

Ethics and Integrity in Multinational Companies

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Abstract

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.

Keywords: *globally ethical companies, business conduct, ethical culture, professional standards, corporate code of conduct*

Introduction

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 corporate wide commitment to responsible conduct.

Global ethics and standards exist in various forms and realities. These ethics include basic human interactions: respect for differences, trust that our counterparts will work with us in a truthful manner, honesty in communication with others, and expectations that each of us will keep our word and maintain credibility.

The ***essence of global ethics and professional standards*** is based on self-understanding, tolerance of differences, appreciation for the unique, and curiosity of the unknown. Without the personal quest for experiencing new frontiers, and working with other professionals who have their own perceptions of us and ours of them, our professional life would be mundane.

1 Promoting a global 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 corporate wide code of conduct with guiding principles and the involvement of local offices in developing local policies.

2 Establishing a corporate-wide code of conduct

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, are 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.

3 Involving local offices in 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.

4 Engaging 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.

5 Establishing a local presence by forming a corporate-wide ethics and compliance committee

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.

According to the *2008 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."

- 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.

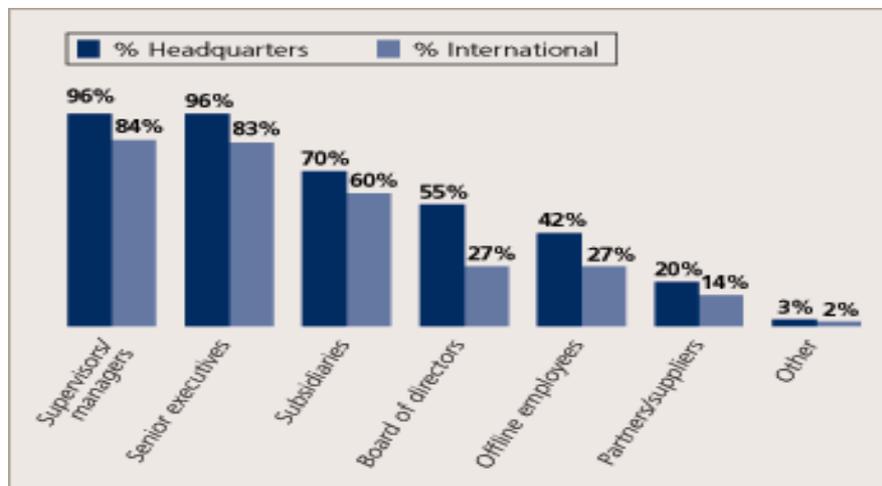


Figure 1 Ethics and compliance educational programs which multinational companies reach

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

Table 1

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%

Thus, 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.

6 Developing 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.

7 Educating all employees in their first language

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.*

8 Building 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.

Conclusion

In conclusion, my own definition about global ethics refers to *any form of communication, written or spoken, that applies to providing a service or product to a different culture or country in exchange for compensation or intangible reward*. In this era of rapid change and globalization, we should expect the best from ourselves and others; deliver more than is required or expected by the highest standards. This will provide a positive direction, improved expectations, accountability, and work toward achieving global standards.

I think that there are seven practical reasons that show why global ethics and standards are important to professional consultants, companies and organizations. *First*, it demonstrates a willingness to play by international rules while raising standards. *Secondly*, it makes us accountable and predictable during our engagements. *Thirdly*, it demonstrates a willingness to develop our professional potential. *Fourthly*, it shows our character and reputation to be more sound and marketable. *Fifthly*, it shows our desire to develop long-term relationships. *Sixthly*, it provides us with a leadership role in the global community. *Seventhly*, it gives uniformity to our professional life rarely found in a changing world.

Learning global ethics and standards is another approach to moving from the old way of doing business to developing a new structure.

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