

**International business and the return on integrity**

**by Robert Wilson**

Chairman, Mr. President, distinguished delegates, am honoured to share this important platform with so many highly eminent speakers.

The subject I have been asked to address is “international business and the return on integrity.” Whilst my perspective is of course that of a businessman, it is important from the outset to make the point that business is not somehow separate from the rest of society. It is an integral part of civil society. We in Rio Tinto and other companies like ours have a vital interest in the health of wider society - social, economic, environmental and moral.

And because we are an integral part of society, we also recognise that our activities can affect the community, for good or ill, and we must therefore try to maximise the contribution we make and mitigate any damaging effects. Pulling it simply, we should be good neighbours and citizens.

Nowhere is good corporate practice more important than the developing world. Today around 5/6 of investment in developing countries comes from the private sector. The standard of behaviour of the companies making these investments is therefore a matter of considerable importance.

For too long, and in too many countries - both in developed and developing parts of the world corruption has been an accepted way of life. It has too often been part and parcel of doing business between the private and public sectors and sometimes within the private sector.

Corruption thrives like a weed, all too easily strangling the honest enterprise. With one payment, it becomes a constant shadowy presence, like the Mafia at the door of a Chicago restaurant in the twenties.

Rio Tinto is a mining company and the mining industry certainly cannot claim a clear record historically when it comes to corruption. So I will explain our policy, how we seek to enforce it and why we think it is in our best interests - even though this on occasion cost us business opportunities.

Perhaps I should first say a little about Rio Tinto. I know that our Chairman today, from his previous portfolio of Mineral and Energy Affairs, knows us well, but for many of you, Rio Tinto is a new name.

Rio Tinto is an international mining group, headquartered in London, but with virtually all of its operations outside Britain. We operate all over the world and produce a wide range of minerals and metals. We employ about 3500 people at

- the Palabora copper mine in the Northern Province of South Africa Richards Bay mineral sands business here in Kwazulu-Natal,
- Rossing Uranium in Namibia; and,
- Rio Tinto Zimbabwe which produces gold and nickel.

Rio Tinto has a statement of business practice called “The way we work.” It is intended to provide guidance to our management around the world — and we have major operations in every continent. It is more ambitious than most such statements and covers a wide range of important issues such as the environment, safety, community relations, indigenous land rights and human rights. It also contains a number of clauses on the subject of corruption. Let me quote:

- Honesty, integrity and fairness are essential to the way in which Rio Tinto conducts its business.
- The direct or indirect offer, payment, soliciting or acceptance of bribes is not permitted.
- Group companies do not participate in party politics and do not make payments to political parties.

There are common themes that run throughout our statement of business practice. Whether dealing with health, safety, the environment, community relations or corruption we want to develop relationships based on partnership, mutual respect and transparency. There are, of course, always areas of ambiguity about how a manager should behave in certain situations. In a company with operations spread around the globe, most decisions are taken at local level and knowing how to act is not always straightforward. However, corruption is not one of these grey areas; we have a simple, clear and unambiguous rule.

These rules about corruption and integrity must, however, be seen in the context of the wider issue of social responsibility. Many of the world’s leading companies, Rio Tinto amongst them, are trying to raise their game in terms of corporate social responsibility. There are some very clear differences between companies in the way they engage with host communities.

Let me take a hypothetical case, but many of you here will recognise the ingredients. Company A is an overseas investor that neither thinks nor cares too much about its host community. It uses expatriates in all skilled positions, offers only minimal basic training for local employees, pays no more than minimum local labour rates; it imports materials without looking for local suppliers. It does not use local contractors and so on. It makes little if any contribution to local social infrastructure needs. If bribes are called for, it pays them. It probably meets local environmental requirements but only if they are enforced by government and it certainly does not seek to outperform the law. In other words Company A has neither the intention nor ambition to become an integral part of local society. It is simply there for a project and will abide with its legal obligations. But when the project has been completed, the company is off.

Company B is a moderniser and takes a very different approach. It aims to become a part of local society and to engage with it in a spirit of partnership. Education and training of local employees is integral to its way of doing business. It tries to enhance local skills, capacity and infrastructure so that local economic development is given a sustainable impetus and, importantly in the case of an industry such as mining, it seeks to leave behind, when operations end, a community which is capable of thriving after it has gone.

Company B may face some difficult challenges. These may be environmental issues or social issues and sometimes trade-off decisions that have to be made. Mining companies

around the world are aware of the honey pot effect of new developments, which can attract large numbers of people seeking work but that movement of itself can aggravate both environmental and social problems. Companies cannot solve these problems alone which is why modernisers, such as Company B, look for partnership with governments, with IGOs and NGOs and local communities to try to address the issues. You will not be surprised that I identify Rio Tinto with Company B. And I hope that delegates here who are familiar with our businesses in Southern Africa will have seen this philosophy being put into practice.

## 1. **The effects of corruption on society.**

Having discussed our policy on corruption and how that fits into the wider question of our social responsibilities, I would like to say a few words about the impact of corruption on society. Let me quote from a speech by a British statesman. Edmund Burke over 200 years ago:

“Corrupt influence’ he said “is the perennial spring of all prodigality and all disorder. It loads us more than millions of debt. It takes away vigour from our arms, wisdom from our councils, and every shadow of authority and credit from the most venerable parts of our constitution.”

Words well spoken and what a pity that they still seem so relevant more than two centuries later. But let’s come back to the end of the 20th century and some measure of the impact of corruption on society.

Work by the World Bank spells out the consequences. Its 1997 World Development Report contained an analysis based on a survey of private-sector investors across a range of countries. This revealed a clear negative correlation between levels of corruption (as perceived by investors) and levels of investment.

Stable societies, successful businesses and open markets have three requirements in common. They need a predictable framework of law enforced by an impartial judiciary, a free flow of information and, more intangibly, social relationships of mutual trust. Corruption eats away at each of these leading to unpredictability, dark secrets and general suspicion.

By allowing corruption to thrive, countries forego investment and the jobs, export and tax revenues that come with it. Taking Rio Tinto as an example, our four businesses in Southern Africa generate over \$1 billion a year in turnover. In the past two years they have paid \$260 million in taxes and substantially more than that in local wages and services. We also make a contribution to the region through the enterprise we generate, the training, education and health services we provide and support in local communities. We are currently investing \$600 million in an underground project for Palabora and an upgrade of the mining operations at Richards Bay. For these investments we rely upon a stable framework of laws and on fair, transparent and incorrupt decision-making by governments, officials and courts.

## **2. Why corruption is bad for our business**

What makes me think that it is in Rio Tinto's business interest always to avoid corruption and bribery? Certainly — as the World Bank study showed — incorrupt countries are more attractive places to invest than corrupt ones.

This is particularly true for a mining company. Investments of the sort have just described last a long time and they are very capital intensive.

But what happens when Rio Tinto is operating in a country or region where corruption is widespread? Surely then, people argue, we have no alternative but pay bribes if we want to progress our business.

The truth is that if we were to give in to these sort of temptations we would likely damage our business in the long run. Once the door had been opened to corruption it would be difficult to resist further demands. As a wit once put it 'once you have paid the Danegeld, you never get rid of the Dane'.

Make no mistake, though. Honesty may be the best policy but it would be idle to pretend that it does not also carry a cost in terms of lost opportunities. But I believe strongly, as Chairman of a large company, that the long-term benefits of integrity, in other words, of avoiding of bribery, outweigh the value of these lost opportunities. And it is also my judgement that few of the best and brightest young people, our future leaders, would be willing to work for an employer of which they could not be proud.

## **3. Rio Tinto's internal controls**

So that is our thinking on why corruption is bad for our business. How do we put the theory into practice?

Anyone in Rio Tinto who engages in bribery faces instant dismissal. On the other hand, no employee would suffer in their careers if they lose business because they refuse to pay bribes.

We have systems of auditing, reporting and supervision which make corrupt payments very difficult to hide. But controls can only go so far and what is even more important is an anti-corruption culture. I believe this culture is strong in Rio Tinto and indeed my making these statements in public forum is an open invitation for any whistleblower either inside or outside the company to come forward with evidence of corrupt dealings by company officials.

What I am saying, too, is that double standards in today's small media-linked world are unsustainable.

The anti-corruption message is regularly reinforced from the top of the company. Copies of this speech, for example, will be distributed widely within Rio Tinto.

I have talked of lost business opportunities. I can think of recent examples in Africa, Asia and the Former Soviet Union. There was also one in Europe which is perhaps a sharp reminder that it is all too easy to think that corruption is a problem only in poorer

countries.

#### **4. What happens next?**

What would we like to see in terms of corporate governance and corruption?

One widely canvassed possibility is to codify corporate responsibility on a universal basis. I do not particularly object to the notion but nor would I expect it to achieve very much. It would either adopt the lowest common denominator and be excessively bland or it would be too prescriptive and therefore be incapable of implementation across cultures.

My preference would be to see more and more companies adopt their own codes of business practice, that these should include statements about bribery and corruption and that companies should then be seen to live up to their own stated standards.

This is as much a question of leadership and culture as it is of written rules and I think that this is an important lesson which the private sector can share with the public sector in trying to defeat corruption. It is not just what you say but what you do. I have issued an invitation to anyone who knows of corruption within my company to come forward and I take personal responsibility for seeing that the rules of conduct which I have described today are followed.

Perhaps we need more of that in other institutions of civil society; clear, transparent rules and a commitment to deal with corruption swiftly and unambiguously, wherever it is discovered.

There is room too for greater regulation. On the international level, it is encouraging that this year the OECD convention on combating bribery came into force. Signatories to the convention will be obliged to establish national laws outlawing bribery of foreign public officials and to impose severe penalties on those who bribe. The OECD convention is, I note, also open to signatories from non-OECD countries.

The twenty-first century will, I am sure, see many more bridges built between those who have hitherto lived in parallel but separate universes. I have said that I would like to see an alliance of all those committed to stamping out corruption.

But on the larger and related issue of global and local sustainable development too there is much scope for practical partnership between industry, IGOs and NGOs, local communities and government at all levels. If we can break down some of our traditional stereotypes of each other, the scope for responsible partnerships is considerable, and the benefits for the society we share might really make a difference to the lives of our fellow-citizens.