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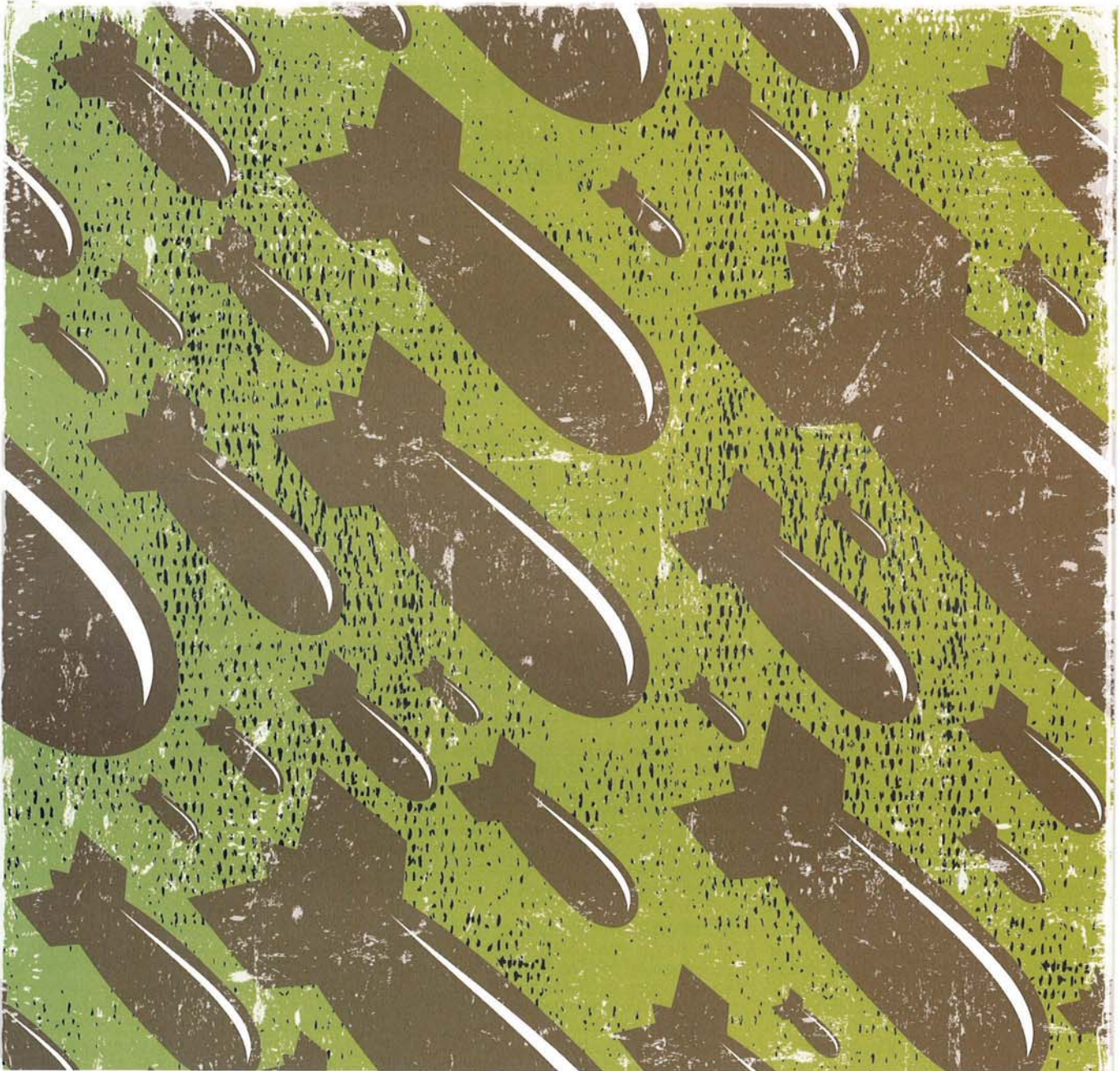
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THE ANTI-CORRUPTION ISSUE

GLOBAL INSIGHT FOR PRIVATE AND PUBLIC SECTOR PRACTITIONERS



BEYOND COMPANY COMPLIANCE

Collective Action Against Corruption

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Q This article contains information regarding the following topics: **MANAGEMENT + WORKFLOW + STRATEGY** |



Reducing opportunities for corruption in emerging markets is no easy feat. Over the past decade, the number of programs, guidelines, rules, and procedures to avoid bribery implemented by major multinational corporations engaged in emerging markets has grown exponentially. However, companies increasingly come to the realization that they can have only a limited success in safeguarding against bribery on their own.

If the country itself is corrupt, if local competitors continue to use corruption as a means of doing business, if the government chooses selective enforcement of laws and regulations over the rule of law, if public officials are allowed infinite discretion, a tough stance against corruption by an individual company may only accomplish so much. Creating an oasis of transparency within a generally corrupt environment is an uphill battle.

Ikea's experience in Russia is a perfect example. The company has taken many steps; it has put numerous procedures in place to avoid bribery in its dealings with the Russian authorities. Yet, for every step that Ikea has taken, corruption has had its answer. When local authorities demanded bribes for electricity supply, Ikea decided to install generators and take care of the electricity problem on its own. Yet, local managers arranged a kickback scheme with the company supplying the generators. Private to private corruption filled in the gap where the company tried to stand up to public sector extortion. Things have gotten so bad that Ikea has put its regional expansion plans on hold, denying itself vast market opportunities and denying Russia much needed investment.

What the Ikea experience shows – just as the experience of many other companies around the world – is that compliance is a necessary, yet not a sufficient, component of fighting corruption. Compliance can be especially helpful in dealing with small scale corruption – whether its avoiding bribes when getting a license, or moving goods through the customs, or dealing with road police. But if corruption is systemic, rather than incidental, it will continue to find ways to seep through the barriers and undermine business. In dealing with systemic corruption, something else is needed.

We hear about this every time we travel around the world – whether it's a major emerging market like Russia, a highly corrupt country like Nigeria, a smaller developing country like Lebanon, or one of the Asian tigers – Thailand. Local companies, not just multinationals, continue to complain about high levels of corruption in their country, noting that the greatest challenge lies in getting everyone else to play by the rules. "If my company adopts a tough stance against corruption," company managers and executives complain, "and others don't – they will simply put me out of business." Siemens has faced this problem as it has reformed its practices after the recent scandals – how do you get other companies in the industry to play by the rules?

We are increasingly seeing that multinationals subject to the OECD anti-bribery convention and strong laws in their home countries are at a competitive disadvantage against companies from countries that don't enforce these standards. But,

interestingly enough, it works in the opposite direction – corrupt companies are also finding out that they are at a competitive disadvantage.

Emerging multinationals from other parts of the world – whether it's Russia, China, India, or Brazil – are increasingly dealing with corruption as a competitiveness issue. The 2008 Bribe Payers Index compiled by Transparency International (TI) identified companies from those countries as most likely to pay bribes when working abroad (coincidentally, those same countries are perceived as some of the most corrupt in the world as ranked by TI's Corruption Perceptions Index). Such a strategy may work in countries with high levels of corruption, yet, as multinationals from BRICs are expanding into the OECD markets they are finding out that corruption is not the name of the game – they too need to be competitive to succeed.

So, what is the answer? How do you deal with corruption? How do you bring different companies to address the common problem of corruption? The emerging consensus is that in dealing with systemic corruption the private sector needs to figure out how to tackle the root sources of the problem.

Consider a typical procurement transaction. A company can seek to put all the necessary procedures into place to make sure its employees don't engage in corruption, whether at the bidding or the implementation stage. Yet, it can also take the necessary steps and seek to reform the system to ensure that the procurement process itself is transparent. Same logic applies to other business transactions where corruption is typically a problem. In the case of dealing with clearing your goods through the customs, a company can ensure that its employees don't pay bribes or reform the customs systems and procedures to reduce the discretion of individual customs officers or inject transparency in individual transactions.

In other words, corruption is not a problem of individual transactions. Its an institutional problem of conflicting and complex laws, lack of rule of law, unclear responsibilities, infinite discretion, and general opaqueness in the system. To go after corruption requires going after these institutional problems.

In getting at the root source of the corruption problem, collective action is key. Companies can't undertake this task alone, especially if we talk about multinationals in emerging markets. What we've learned over the years is that business associations are one of the solutions to the collective action problem.

Multinationals routinely engage in public policy reform issues in their home countries through business associations and chambers of commerce. These civil soci-

ety organizations exist to represent business interests and give them a voice in policy-making, ensuring that reforms take into the account the views and opinions of the private sector.

Why not support the same model in emerging markets? In fact, we have seen local chambers and associations become an effective anti-corruption tool. In Colombia, the Colombian Confederation of Chambers of Commerce (Confecamaras) has led a private sector initiative to reform the national procurement law, effectively increasing transparency of the bidding process. Representatives of the business community, through associations and chambers, combined their forces with a think tank in Serbia to reform the national Customs Administration, streamlining and automating its procedures to reduce corruption opportunities.

In Russia, business associations and chambers of commerce representing more than 20,000 firms and tens of thousands of individual entrepreneurs throughout the country are leading an effort to close legal and regulatory loopholes that provide opportunities to local public officials to extort bribes. In Indonesia, a private sector coalition is working to increase ethical and governance standards within local firms with a goal of raising the quality of their practices to the global ones.

The reality is that not all business in emerging markets is corrupt. There are those who desire an open and competitive system in which they can thrive. Creating such a system should be an ultimate goal of any anti-corruption campaign. Although you don't build it overnight, it is possible to push for reform and reduce opportunities for corruption.

Many multinational corporations have made tremendous strides in establishing rules and procedures to make sure their conduct is in compliance with their internal standards, their home country regulations, and major international conventions and rules. Important in its own right, this is not enough. Compliance programs must be complemented by efforts to address corruption as a systemic problem in emerging markets through collective action and programs that level the playing field and improve the overall business climate.

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