification audits
- Continuous improvement of the Standards and Tools with the use of feedback

Stakeholder Challenges

With any new innovation or idea there are always challenges, delays and roadblocks. The creation of corruption prevention Standards and tools has the benefit of being able to be modelled on an existing organisation, distribution network and promotion strategy that has been extremely successful in both developed and developing countries.

The major stakeholders in the implementation of this innovation would be:

- The International Organisation created for the purpose of developing the Standards
- Governments – political and departments
- Other development banks and organisations funding major projects
- Local and international corruption prevention agencies
- Third-party Certification bodies
- Employees of construction companies
- Employees of engineering firms
- Suppliers of construction materials

The major challenge is overcoming the blockages of those that are in positions currently benefiting from corruption.

High risk stakeholders include procurement managers, project directors (on client and supplier side) and those with political influence or approval authority over the projects.

Other major inhibitors to success include the lack of enforcement and punishment for those found to be involved in corruption.

Often individuals are not prosecuted as the company or government authority does not wish to risk embarrassment.

The corruption of the Standard itself is an issue if Third-part certification bodies are compromised by their clients.

However, the very structure of the Standard and its connection and promotion by the industry does go a long way to assisting in dealing with stakeholder issues.

Because the Standard is industry wide rather than being company specific and also has a commercial advantage and imperative linked to its brand and symbol - organisations and individuals are encouraged to follow corruption prevention measures or risk losing their accreditation and significantly damaging their commercial and public position.

A challenge stakeholders may face is the speed that the accreditation is taken-up by the industry. The rate of uptake could be encouraged by initially making the accreditation a desirable criteria in tender documents and then eventually a mandatory criteria as critical mass was reached in a market of industry.

The proposed Standards and tools and the methodology behind them are based on existing, proven and successful systems that with some innovation could not only provide a way of monitoring entire industries, but also would be promoted and championed

within the companies and government authorities where implemented.

Combined with the commercial impacts of a establishing a must have brand, stakeholders would have little choice but to buy-in and adopt this Standard just as they have done with ISO9000.

This proposal has the potential to create an entire paradigm shift through industries and communities.

Author Bio

Christian Gillies has worked in senior positions in the construction and engineering sector for over a decade. He has had experience in large scale, high value construction projects including Public Private Partnerships. He has worked in construction and engineering in both Australia and Asia having lived in Hong Kong and Sydney. He currently works as a manager in the Major Projects Group of a large Australian based international construction company operating throughout Asia.

Taking a passionate interest in the prevention of corruption - he sees endemic corruption as the major growth inhibitor of developing countries and as having a direct and lasting negative impact on standards of living within communities.
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