

Global companies, global integrity

Strategies to promote ethical and legally compliant corporate cultures in multinational organizations

Companies operating in foreign countries find that understanding and complying with variant laws, managing employees far from headquarters, serving customers and relating to suppliers and partners in multiple jurisdictions can introduce significant challenges to developing shared corporate values and realizing a truly global culture.

Multinational companies are challenged with three key issues: how to foster a culture of ethical conduct in all countries of operation; how to engage a global workforce in understanding and adopting its corporate values; and how to meet the web of complex legal and compliance obligations that may exist in all its locations. While each of these issues can be examined independently, the solutions require a systematic, holistic approach that reflects a corporatewide commitment to responsible conduct.

Strategies to promote a global, unified corporate culture

How does a multinational company create a unified culture that adheres to a high level of business behavior in all global operations while respecting its local workforces and their traditions? Many companies have found the answer lies in following an approach that implements *global principles* based on corporate values, while allowing for *local policies* based on cultural traditions.

The advantages of this approach are multiple. On one hand, global principles reinforce the values the company seeks to promote in its corporate culture to instill universal standards of business conduct. On the other hand, local policies demonstrate respect for cultural differences among its global workforces.

Consider the issue of business gifts, for example. The company might establish the global principle that employees cannot accept gifts that appear to unduly influence business relationships, based on corporate values of integrity and honesty. In some locations, this may translate into a ban on gifts beyond those of *de minimus* value, but in other locations where business gifts are legal and customary as a sign of respect for customers, such as in Asia, the local policy would allow for gifts within culturally relevant guidelines that still respect the company's values. This distinction between global principles and local policies can be applied to many business practices throughout the company's operations.

Two elements are critical to balancing global principles and local policies: a corporatewide code of conduct with guiding principles and the involvement of local offices in developing local policies.

Create a corporatewide code of conduct with guiding principles

The clearest way to establish uniform principles is by crafting a strong values-based corporate code of conduct. Such a document spells out for all employees the fundamental principles that guide day-to-day interactions and decisions. Values are universally applicable, easy to remember and far more inspiring than a set of rules. To increase the relevancy of the code, it should be put into the local languages via culturally accurate, relevant translations. To reinforce a uniform global character, some companies publish their code of conduct as a single booklet with sections for each language of their workforce.

Get local offices involved in developing local policies

To demonstrate sensitivity to local traditions, companies should allow their international business units to supplement the companywide code of conduct with local policies as necessary. To develop these, the local business unit managers and people from various functional areas, such as human resources, legal, finance and audit, might become involved. Enlisting the support of these local functions is important in shaping acceptable policies and dispelling notions that people at the home office dictate standards of behavior without respecting cultural differences.

Strategies to engage global employees in ethics and compliance

Disseminating the company's principles and policies and achieving buy-in can happen only if the company inspires employees to feel as if they are owners and guardians of the company's values and culture. This task requires developing local leadership as well as engaging employees through education, communication and tools that equip them with the ethics and compliance knowledge and skills needed in their specific jobs. Recommendations for actively engaging global business units and local workforces include: establish a local presence; develop local ethics and compliance leadership; educate all employees; and build culturally responsive reporting systems.

Establish a local presence

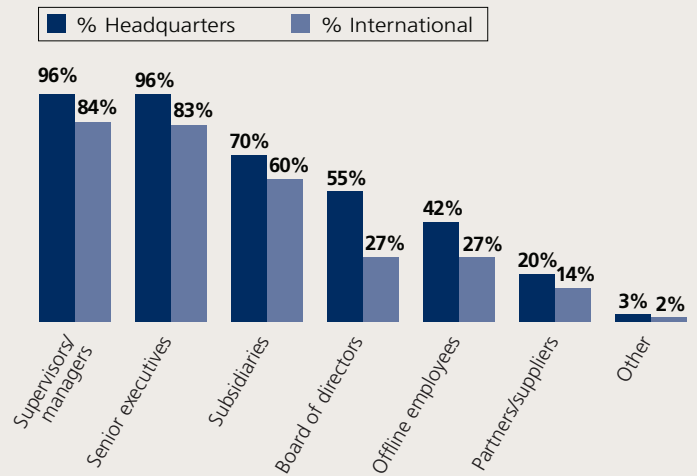
As much as possible, companies need to take a local approach when conveying the importance of ethics and compliance. This can best be accomplished by establishing a presence in each location, by either installing satellite ethics and compliance offices or "deputizing" local VPs or general managers to be in charge of the ethics and compliance initiatives in their locations. Some multinational companies form a corporate-wide ethics and compliance committee whose members are the heads of the global business units, each tasked with the ethics and compliance oversight in their location.

LRN research into global ethics and compliance challenges

According to the 2007 *LRN ethics and compliance risk management practices study*, companies with global operations faced more challenges in controlling and mitigating risk in their international locations than at their headquarters. Specific findings included:

- Companies rated themselves as performing better in headquarters than in their international locations. When asked about the accuracy of their risk management process, the average self-rating on a 10-point scale was 7.65 for headquarters versus 6.71 for their international operations. Similarly, when asked about the timeliness of their ability to manage ethics and compliance risk, the average self-rating for companies was 7.60 for headquarters versus 6.69 for their international operations.
- When asked about challenges of doing an ethics and compliance risk assessment, 34 percent of respondents identified “difficulty of doing a global assessment.”
- When it came to the reach of their ethics and compliance programs, 92 percent of companies operating in the United States said they were able to engage *all or most* of their employees in ethics and compliance education programs. By comparison, only 86 percent of companies with operations in Canada and Europe indicated that they reached all or most of their employees. The percentages further decreased in other areas of the world – only 70 percent of companies said they were able to bring their compliance programs to *all or most* of their local employees in their South American/ Caribbean, African or Middle East operations. And 25 percent of companies operating in South America/ Caribbean, Asia/Pacific, the Middle East and Africa indicated they were able to reach only *some* of their employees.
- Educating specific types of employees also varied greatly between headquarters and international locations. For example, while 96 percent of companies educate both “supervisors/ managers” and “senior executives” in headquarters, the numbers drop to 84 percent and 83 percent respectively in their international operations.
- In terms of prevention programs offered, respondent companies also consistently provided more education for employees at their headquarters than for those in their international locations.

Ethics and compliance educational programs Who multinational companies reach



The challenges and inconsistency of educational programs indicated by the study results suggest that multinational companies need to strengthen efforts to equalize their ethics and compliance management processes throughout their international operations.

Activities and programs to educate or certify employees

Activities/programs in place to educate/certify employees in ethics and compliance risks	Headquarters	International
Code of conduct/ethics	100%	86%
Internal communications efforts	90%	77%
Online education	88%	70%
Electronic certifications/attestations	81%	64%
In-person education	76%	63%
Formal CEO/senior mgmt involvement	67%	56%
Written certifications/attestations	62%	57%
Management/leadership development	56%	46%
Site visits	57%	48%
Employee performance reviews/other incentives	51%	38%
No formal programs in place	7%	7%
Other	3%	2%

Local offices are effective for three reasons. (1) They can be more sensitive to the local cultural traditions and work with headquarters to formulate and approve any necessary policies that differ from corporatewide principles. (2) Their immediate presence helps ensure that local risks are more quickly identified and communicated to headquarters. (3) In providing the home office with an on-the-scene ally, a local ethics and compliance official can clarify any problems that arise, participate in investigations and develop more effective responses to violations.

If having a local presence is not possible, those in charge of ethics and compliance at the company's headquarters must make regular site visits to each operating location to develop first-hand insights into the culture, build leadership commitment, determine the best methods to enlist employees and assess potential ethical risks in that location.

Having a local presence can assist relations with work councils commonly found in most European countries. Practice has shown the best way to enlist work councils in ethics and compliance is to approach them early and ask for their support. Rather than perceiving them as opponents protecting their membership, engage them as partners in building an ethical and legally compliant corporate culture that creates mutually beneficial rewards. Companies report that establishing a cooperative mindset rather than an adversarial relationship with their European work councils goes a long way to reducing friction over ethics and compliance initiatives.

Develop local ethics and compliance leadership

A company's commitment will not take hold if global employees have the impression that only "the people overseas" care about legal compliance and corporate conduct. The local CEO or general manager plus all local senior executives must become knowledgeable about the company's goals in ethics and compliance so they can set the local tone at the top. To obtain their buy-in, the chief ethics and compliance officer should visit every local CEO or general manager to talk about the importance of the company's initiatives and their role in fully supporting the efforts.

Similarly, managers in every territory need to become ethical leaders, capable of modeling responsible conduct for their direct reports who tend to draw lessons more from their immediate supervisors than from senior executives further up the chain. Local managers need targeted education that teaches them how to encourage ethical and lawful conduct among workers and how to deal with reports of violations and unethical conduct.

One interesting business practice that some companies use to promote ethical leadership throughout their global territories is to frequently transfer managers outside their home countries. Not only do such transfers broaden a manager's business skills and cultural experiences, they also spread universally acceptable standards of conduct to all the company's business units, thus instilling uniform corporate values.

Educate all employees

Employees at every level need clear, precise information to understand the laws and regulations that apply to their jobs and, more important, to understand the corporate values they should adopt in the workplace. Educational efforts must help all employees learn how to go beyond mere compliance by being able to respect not just the letter of the laws affecting their jobs, but the spirit of the laws that should inspire their behavior as stewards of the company's culture.

In global companies, the most effective education is often best accomplished using online courses that can easily reach employees living in different cultures and working in different time zones. Educating a global workforce must be done in engaging and culturally relevant ways. In general, this means that global companies must make efforts to educate employees in their first language and tailor the ethics and compliance education to those laws and issues that impact an employee's actual job.

Build culturally responsive reporting systems

Effective engagement also includes giving all global employees access to reporting non-compliant conduct. This includes having an anonymous telephone helpline, a website, or both. Global companies must make these available during reasonable time periods at each location, rather than the time period at headquarters. Also, translators should be available for phone lines and the websites should be written in the employees' first language.

Note that the extent to which employees use the helpline or website may reflect the effectiveness of your company's ability to enlist employees in ethics and compliance. If reports are low from one of your locations with a significant employee head count, it may indicate that the reporting system is underutilized and more work needs to be done to drive home the company's compliance messages to all employees.

Making education and communication culturally relevant

Despite English becoming generally accepted as the language of world commerce, companies must consider that not every employee has the fluency to read English-language communications quickly and with full comprehension. Companies should thus strive to deliver education and information in the native languages of employees. The following guidelines apply to all education and communications that the company produces or procures for its global workforce, including courses, e-mails, memos and executive speeches.

Internationalize communications

For companies operating in many countries, ethics and compliance communications should be developed in internationalized form. They must be free of idiomatic terms and phrases – such as “FAQs,” “to be in hot water,” and “wrap-up” – that have no counterpart in other languages and cannot be authentically translated. Any names and images of people and places must reflect global diversity and business customs.

For example, in the United States, business is often conducted on the golf course, while in Europe, this seldom happens. An ethics course that shows an interaction between a customer and supplier on a golf course would thus not ring true to a European employee. To avoid this, an internationalized communication or educational course would take place in a neutral location credible to any business person in the world.

Some communications can be exceptions. For example, if the CEO delivers a speech to the global workforce, it may be useful to use his or her natural manner of speaking so employees will truly hear the real tone at the top. However, such communications will call for highly expert translators who can express the nuances of the CEO’s language in the target languages.

Localize content

Whenever translation is required, it should be “localized” to reflect the authentic language and culture of the country rather than approached on a word for word basis. True localization adapts the wording, metaphors and cultural references of the original communication into linguistically and culturally accurate counterparts in the target language. Content may sometimes need to be adjusted to exclude information not relevant to a local audience. For example, an education program containing a segment about U.S. advertising laws might be trimmed or deleted entirely for an Australian audience. A translation expert who is a native speaker and knowledgeable about the local culture is essential for effective localization.

Localization also pertains to the use of visual elements. Images and photos convey different meanings to people in different parts of the world. A photo of American football players, helmeted and heavily padded, that illustrates the concept of “working in teams to tackle problems” will have no meaning in many parts of the world. Colors and icons, too, are often location dependent. A red flag, a common American symbol that suggests a warning sign, does not have this meaning in the rest of the world.

Adjust for global technology differences

The technology used to deliver information to global employees is also a factor to consider. Flash technology does not support languages that read right to left, such as Hebrew and Arabic. In designing Internet sites for global employees, keep in mind that different languages fill different amounts of space on a page: German takes up 30 to 40 percent more space than English while Asian languages take up 30 to 50 percent less. Also, web-based programs may need to be delivered via CD for employees who have limited access to a broadband Internet connection. Finally, consider using cell phones to deliver information in some countries in Europe where cell phone technology has become the preferred means of communicating.

Strategies to ensure adherence to global legal requirements

Developing a culture of ethics also involves ensuring your workforce knows how to conduct business amid a web of complex legal and compliance issues around the world. Local laws can vary extensively relative to what is regulated, the degree to which the laws are enforced, how often the laws change, and what the risks are from failure to comply

with the laws. For example, proprietary information law in Estonia involves four bodies of authorship law, 28 different industrial property laws, and seven freedom of information laws. Businesses operating in Sweden must understand at least eight different laws addressing consumer product safety risk. Poland has at least seven different bodies of law governing labor relations.

While U.S. laws are often more stringent than those of other countries, a U.S.-based company cannot afford to be lax in understanding local laws and the penalties for infractions, nor can a non-U.S.-based company afford to ignore U.S. laws if it conducts business in the United States. Two recommendations that global companies should consider in order to understand and comply with the laws of the countries in which they operate are: (1) conduct country-specific risk assessments and (2) focus on special areas of risk for U.S.-based companies.

Conduct country-specific risk assessments

To address the challenge of meeting all local laws, multinational companies should undertake a rigorous assessment of the compliance risks in each country in which they operate. These risk assessments should seek to answer such questions as:

- What are the bodies of law that govern business conduct in this country?
- What conduct do they monitor, restrain or prohibit?
- Which regulatory agencies enforce these laws?
- How rigorous are governmental agencies in that country about enforcing these laws?
- What are the penalties and sanctions for breaking the laws? Are the penalties criminal or civil involving large fines, or possibly both? Are there administrative penalties that might bar the company from doing business in certain ways or places?
- Can citizens in that country file private-party lawsuits, such as class action suits?
- Are punitive damages regulated or not?
- Are any of the laws or the way they are administered undergoing changes? What trends are developing?
- Are recent political changes apt to affect the laws?

Next, identify the gaps between local laws and the company's business conduct in each country. The company should then quantify and prioritize each gap based on the likelihood of the risk occurring and its possible consequences. Expert legal research and local counsel can be useful in identifying and prioritizing such risks.

Focus on special areas of risk for U.S.-based companies

Following the letter of United States law when doing business abroad is becoming increasingly important for U.S.-based companies. American prosecutors and regulators have become vigilant in pursuing foreign infractions in three specific areas: antitrust violations, money laundering, and violations of the Foreign Corrupt Practices Act.

1. Antitrust violations. The Antitrust Division of the United States Department of Justice continues to escalate investigations into business activities outside the U.S. that inhibit competition within the United States. The spotlight is on anticompetitive activities and international cartels practicing price-fixing, bid rigging and the allocation of market share. Not only are the numbers of convictions rising, so too are the size of the fines and the length of the jail terms. From 1995 to 2000, the Antitrust Division collected more than \$1.5 billion in fines – more than it collected in the previous 110-year history of the Sherman Act. A company relying on the local competition laws of an overseas operating unit may be at significant risk, even if all activities and agreements take place outside the United States.

2. Money laundering. Money laundering refers to the movement or concealment of assets obtained or generated by a crime in order to hide the assets' connection with the crime. Both U.S. and international bodies have especially increased their efforts in the past few years to combat the use of money laundering to finance terrorist organizations, and new laws apply to anyone who provides or collects funds to be used to carry out a terrorist act, even unwittingly. Financial organizations are at the highest risk, but any company doing business overseas faces risks. Careful due diligence is required for joint ventures, limited partnerships, or other dealings where a company has limited control or understanding of who truly benefits from the business transactions in which they may be involved.

3. Corruption. The Department of Justice and the Securities and Exchange Commission have been particularly active in pursuing violations to the Foreign Corrupt Practices Act (FCPA). This act criminalizes bribing foreign officials, parties, or candidates to obtain or retain business in foreign countries. In 1997, the Organization of Economic Cooperation and Development (OECD), whose 33 members include the United States and most of the significant trading countries in the world, ratified a convention that strengthens and extends the reach of the FCPA. In the United States, prosecutions in the past two years have been as high as in the previous 27 years since the FCPA came into existence. A merger or acquisition with a foreign company can make a company particularly vulnerable to charges of corruption.

The future of global business conduct

The good news for multinationals is that globalization is creating more universal standards of business conduct, and these are becoming more rigorous. As more companies adopt these standards, it becomes increasingly important for every multinational to establish companywide core values, standards of behavior, and relevant policies in tune with the rest of the world's ethics and compliance environment. The benefits of an ethical culture outweigh the costs. Globally ethical companies will be those that maintain a strong reputation in all their markets, experience increased employee commitment and loyalty, garner advantages in attracting and retaining customers, and generate superior levels of performance and success.

Corporate social responsibility in global companies

International companies, especially those operating in Europe, must consider how their ethics and compliance efforts relate to corporate social responsibility (CSR). While ethics and compliance and CSR are largely viewed as separate functions in U.S. companies, businesses in Europe and other areas of the world perceive ethics as being part and parcel of corporate responsibility.

As a result, chief ethics and compliance officers in global companies may need to work with the CSR counterparts in the company and recast or broaden their efforts. Increased convergence between corporate ethics and compliance and social responsibility agendas calls for greater coordination and cooperation between the two functions and is likely to be both necessary and productive. As global consumers, investors, employees and other stakeholders make fewer distinctions between ethical and socially responsible conduct, they will have increasing expectations that companies will consistently aim to do the right thing, no matter where in the world they do business.

About LRN

LRN is dedicated to assisting its clients with developing ethical, sustainable and profitable cultures through a combination of robust education and management solutions, in-depth research and analysis and best practice advice and knowledge sharing. Founded in 1993, the company has reached more than 10 million employees, operating in more than 120 countries around the world. Headquartered in Los Angeles, LRN also maintains offices in New York and London. More information is available at www.lrn.com.



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