



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



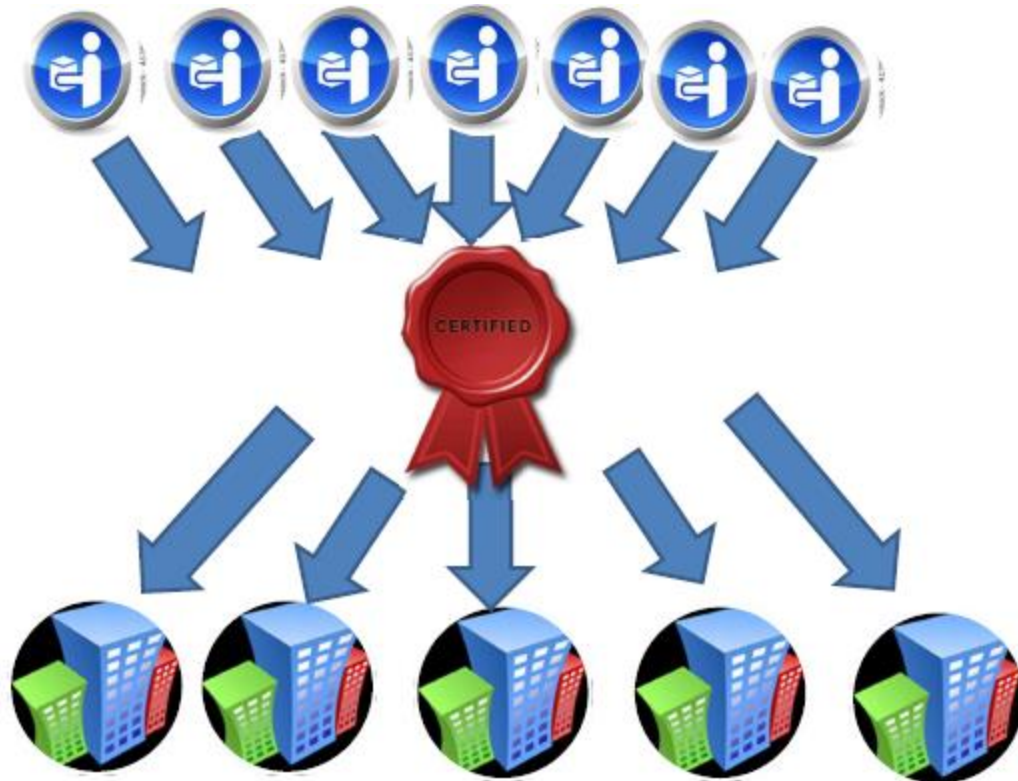
- **Standards set by industry experts**
- **Voluntary, market-driven certification**

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

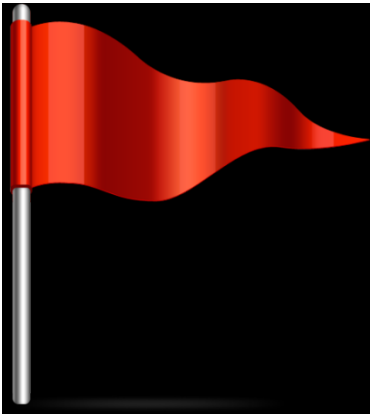
2 = Limited, reactive systems

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

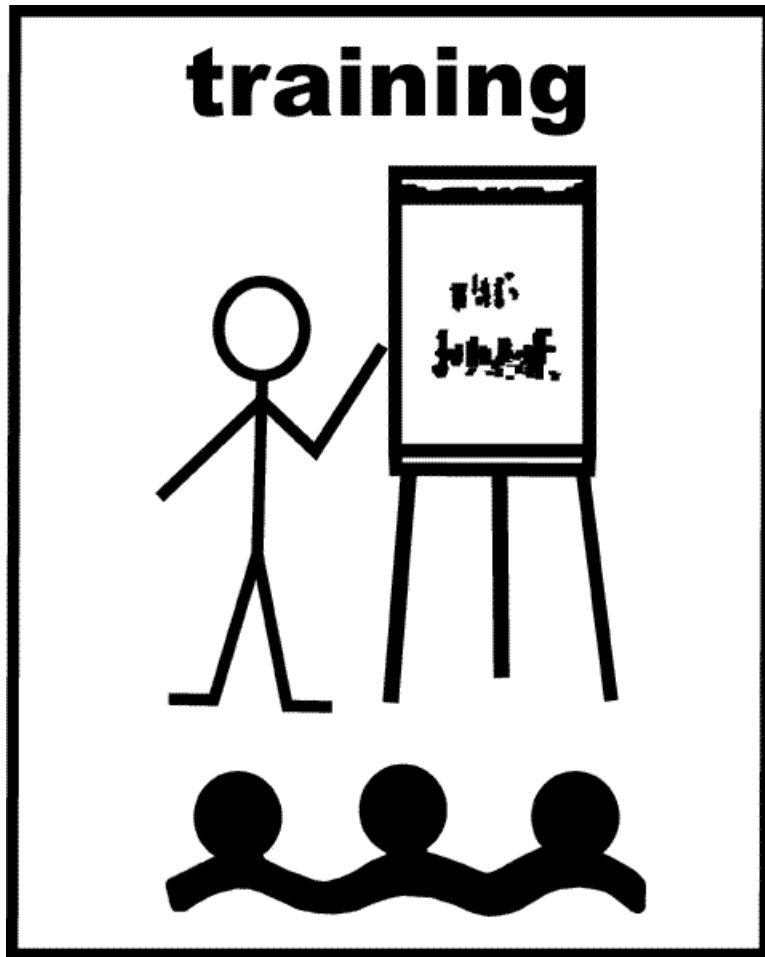
- Self evaluation questionnaire
- Interviews
- Surveys (employees, customers)
- True, beneficial ownership
- Company literature
- Employee Code of Conduct
- Business registrations
- CVs for owners, directors, and key employees, including compliance team
- Current or former government ties
- Financial 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

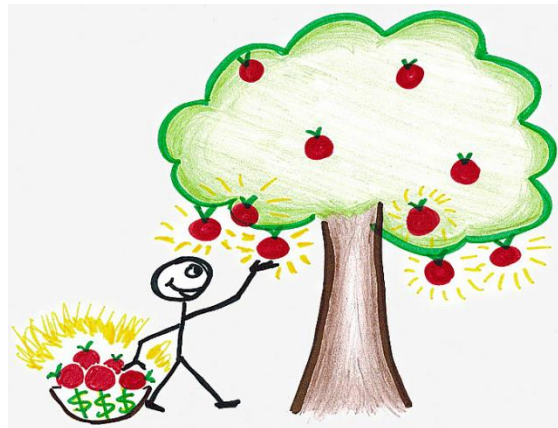
PANEL DISCUSSION: NEXT STEPS

Moderator Oleg Babinov, Risk Advisory Group
(Director, Russia, Eastern Europe and Eurasia Practice)

Ilсур Akhmetsin, ABB (Chief Integrity Officer)
***Gerard Uijtendaal, Uijtendaal International Accountants and
Advisors (CEO)***
***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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