

Building Islands of Integrity: Companies' Individual and Collective Approaches to Minimizing the Risk of Corruption

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WHEN IT CAME TO corruption, 2010 was not a good year for multinationals in Russia. While Russia dropped a few more places on the Transparency International Corruption Perception Index, U.S. regulators intensified their implementation of the Foreign Corrupt Practices Act (FCPA), gaining some of the biggest settlements in that legislation's history.

Clearly, multinationals are caught between a rock and a hard place: There are tougher rules, more liability, bigger penalties at home; more red tape, weaker rule of law, and more corruption in Russia. Nowhere are the differences more pronounced between the high ethical aspirations of U.S. law, governance, and management, and the realities on the ground. It's a minefield for companies, and the crop of FCPA settlements of 2010 showed that even otherwise respectable firms, with strong ethics codes and compliance procedures, were not immune to corruption.

There are many challenges for investors in Russia, but arguably the first and foremost is how to create, within their own companies, an "island of integrity" — a corporate culture that is truly intolerant of corruption, despite being located in a society where corruption is all around. The second, related challenge is to spread that experience beyond the confines of the company, as it were, to push back the sea of corruption by joining

up the islands of integrity until they become the mainland. For it is only when an understanding that the costs of corruption outweigh the benefits has begun to permeate throughout the business community that the risks of corruption can be truly minimized. Any leader of a multinational company, charged with delivering profitable growth in Russia while protecting his or her company's underlying values and reputation, will need to address the twin issues of building a corporate culture and a market culture. As I hope to show in this article, leaders of AmCham member companies can make a significant contribution to this process.

There is no doubt that a company's technical ability to deter, detect, prevent, or punish forms a large part of creating the corporate culture with which employees will ultimately identify and which will guide their behavior. Some of the biggest multinationals have developed increasingly sophisticated systems to deter corrupt practices. Many of these procedures have been developed in corporate headquarters, based on experience in other countries where corruption is no less of a problem, and using state-of-the-art technology, auditing, and legal techniques. Most large companies have a code

of conduct that employees have to sign, often on an annual basis, and that is accompanied by a pep talk by the CEO, legal counsel, or HR director. The educational side can be quite extensive — on-line or off-line presentations, seminars, and workshops are the traditional vehicles for raising the employee level of consciousness about the personal and corporate risks of corruption.

But let us look at the gulf between most employees' starting point on matters of ethical behavior, and the end point of where corporate culture needs to be in order to be immune to corruption.

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| Association of Certified Fraud Examiners www.acfe-rus.org | Russian branch of ACFE providing training and consulting to its members |
| Association of Independent Directors www.nand.ru | Supports its members in developing good corporate governance at board and management level |
| Fraud Forum www.pwc.ru/ru/fraud-forum | On-line network for managers involved in fighting corporate fraud |
| International Business Leaders Forum Russia www.iblf.ru | Local branch of international business-led association promoting responsible practices in Russian business |
| International Compliance Association Russia www.int-comp.org/russia-home | Runs training programs for compliance managers leading to a diploma qualification |
| Institute of Internal Auditors www.iaa-ru.ru/about | Network of Internal Auditors throughout Russia |
| The Center for Business Ethics and Corporate Governance www.ethicsrussia.org | A Russian non-profit providing training and advice to companies seeking to introduce codes of conduct and compliance systems |
| Transparency International Russia www.transparency.org.ru | Web-site of the global anti-corruption campaigner's local chapter |

Upon leaving the corporate island of integrity at the end of the working day, every employee will start a daily battle in a totally different world. Even getting home without paying the traffic police a bribe for a minor infringement is beyond most peoples' ability. But there are bigger fights: getting the right grades for the kids at school, ensuring your daughter's place at college, securing an operation for your elderly father, getting electricity connected to your dacha. All around, bribery, petty and not so petty theft, there are conflicts of interest. It is no wonder that corporate ethical programs are often met at best with giggles of incredulity, followed by a sigh of cynical resignation, at worst by sullen silence. Underlying that reaction is a deep-rooted belief that corruption is a way of life in Russia, and that attempts to change it or isolate it are doomed from the start. If that attitude is indeed held by employees, then the risk of in-house corruption remains high, since they will not have been convinced by the compliance program's viability.

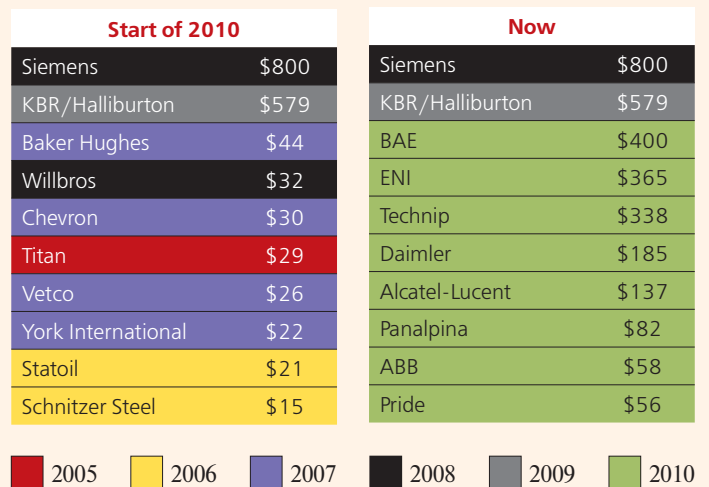
Even within the company, employees will be bewildered by a plethora of conflicting situations. On one hand, big corporations strive to reach ambitious quarterly growth targets and pay their employees sizeable performance bonuses accordingly, while at the same time taking the high ground against corrupt practices, stating that "we are ready to turn down business," or "just say no." How is a sales manager to avoid being conflicted in a case where a company's probity works directly against his or her own personal financial interests? Other questions arise daily in the workplace. How do you make whistleblowing – the staple workhorse of any compliance system – function in a country where trust is in short supply and where the collective subconscious memory of Stalin's Terror is still alive? How do you ensure that new recruits arrive with at least a basic understanding of compliance, or do you have to train them from scratch? How do employees brought up in a top-down, rules-based

management culture suddenly adapt to a principles-based culture where responsibility and empowerment are pushed down to every level of the organization?

If these questions remain complex in multinationals, they are almost insurmountable within native Russian companies, which have neither the benefits of years of managing compliance in diverse countries, nor the support of advanced in-house legal and audit functions, nor a culture of trust cultivated over decades. Many leaders do not believe that it is in their interests to alter their traditional top-down management structures or sign up to anti-corruption pacts or industry integrity initiatives. Only a small number of the leading Russian companies have codes of conduct, and those are the ones with a substantial presence abroad. Of these, only a very few are supported by a fully functional compliance system. Often it looks more like a foreign management system transplanted onto an existing and unchanged management process for the sake of window-dressing.

These are the questions that business leaders have to address in managing their operations in Russia, and there are no simple answers. Indeed, the key difference between a purely formalistic system of ticking boxes, making rhetorical declarations, and paying lip-service, and a culture that really devolves responsibility onto the individual employee for maintaining corporate standards, may depend ultimately on the quality of leadership. Often in discussions about compliance, the phrase "setting the tone from the top" is used. It sounds great, especially the alliteration, but what does it actually mean for leaders? Showing by example is part of it, but surely that is not enough. In IBLF's experience of talking to leaders about corporate culture, it's a far more hands-on process of the leader constructing, in consultation with the workforce, the whole package of ethical, management, and performance values that encapsulate

Top 10 FCPA Settlements (millions of dollars)



Source: Paul McNulty, Baker & McKenzie.

the company's brand and identity, communicating it not just through line managers, but directly, and with personal commitment to spreading the word beyond the immediate confines of the company into the broader market.

IBLF provides a unique platform that enables the executives who influence corporate behavior to exchange best practices on some of the most complex management issues of our day. For example, we bring together top business leaders to explore their role and responsibilities in setting the "tone from the top" and creating a healthy corporate culture. At biannual forums, co-organized with PwC and the Association of Independent Directors, we assemble board members of major Russian companies to share their experience in improving corporate governance. We arrange occasional informal meetings for the top five leaders of two companies from different industries to share best practices in corporate management and workshops for senior managers responsible for setting and safeguarding the corporate rules: compliance officers, legal counsels, internal auditors, company secretaries, and human resource directors.

The sharing of best practices is important because it provides new ways of addressing and resolving hitherto quite intractable issues, and it pro-

vides Russian executives with the opportunity to understand that there are alternative ways of doing business to the traditional approach. In the longer-term it will have an impact on reducing corruption by contributing to a broader change of culture in the market.

There are also opportunities for AmCham members to have a shorter-term impact in reframing the market culture, by engaging in what is known as "collective action". This is when market leaders in specific industries come together in their respective industrial sectors to squeeze corruption out. There are many approaches which have been tried successfully in other countries, from sectorial codes of conduct to integrity pacts in public tenders. These all rely on the leading companies establishing and agreeing the ethical rules of the game in a single market or around a particular public tender, and involving the government at a sufficiently senior level. Third-party NGOs can be invited to monitor or supervise.

Another area where AmCham members can engage in collective action is in helping raise the awareness of the new generation of business leaders about ethical matters. With their wealth of experience, AmCham members can contribute a massive amount to these new collective approaches to reducing corruption. ■