



# **IMPLEMENTING ETHICS STANDARDS THROUGH MULTINATIONAL SUPPLY CHAINS: A PROPOSAL FOR A RUSSIAN CERTIFICATION MODEL**

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**BACKGROUND  
AND  
IMPLEMENTATION ISSUES**

# RECENT CHANGES TO MULTINATIONALS' LEGAL LIABILITY

*The American Foreign Corrupt  
Practices Act*

*and the UK Bribery Act*



*hold multinationals responsible for  
corruption not only by their  
employees but also by their  
contractors/vendors/ agents.*

# IN THEORY.....

*Vendor Audited by  
Multiple Clients*



*Client Audits  
Multiple Vendors*



# IN PRACTICE...

## *ETHICS CLAUSES IN CONTRACTS*



# PROPOSAL:

## 1. Implement business ethics through multinational supply chains



# PROPOSAL:

## 2. Use ISO9000 Quality Standards as a model



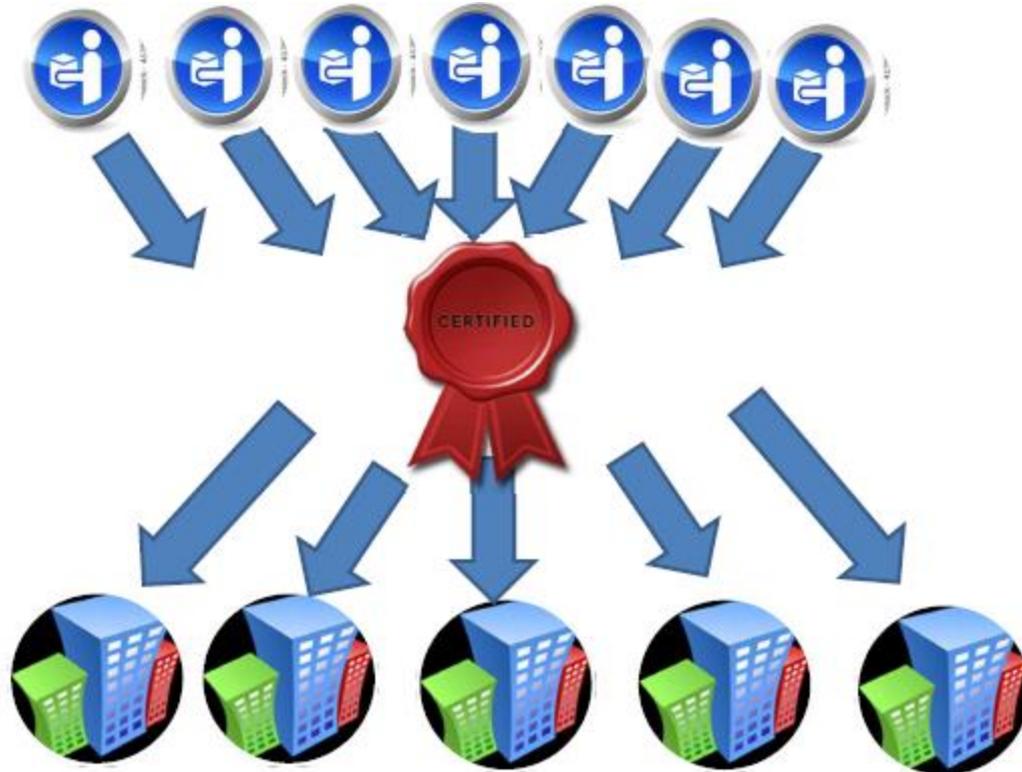
- Standards set by industry experts
- Voluntary, market-driven certification

### Incentives:

- *Multinationals reduce FCPA and UKBA liability (“mitigating circumstances”)*
- *Russian vendors improve business opportunities*

# PROPOSAL:

## 3. Create efficiency through standardization and centralization of information



# CRITICAL SUCCESS FACTORS

- **Measurement of “critical few”**

*NOTE: This is not intended to be comprehensive due diligence. It is a minimum standard.*

- **“Mitigating factor” standard**
- **Reasonable cost**
- **Credible certification providers**
- **Competent rule-making infrastructure**

- **INTERNATIONAL AND RUSSIAN LEGAL REQUIREMENTS**
- **IMPLEMENTATION EXPERIENCE IN OTHER EMERGING ECONOMIES**

**drawing from ....**

- **United States Department of Justice *Guidance on the Best Practices of a Corporate Compliance Program***
- **Department of Justice/Securities Exchange Commission *Resource Guide to the U.S. Foreign Corrupt Practices Act***
- **United Kingdom Ministry of Justice *Guidance to Help Commercial Organisations Avoid Bribery***
- **Experience of Asociación Panameña de Ejecutivos de Empresa and others**

# **Russian Federal Law no. 273 “On Countering Corruption”**

## **amended by Article 13.3, “The Obligation of Organizations to Undertake Anti-Corruption Measures”**

**Clause 1 imposes an affirmative duty on business organizations to create an effective anticorruption program**

**Clause 2 provides six *suggestions*:**

- **Identifying departments and officers who will be responsible for the company’s compliance;**
- **Cooperating with law enforcement agencies;**
- **Developing and implementing anti-corruption standards and procedures;**
- **Adopting a code of professional ethics and conduct;**
- **Preventing and resolving conflicts of interest; and**
- **Preventing the creation and use of false documents**

# Effective programs in other jurisdictions

- **assess risk**
  - particularly important in high risk industries or regions**
  - must include related parties such as suppliers and distributors**
- **develop a very clear program that addresses risk**
  - proportionate**
  - probably a written code of conduct**
  - it must address issues that are most difficult:**
    - gifts, entertainment, travel, extortion**
- **implement in a meaningful way**
  - communicate clearly**
  - training and continued training**
- **senior management must show that it is serious**
  - “tone at the top”**

# Effective programs in other jurisdictions (continued)

- **structure**
  - person or persons responsible for controlling corruption**
  - mechanism for asking questions**
  - mechanism for reporting violations**
  - very clear procedure for dealing with violations**
- **due diligence**
  - business organizations change**
  - new relationships (suppliers, distributors, partners, more)**
  - new industries or regions**
- **auditing and third party certification**
  - B20 Anti-Corruption Working Group recommendation:**  
*"We recommend that, from 2013, B20 companies and business organizations should regularly exchange best practices in devising training for SMEs in their supply chains."*

# **An effective program does not resolve the underlying issues**

- **collective action**
  - B20**
  - Russian Energy Compliance Alliance**
  - Center for Business Ethics and Corporate Governance**
- **clear articulation of community norms and standards**
- **assurances regarding behaviors of other business organizations**

thank you very much

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**DESCRIPTION OF  
TRACE  
AND CREATE  
CERTIFICATION MODELS**



# COMPLIANCE CERTIFICATION FEATURES

- Compliance criteria
- Self-evaluation
- Independent Audit
- Review of external sources  
(legal records, media, etc.)
- System Improvement
- Training



# COMPLIANCE CRITERIA



## *Categories:*

- Policies, Procedures & Records
- Anti-Corruption Compliance Team
- Scope & Quality of Risk Assessment
- Management of Supply Chain
- Training & Capacity Building
- Monitoring & Measurement
- Corrective Actions & Improvements

## *Ratings:*

**5 = Mature system covering all issues, focused on continual improvement**

**4= Well developed systems, focus on downstream partners**

**3 = Systems approach; inconsistent implementation and monitoring**

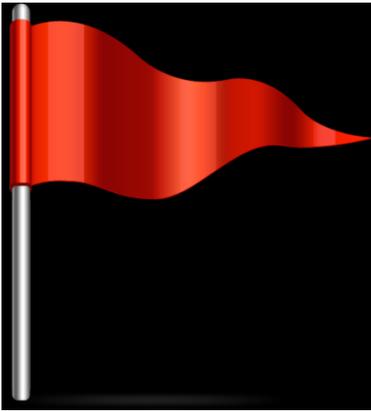
**2 = Limited, reactive systems**

**1 = Little or no awareness or repeatable processes**

# INDEPENDENT AUDIT

- **Review of policies, systems, procedures, reports  
(see “Compliance Criteria”)**
- **Interviews with key employees**
- **Review of company documents and external sources**
- **“Red flag” analysis**





# RED FLAGS

- **Suspicious payments**
- **Potential conflict of interest  
re: government relationships**
- **Unclear or suspicious ownership**
- **Suspicious vendor credentials**
  - **Reputational problems**

# SOURCES OF INFORMATION

- Self evaluation questionnaire
- Interviews
- Surveys (employees, customers)
- True, beneficial ownership
- Company literature
- Employee Code of Conduct
- Business registrations
- CVs for owners, directors, and key employees, including compliance team
- Current or former government ties
- Financial references
- Contact information for three business references
- Reputational Screening (continually updated)
  - media,
  - denied parties/politically exposed persons,
  - international sanctions and enforcement lists,
  - internet based searches of the intermediary, together with its owners, directors and key employees

# SYSTEM IMPROVEMENT

- Benchmarking against other company scores
- Report analyzing problem areas and recommendations for improvement



# TRAINING



- Scenario-based
- Case studies
- Quizzes
- Interactive/online
- Workshops

# PRICING



## *Paid by vendor*

- ~ \$3000 for initial certification (1 year)
- ~ \$1500 for annual re-certification

## *Paid by client*

- Fee to access information

# **PANEL DISCUSSION: NEXT STEPS**

***Moderator Oleg Babinov, Risk Advisory Group***

***(Director, Russia, Eastern Europe and Eurasia Practice)***

***Ilur Akhmetsin, ABB (Chief Integrity Officer)***

***Gerard Uijtendaal, Uijtendaal International Accountants and  
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***Inga Saltykova, General Electric (Chief Compliance Officer for  
Russia and CIS)***

***Brian Zimble, Morgan Lewis law firm (Managing Partner-  
Russia)***

***Andrey Nikomarov, Pfizer (Compliance Manager)***

***Larisa Potopova, Siemens (Compliance Officer)***

# PROPOSED PRINCIPLES

- Don't reinvent the wheel
- Look for “low hanging fruit”



# PRIORITIZATION

		IMPLEMENTATION DIFFICULTY (time, cost)	
		LOW	HIGH
IMPACT	LOW	#2	XX
	HIGH	#1	#3

# What organizations/ processes/ models are already available?

**Examples: audit practices, surveys, software, service providers, trade groups, similar initiatives**

- Certification providers for companies (TRACE, CREATE, Red Flag Group, others)
- Certification providers for individual professionals (SCCE, ICA/ICS)
- Compliance organizations (Association of Certified Fraud Examiners, Moscow Compliance Club, Institute of Internal Auditors)
- Training systems (PRME, Giving Voice to Values)
- Software (SAP Government/Risk/Compliance model for Enterprise Resource Planning)

# QUESTIONS

- **How to recruit multinational leadership?  
compliance officers, procurement officers,  
senior management?**
- **How to approach Russian vendors?  
Require self-evaluations as first step?**
- **How to deal with State-owned companies?**
- **How to certify the certifiers?**

***If you and/or your organization  
are interested in participating,  
please contact us!!!***

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