

How do Canadian Companies doing Business in Emerging Markets
Navigate the Challenges Associated with Corruption?:
Ethical and Legal Perspectives

By

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ii. Abstract

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The purpose of this project is to provide a portrayal of corruption in the contemporary business world in order to define how Canadian companies wishing to pursue business in emerging markets can navigate safely without entering such practices. Inspired by the ongoing enquiry commission in the construction industry in Quebec, the project discusses the place and the cost of corruption from a global perspective. An ethical perspective outlining issues and ethical solutions to fight corruption, as well as a legal perspective dealing with international laws, conventions, and international organizations actively engaged in a fight against corruption are discussed. Finally, since eradicating corruption does not happen overnight, focus should be on eluding it by taking daily steps in the positive direction. Senior leaders need to be properly trained in order to act responsibly, while students of business schools globally need to understand corruption and be educated ethically to develop responsible decision-makers. A discussion of recommendations for both senior leaders and business schools concludes.

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1. Introduction

“Corruption – the widespread and deep-rooted abuse of entrusted power for private gain – is the single greatest obstacle to economic and social development around the world” (World Economic Forum, 2013).

In Autumn 2012, Quebec’s new government, under increasing pressure, launched a public enquiry commission to investigate business practices in the construction industry over the previous 15 years. During the enquiry, troubling revelations appeared: engineers, union leaders, politicians and contractors testified, revealing an alarming portrait of the construction industry. Corruption and collusion occurred for years, and multiple parties were aware of the situation and either participated or ignored the corruption. What was revealed in Quebec is just a small part of what continues globally: corrupt business practices are the norm in numerous countries, and they are causing issues for Canadian businesses, as well as for foreign companies planning to expand in new markets, especially emerging markets.

The establishment of Canadian companies in emerging markets is constant. The Canadian market is limited and small due to population constraints; companies need to export services or open branches abroad. This phenomenon—commonly known as globalization—raises questions for businesses to determine which country to enter in order to expand operations. Doing business internationally—and more specifically in emerging markets—comes with underlying questions related to corruption, human rights, child labour, environmental issues, racism, and discrimination, for example (Warren, 2011). These markets raise new issues and questions due to the differing needs

and demands of each when compared to developed economies. Emerging market economies quest to attract foreign investment is often counterbalanced by high political instability and economic insecurity (West, 2009). Thus, the question businesses is not only where it can operate to generate profits but also to what extent are ethical principles a guide to their choice of investment and expansion. Most companies have a Code of Ethics, a mission, and statement of values, but when they enter new markets, those tend to remain unobserved. Facing decisions such as “whether to follow the company’s home country rules and customs, or whether to follow the host country rules and local customs” (Warren, 2011) raises ethical dilemmas and value conflicts and thus lead to a manager’s need to obtain guidance and support to navigate challenges associate with doing business in emerging markets, specifically related to corruption. For example, corruption represents Russia’s biggest economic problem, India’s second largest issue and South Africa’s fifth (Dezenski, 2012). Such constraints to economic development supports the engagement of leaders that need to respond to the public asking for tangible actions and initiatives that will eliminate—or at least drastically reduce—corruption.

For these reasons, this paper will focus on corruption from an ethical and legal perspective. Firstly, it is important to define *corruption* to understand how it relates nationally, as well as internationally. Secondly, an overview of the depth of corruption is given. With this portrayal, focus then is on corruption from an ethical perspective and to provide ethical solutions to companies wishing to expand their activities. Finally, from a legal standpoint, a review is provided of the main laws and conventions that international organizations are promote to which countries and companies should

adhere. This paper concludes with recommendations for senior leaders attempting to navigate challenges related to corruption in their organization, as well as for business schools educating future business leaders in a responsible manner.

2. Literature Review

a. Definition of the Phenomena

Merriam-Webster dictionary defines *corruption* as “improper and usually unlawful conduct intended to secure a benefit for oneself or another” (Merriam-Webster, 2013), while Oxford Dictionary (2013) defines it as “dishonest or fraudulent conduct by those in power, typically involving bribery.” These definitions are vague and can be interpreted in various ways. Is “improper and usually unlawful conduct” the same in Canada as in Brazil? Is a Canadian vision of “fraudulent conduct” comparable to a Chinese view? These multiple interpretations guided some authors who tried to define corruption in a more “international” way. Some successful definitions include that by the Independent Commission Against Corruption, which defines corruption as being a “dishonest or partial exercise of official functions by the public official” (Seleim & Bontis, 2009), while a definition published in 2010 defines corruption “as those elements in a market that (1) signal disorganization, decomposition, or deterioration of a society and (2) deter efficient and safe commercial activities therein” (Chandler & Graham, 2010).

Every definition seems to be tainted by the defining origin and culture; however, this latter definition seems to reduce the odds of misinterpretation. In fact, it allows every culture to determine what, from its perspective, can be seen as corruption and

what can be tolerated. Corruption, from the International Chamber of Commerce's perspective, can occur in three main ways

1. **Bribery**: "is an offer or the receipt of any gift, loan, fee, reward or other advantage to or from any person as an inducement to do something that is dishonest or illegal."
2. **Bribe Solicitation**: "is the act of asking or enticing another to commit bribery."
3. **Extortion**: "when bribe solicitation is accompanied by threats it becomes extortion" (ICC, 2013).

The United Nations Convention Against Corruption, therefore, deals with all these infractions in order to prevent such practices and to suppress all forms of bribery, extortion, embezzlement, trading of influence, abuse of functions, and illicit enrichment, for example, in national and international business practices (United Nations Office on Drugs and Crime, 2004).

b. Cross-cultural differences and corruption

As discussed in the previous section, corruption tends to be interpreted differently between cultures: the definition itself rarely varies, but its interpretation does. Therefore, two key dimensions are used to differentiate corruption across countries: pervasiveness and arbitrariness (Pillay & Dorasamy, 2010).

Pervasiveness and arbitrariness: two key dimensions

Pervasiveness: the "degree to which corruption is prevalent in a given country" (Pillay & Dorasamy, 2010) does vary widely from one country to another. In fact, since no nation can claim to be completely free of corruption. Transparency International

publishes a yearly Corruption Perceptions Index,¹ which classifies 176 countries following their perceived level of public sector corruption.

The map in Figure 1 ranks Denmark and New Zealand *ex aequo* in first position, as “very clean,” while Afghanistan, North Korea, and Somalia are perceived as having the highest degree of corrupt practices. The ranking also supports a key finding: the economics are the pillar of corruption. As a matter of fact, the trend is such that the weaker the economy and the higher the poverty and inequalities, the higher the chances of encouraging corruption. In addition, highly pervasive countries tend to have a low financial stability, which again enhances risks of bribery and fraud. Consequently, the definition of corruption is greatly influenced by the degree of pervasiveness present in every country.

Arbitrariness: For Pillay and Dorasamy, the second key dimension highly linked to corruption is arbitrariness, which is defined as being “the inherent degree of ambiguity associated with corrupt transactions in a given nation or state” (Pillay & Dorasamy, 2010). Even if pervasiveness and arbitrariness do not always coexist, some nations do have both, and it increases risks of corrupt business practices inherently. High degree of arbitrariness by public officials is directly related to a higher opportunity for corruption.

¹ <http://cpi.transparency.org/cpi2013/results/>

Relation between corruption and culture

When analyzing corruption from a global standpoint, a fundamental pillar of such practices refers to national cultural identity. For years, academics have tried to link these two components to illustrate their intrinsic correlation. The best proposition came from Hofstede (1960) and has since been redefined by various authors including Seleim and Bontis (2009). Seleim and Bontis' study was based on nine dimensions, determined in House et al. (2002) necessary to understand a national culture; however, Hofstede's proposition uses only five of these dimensions in order to establish a relation between these dimensions and corruption. "The country scores on the dimensions are relative, as we are all human and simultaneously we are all unique. In other words, culture can be only used meaningfully by comparison" (The Hofstede Centre, 2013). Therefore, scores are not based out of a 100 but are only use to compare country to country. Hofstede's five main criteria are

- a. **Power distance** refers to the level of distance between decision-makers and population. While power is needed to provide social order, as well as stability, the way power is transmitted will impact the risk of corrupt practices. In fact, high-power, distant societies will have higher corruption; it inspires repression and authoritarianism thus reducing cooperation between the different stratum of power. On the other hand, lower distance will stimulate notions of equality. Therefore, "the higher the level[s] of power distance values and policies, the higher the level of corruption in the society" (Seleim & Bontis, 2009).

China is a good example of a high-power society. This authoritarian society concentrates power in the hands of a communist government that commands its population; as obedient citizens, they are following orders mainly because they are totally devoted to their government, based on beliefs since the beginning of the Maoist era, but also because they are ignorant of other ways of being governed. China ranks 80th in Transparency International's ranking (Transparency International, 2013), with a score of 40, showing risks of highly corrupt practices, due to their extremely hierarchical society, lack of transparency and accountability, and great control of the state over important economies. Even though the government is showing its will to evolve and change, China's challenges are not yet resolved and doing business in a country where the state dominates its citizens, directly competes against both foreign and local companies in various industries (including energy, construction, and telecom), where *guanxi* (gift-giving) practices are used on a daily basis, and where personal relations are more important than formal practices can be a huge challenge for any company. Despite its great efforts to evolve in the past years, corrupt practices are still frequent, and its impacts reverberate globally considering the vastness of the Chinese market, its population, and its impact on the global economy.

- b. **Individualism/Collectivism:** When a culture tends to encourage the creation of groups and to value collective goals as well as high unity within its society, it is likely to minimize risks of corruption. As part of a group, individuals are less

likely to act on their own to the detriment of other group members. On the other hand, when a society decides to put the individual first, they will tend to give precedence to their own interests before those of their peers. For example, Japanese society has traditionally focused on team achievements and communal practices (Seitz, 2001). Since their employment culture is based on long-term stable relations, it promotes cohesion and reduces the risks of corruption, confirming low levels of perceived corruption and therefore justifies their 18th rank in the Transparency International ranking (Transparency International, 2013).

- c. **Masculinity/Femininity:** The difference between masculine and feminine societies relies on general preferences: males tend generally to lean towards competition, material rewards, and acts of heroism, while females tend to promote cooperation and modesty (The Hofstede Centre, 2013). Therefore, societies focusing on competitiveness between its members will aim at higher risks of corruption, while those promoting collaboration and consensus will reduce these risks.

Mexico scores 69 on the masculinity dimension and ranks 106th for the year 2013 (Transparency International, 2013). It is a society led by values such as competition, performance, and praise for winners to the detriment of losers.

When taking into account the weight of this masculine dimension and adding to it Mexico's weak score in control of corruption, as well as its lack of enforcement of the OECD anti-bribery convention, the result is a very high-level

of perceived corruption (Transparency International, 2013; The Hofstede Centre, 2013).

- d. **Uncertainty avoidance** refers to the level of norms and procedures in place in order to avoid the unknown and reduce the discretionary power of individuals. Both extremes are in a position to create corruption; if a nation has no rules or norms, the level of uncertainty will be high. On the other hand, if a society is highly bureaucratic, this can also lead to dishonesty and bribery, since individuals may feel tormented and in need to break these norms. Therefore, nations should try to seek a balance that will oversee the actions of its people without restraining their freedom.

Brazil, a top emerging economy, scored uncertainty avoidance score of 76 (Transparency International, 2013). This society, therefore, shows a strong need for rules that are rarely followed by users of the system. This high number is a sign of Brazil's weak application of the judiciary system that leads to a high level of corruption. A scandal of bribery, also known as the Mensalão scandal, was headed by a confidant of former president Da Silva and could have cost up to \$US53 billion to Brazilians for the year 2013 (Antunes, 2013). Brazilian highly-corrupt politicians were willing to take part in such a scheme because they were fully aware of the poor application law; however, for one of the first times in Brazil's history such as scandal was taken into court rapidly, warrants for the arrest of multiple defendants were issued, leading to convictions (The Economist, 2013). Economists and authors are wondering if this trial will finally set the

example for Brazil's future and if corruption will be treated more seriously by the legal system. Brazil's high level of uncertainty avoidance, combined with little urge to enforce OECD anti-bribery convention, and their low-level of corruption control (Transparency International, 2013) has led to financial and reputational problems; thus, only an improvement in the application of laws and regulation will re-establish international credibility.

- e. **Long-term/short-term orientation:** Long-term orientation will inspire societies to reach ethical practices with a vision based on the future; organizations and people aiming toward future aspirations define strategic orientations. Opposite, short-term orientation leads to achieving quick results. No attention is paid to future orientations, which encourages corrupt practices and values (Seleim & Bontis, 2009).

Ranked 46th, South Korea is a long-term oriented society (score of 75). Like most Asian cultures, South Korea's growth is currently durable and steady, in comparison with North Americans' desires for rapid growth and immediate profit. South Korean will to serve its population as long as possible, reducing risks of corrupt practices. However, that criterion itself does not prevent corruption, especially in a country where control of corruption is very low (Transparency International, 2013).

In order to link this proposition to the economic dimensions of corruption, as well as with the results from Transparency International, Table 1 shows the world's 11 richest countries (FMI).

Table 1

Complete Dimensions of Corruption

Country	GDP 2013 (\$US billions)	Rank (FMI)	Rank out of 176/ Score (Transparency International Index)	Dimensions Corruption H: High L: Low		Hofstede Five Cultural Dimensions				
				Pervasive- ness	Arbitrari- ness	Power Distance	Individualis- m vs. Collectivism	Masculinity vs. Femininity	Uncertainty Avoidance	Long-term VS Short- term Orientation
USA	16238	1	19 / 73	L	L	40	91	62	46	29
China	9020	2	80 / 40	H	L	80	20	66	30	118
Japan	5150	3	18 / 74	L	L	54	46	95	92	80
Germany	3598	4	12 / 78	L	L	35	67	66	65	31
France	2739	5	22 / 71	L	L	68	71	43	86	39
Brazil	2457	6	72 / 42	L	L	69	38	49	76	65
United Kingdom	2422	7	14 / 76	L	L	35	89	66	35	25
Russia	2213	8	127 / 28	H	H	93	39	36	95	N/A
Italy	2076	9	69 / 43	L	L	50	76	70	75	34
India	1972	10	94 / 36	H	H	77	48	56	40	61
Canada	1844	11	9 / 81	L	L	39	80	52	48	23

(International Monetary Fund, 2013; The Hofstede Centre, 2013; Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003; Lee &

Oh, 2007)

When businesses are deciding to enter new markets and economies, evaluating the predominant cultural dimensions of the markets is essential to understanding the way business practices will be conducted. When conducting risks assessment, managers have to be aware that even if they do have the best ethical practices possible, entering an economy where corruption is prevalent can lead to external hazards and difficulties.

c. Cost of Corruption

Corruption impacts multiple facets of the world's economy. A Canadian company's decision to enter a new market needs to be informed by the potential consequences of bribery and fraud on its business.

Impact on economic growth

Since corruption acts as an obstacle to stability and growth of economies, the trend is that its presence reduces the ratio of investments to GDP (Graf Lambsdorff, 2005). In fact, authors are struggling with the real impact of corruption on GDP growth: economies where corruption high often results in lower GDP growth. Even with some strong counterexamples (e.g., China), this conclusion occurs in most cases (Graf Lambsdorff, 2005). For a company entering such market, impacts are huge, since the GDP growth is linked directly to a market's financial health: a weak economy will not be appealing to potential investors and can even encourage businesses to leave the country. In fact, the world is suffering from a loss of 5% of its global GDP due to corruption, including "over US\$1 trillion paid in bribes each year" (ICC, World Economic Forum, TI, United Nations). Consequently, such loss impacts directly the economic growth of every organization.

Impact on businesses

Corruption has numerous underestimated consequences on businesses. Firstly, a country known for corrupt business practices may attract unethical and fraudulent companies; reputational risks increase for both companies and the country itself. Secondly, impacts on company growth and operation costs are directly affected by corruption. For example, the World Economic Forum declares “corruption adds up to 10% to the total cost of doing business globally, and up to 25% to the cost of procurement contracts in developing countries” (ICC, World Economic Forum, TI, United Nations). Impacts on a business growth are enormous, especially when related to procurement, bidding, and proposal.

Additionally, in some countries, it is impossible to evolve without the help of agents. Agents create connections needed to become players, and such practice add cost to regular business operations. In Canada, the Corruption of Foreign Public Officials Act (CFPOA) legislates business practices involving the use of third parties. Its scope, impact, and enforcement will be discussed in Section 4.

For companies caught and prosecuted for unethical behaviours related to corruption, the economic and reputational costs for such practices increase dramatically: consequences can begin with a fine but may end in bankruptcy or the sell-off of the business, as well as with jail sentences for managers involved. For example, in 2014, China faced a humiliating scandal related to corruption: Deng Hong, the billionaire behind Chengdu’s New Century Global Centre (the world’s largest building) vanished after suspicions of corruption were raised. The scandal also led to the detention of over

fifty government officials. The building had been built to host the Global Fortune 500 Conference, but, with this scandal, China moved the conference. China's credibility—as well as the reputation of Entertainment and Travel Group, Hong's company—suffered after-effects of such scandalous practices involving numerous members of the Communist Party (Moore, 2013).

Finally, competition, or too often the lack of it, is another aspect of business practice. In fact, in countries where corruption is present mainly in the public sector, the competition between firms can be highly reduced. Issues may include: limited numbers of bidders, limited information divulged to certain bidders, favour to those with inside connections, for example (Zekos, 2004).

Therefore, decisions to enter markets known for using such practices should not be taken lightly: whether financial or reputational, risks can be devastating and irrevocable. The World Economic Forum reveals that “moving business from a country with a low level of corruption to a country with medium or high levels of corruption is found to be the equivalent to a 20% tax on foreign business” (ICC, World Economic Forum, TI, United Nations), making such choices risky and costly.

Impact on mergers and acquisitions

Corruption may impact a company's will to merge or acquire a local firm in developing economies. Figure 2 below shows different impacts that corruption has over mergers and acquisitions (M&A).

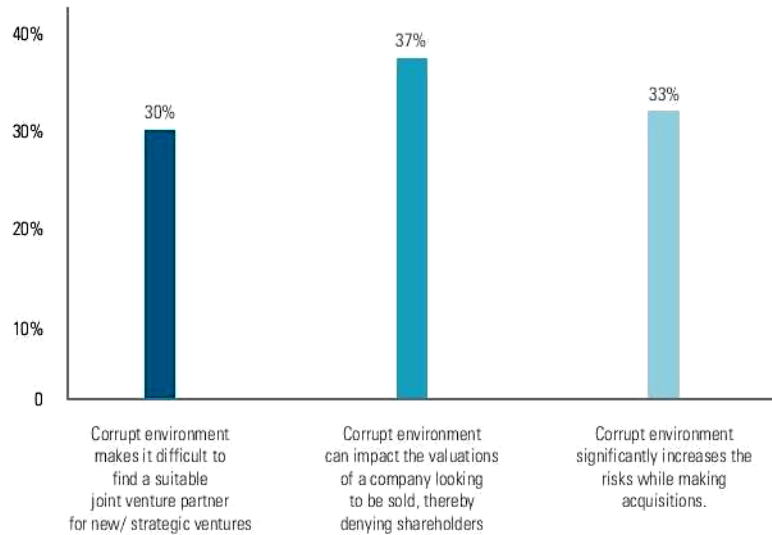


Figure 2. Impact of corruption on mergers & acquisitions (Sanwalka & Mahajan, 2011).

As Figure 2 shows, impact can be related to the targeted company's valuation. In fact, if part of the revenue is based on corrupt practices, such revenue cannot be seen as sustainable, and, therefore, the value could be artificially inflated to increase the selling price.

Acquiring or merging with a company involved in corruption without knowing it may also lead to important legal and criminal issues for both partners. Moreover, if corruption is part of a firm's habits, other fraudulent practices may take place and a naïve partner may easily be swindled. However, entering a negotiation risk aware can mitigate possible damages and orient the process differently. Therefore, assessing both the culture and the relations of the target firm is crucial to avoid negative surprises; due diligence and risks assessment processes should be done thoroughly and may need to involve anti-corruption experts. When looking at the main clients of a company, every

strong relation with government officials, as well as with intermediates or agents should be scrutinized, as these may be hints of corrupt behaviours (Mayo & Kazemi, 2012) and may violate CFPOA.

Impact on capital markets and foreign investments

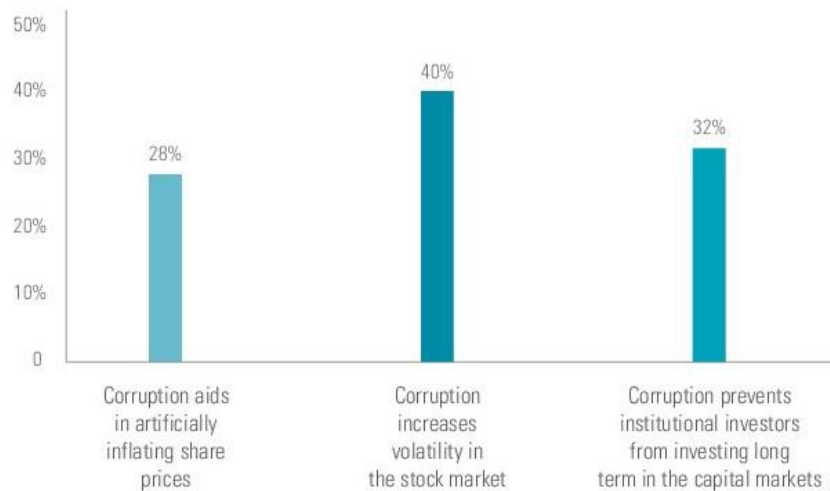


Figure 3. Impact of corruption on capital markets (Sanwalka & Mahajan, 2011).

Stock markets are highly impacted by corruption as in Figure 3. In assessing the investment growth rate of any country, surveys and literature show that corrupt practices do increase investor reluctance, thus decreasing their will to invest in such areas.

Whether it is actually due to the risks of investing in a highly volatile market or the doubts that the share prices have been wrongfully overestimated, investors tend to be timid and impacts on the capital markets can be extreme.

The cost of corruption is not only number-based; it costs in terms of reputation, convictions, and jail sentences. When assessing a firm's entrance in a new market, these factors need to be weighed.

3. Ethical Perspective

Currently, managers and boards “can no longer claim ‘plausible deniability’ and are increasingly being held accountable when corrupt practices are revealed” (Dezenski, 2012), thus placing anti-corruption as a top priority of most well-managed companies. Figure 4 shows how business people from emerging markets view their company’s ethical duty.

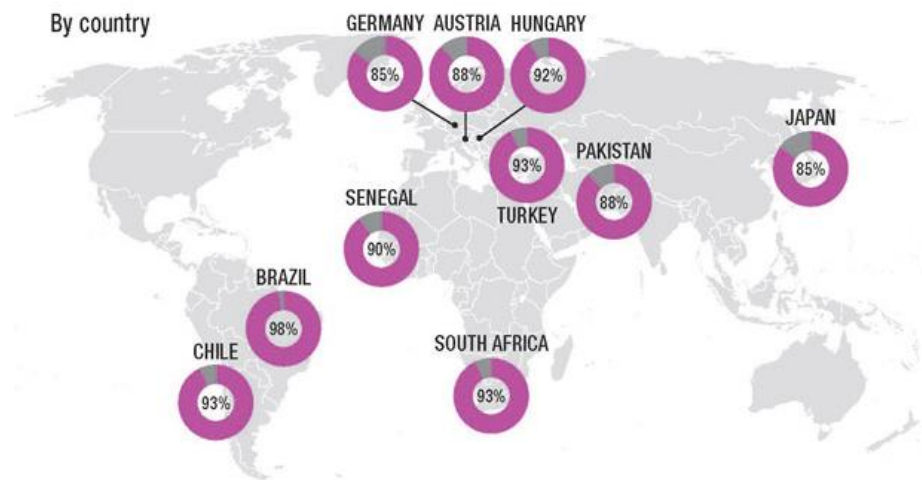


Figure 4. Percentage of business people who believe their company has an ethical duty to fight corruption (Dezenski, 2012).

Figure 4 should alert leaders and support the conviction to fight corrupt business practices on a daily basis. In fact, for any business the risks of not engaging in the fight against corruption are major. The Table 2 reflects the business rationale supporting the need for such a fight.

Table 2

Business Rationale for Fighting Corruption

	Benefits of Engaging	Risks of Not Engaging
Individual Company Action	<ul style="list-style-type: none"> • Reduce the cost of doing business • Attract investments from ethically oriented investors • Attract and retain highly principled employees, improving employee morale • Obtain a competitive advantage of becoming the preferred choice of ethically concerned customers/consumers • Qualify for reduced legal sanctions in jurisdictions like the US and Italy 	<ul style="list-style-type: none"> • Criminal prosecution, in some jurisdictions both at company and senior management levels which can lead to imprisonment • Exclusion from bidding processes, e.g. for international finance institutions and export credit agencies • “Casino risk” – no legal remedies if a counterpart does not deliver as agreed and/or keeps increasing the price for doing so • Damage to reputation, brand and share price • Tougher fight for talent when hiring new employees • Regulatory censure • Cost of corrective action and possible fines
Collective Action by Business	<ul style="list-style-type: none"> • Create a level playing field overcoming the “prisoner’s dilemma” • Improve public trust in business • Influence future laws and regulations 	<ul style="list-style-type: none"> • Missed business opportunities in distorted markets • Increased magnitude of corruption • Policy-makers responding by adopting tougher and more rigid laws and regulations – internationally, regionally and nationally

(ICC, World Economic Forum, TI, United Nations)

Pooled together, this information echoes the urge for companies to engage in such a fight.

The following section highlights the main ethical issues related to corruption and will suggest further discussion for business leaders.

a. Ethical Issues

Diverse national cultural dimensions lead to different ways of doing business. Most ethical issues, therefore, emerge from cultural and moral difference between countries that tend to be closely related with corrupt practices. Generally, companies’ intention when entering new markets are not to commit fraud or use corruption to define themselves; however, once in these markets, some tend to cross the thin line between legal and illegal practices.

United Nations Global Compact

The United Nations Global Compact “is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption” (United Nations, 2013). The ten principles are as follows:

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: Make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: The elimination of all forms of forced and compulsory labour;
- Principle 5: The effective abolition of child labour; and
- Principle 6: The elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: Undertake initiatives to promote greater environmental responsibility; and

- Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

These principles set the tone on the UN's priority when it comes to protecting people. Any company has the freedom to sign up to these principles; as of now, over 2300 businesses from 87 countries have done so (Warren, 2011).

As seen above, the core concerns of international business ethics are corruption and bribery (Principle 10), but others cannot be put aside due to their closeness of sources and impacts on trade: human rights and labour standards (Principles 1 to 6).

Human rights and labour standards

These standard vary widely: some countries have laws, some do not; some respect them and some disregard them. Lack of political involvement, as well as institutional incapacity, often leads to violations of human rights, and governments endorsing these abuses are often the same encouraging bribery and corruption. "It is often recognized that most egregious violations of human rights occur in countries with weak governance, limited political and civil rights, or in actual conflict" (International Chamber of Commerce, 2008). All of these criteria being also applied to countries where corruption is predominant.

When looking at these criteria from a business perspective, some issues are raised by various discrepancies. Firstly, protection of workers should be discussed. In

China, for example, restrictions on rights and liberties imposed by the state tend to have repercussions in the workplace. Therefore, China does not approve labour unions nor does it have enforcement mechanisms with respects workers' rights and liberties. However, as many international firms are entering the Chinese market, these international firms are trying to implement their own way of doing business, which includes better conditions for workers. Moreover, international firms are also starting to extend workers' rights and liberties to their supply chain, now demanding that suppliers respect the same working conditions. Even though enforcing such demand can be challenging, standardization of workplace practices are beginning to emerge, increasing the quality of life of Chinese workers (Kruger, 2009).

Issues related to child labour are frequently addressed by international societies. Most developed countries have adopted legislation to punish and prohibit companies from using children workers, and most emerging economies are following the same path. However, in the developing world, issues relating to child labour are common. The International Labor Organization, through conventions and recommendations, try to set a minimum age for workers in order to protect children (International Labor Organization, 2013). However, often inspectors are paid bribes to overlook abuse and let underage children work in unsanitary conditions (International Council on Human Rights Policy, 2009).

When a company decides to enter a market where human rights are often besmirch, risks of facing corrupt practices are high. If these economies cannot respect workers, they often tend to disrespect the norms, practices, and regulations in place.

Consequently, linking human rights and corruption increase, in some ways, public protection. In fact, “when acts of corruption are linked to violations of human rights, all these institutions (i.e., European Court of Human Rights, African Court on Human, and Peoples’ Rights and the Inter-American Court of Human Rights) could act to force accountability and so create disincentives for corruption” (International Council on Human Rights Policy, 2009). Moreover, all anti-corruption measures established following international treaties (see Section 4) have to be compatible with human rights principles, thus increasing the chances that countries with high respect of human rights will show lower perceived levels of corruption. Table 3 outlines a sample of potential effect on human rights of corrupt practices (International Council on Human Rights Policy, 2009).

Table 3.

Selected Corrupt Practices and their Impact on Human Rights (Extract)

Corrupt Practice	Act of Corruption (UNCAC)	Potential Harm	Possible Human Rights Violation ²
Officials bribed to allow toxic waste to be dumped illegally in an area planned for residential use.	Bribery (UNCAC, Article 15)	Exposure to radioactivity, which has serious health and life consequences.	Right to life (ICCPR, Article 6) Right to adequate housing (ICESCR, Article 11) Right to Health (ICESCR, Article 12)
Plaintiff offers a bribe to a judge to obtain a favourable ruling in a lawsuit.	Bribery (UNCAC, Article 15)	Unfair and partial trial; denial for the victim of a right to effective remedy and justice.	Right to a fair trial (ICCPR, Article 14) Right to non-discrimination (ICCPR, Article 2(2)) Right to equal protection of the law (ICCPR, Article 26)
Bribery of labour inspector by an employer to prevent enforcement of labour law.	Bribery (UNCAC, Article 15)	Poor working conditions; unreasonable working hours; low remuneration; unhealthy or unsafe conditions of work.	Right to just and favourable conditions of work (ICESCR, Article 7)
Companies offer illegal payment to water regulator to exceed water extraction permit.	Bribery (UNCAC, Article 15)	Shortage of water to neighbouring communities; water pollution.	Right to water (ICESCR, Articles 11 and 12)

² ICCPR: International Covenant on Civil and Political Rights
ICESCR: International Covenant on Economic, Social and Cultural Rights
CRC: United Nations Convention on the Rights of the Child

Before entering any market, a complete assessment of the country's culture and values can help determine its position on human rights, and, hence, discover accepted practices, whether ethical or not. Moreover, when a decision to enter such market is taken, business should seek to improve human rights independently, implementing better working conditions, as well as denouncing harmful practices. A williness to improve corporate governance, as well as that of third parties working with or for them, will surely be a beneficial impact for developing economies in their quest for equality. As well, repercussions should be reported to governments to increase their awareness in regards to ongoing practices happening in their country but, foremost, with practices going on in their own organization. Impacts on human rights and also on other unethical practices such as corruption then have a chance to be eradicate (International Chamber of Commerce, 2008).

b. Ethical Solutions

Even though most people tend to start with the premise that good corporate governance principles guides every manager, board, CEO and director in their daily actions, the reality is that these principles are often hard to follow when actions need to be taken. However, in the past years, organizations have been more vigilant and penalties have increased drastically in order to aggressively fight corruption and bribery. New investigation techniques have been put in place to reduce corruption and target those truly responsible for these scandals. Therefore, in order to protect itself, a company has a variety of options to limit risks of corruption.

Defining values

When discussing the ethical challenges of corruption, the literature often relies on four traditional principles discussed in the Millstein Report (Millstein, Albert, Cadbury, Denham, Feddersen, & Tateisi, 1998) presented at OECD in April 1998. These four values—fairness, transparency, accountability, and responsibility—should set a basis for the implementation of any solution aimed at eliminating corrupt practices within a company. In fact, these values should be adopted by every business wishing to implement good practices. A company defining its own values is crucial to the development of a good strategy, but they should try to reflect or include implicitly these four principles in order to be in conformity with what the authors are defining as being top priorities. These ideals, accepted by the OECD, have also been discussed by other international organizations, including the UN, placing them at the top of the values to be adopted by companies concerned by their business practices.

Strong corporate governance principles

In order for companies to protect their shareholders, as well as to potentially promote investor confidence, companies should indeed implement strong corporate governance principles that should be based on the ten principles developed by the National Association of Corporate Directors in 2008 (Young, 2009). Governance structures and practices

1. should be designed by the board to position the board to fulfill its duties effectively and efficiently.

2. should be transparent—and transparency is more important than strictly following any particular set of best practice recommendations.
3. should be designed to ensure the competency and commitment of directors.
4. should be designed to ensure the accountability of the board to the shareholders and the objectivity of board decisions
5. should be designed to provide some form of leadership for the board distinct from management.
6. should be designed to promote an appropriate culture of integrity, ethics and corporate social responsibility.
7. should be designed to support the board in determining its own priorities, resultant agenda and information needs and to assist the board in focusing on strategy (and associated risks).
8. should encourage the board to refresh itself.
9. should be designed to encourage meaningful shareholder involvement in the selection of directors.
10. should be designed to encourage communications with shareholders.

The variation between corporate governance levels is closely tied to the corresponding country's credibility and rule of law (Klapper & Love, 2004). When implementing corporate governance principles, companies should deal with their application when doing business abroad, while considering if their guidelines are appropriate or should be modified to take into account local practices that fit with the company's vision and values. It is also important to consider if these principles are

mandatory or can they be interpreted following situational components. These should be considered a priori, limiting the probabilities of one contravening the firms' policies. Rather than relying mainly on employee's morality, having well-enforced policies will reduce the risks of employees acting in self-interest instead to that of the company (Zekos, 2004).

Corporate compliance policy

From an ethical standpoint, initial, internal preparation is key to forestall potential issues by having a corporate compliance policy tailored to the company's needs, processes, and, more importantly, to the countries of operations outlining vision that will guide employees in their actions and decisions regarding the conducting of business in emerging markets (Sharp, 2013). Once developed, employee training in and enforcement of these policies should be a priority (PriceWaterhouseCoopers, 2007). Firstly, employees need to understand the policies so as to be able to communicate them to third parties, when necessary. Such policies, in addition to mitigating the firm's risks, will augment its reputation and credibility. However, the key element reside in both the board and CEO's will to support, communicate, and implement such programs. Without their support, applying such policies will not be fruitful.

Risk management process related to the selection of employees or directors, as well as to the choice of projects and countries, needs to be clearly defined and constantly applied. All procedures should be written, have a clear scope, and also be subjected to strong controls and reporting methods in order to avoid all type of violations

(International Chamber of Commerce, 2011). More specifically, risk assessment processes should include these six main steps:

1. Establish the process
2. Identify the risks
3. Rate the inherent risks
4. Identify and rate mitigating controls
5. Calculate the residual risk
6. Develop an action plan (OECD, UNODC, The World Bank, 2013).

Finally, once applied, the compliance policy needs to be continuously monitored and adjusted to fit with the evolution of the company's operations; moreover, it is essential to clearly define sanctions for violators. A company may have very strong policy, but without a supervised framework to apply consequences related to breaches of the rules, the policy is useless. The Figure 5 summarizes the essential elements of such program.

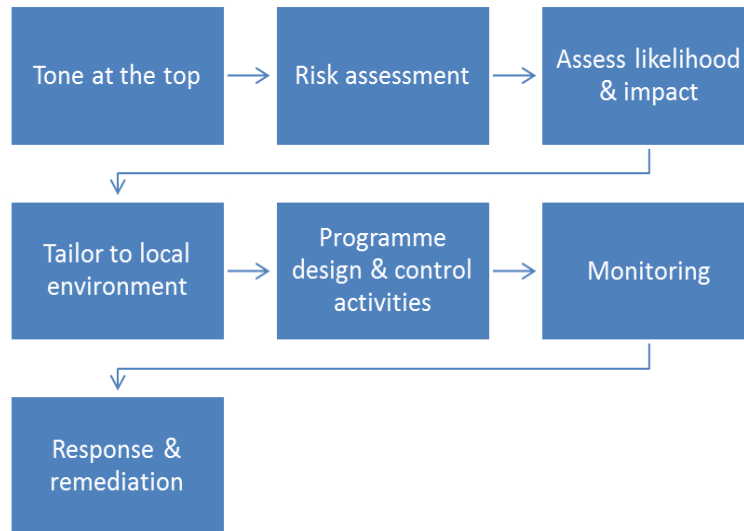


Figure 5. Essentials of a Corporate Compliance Policy (PriceWaterhouseCoopers, 2007).

It is also important to note that in some jurisdiction, including the UK, legislators even offers defence to companies to prove that they had adequate procedures to fight and prevent corrupt behaviours (Dattu, Investing in Ethical Corporate Culture: The Imperative for Instituting an Anti-Corruption Compliance Program for Canadian Businesses Venturing Overseas, 2010). Therefore, such mechanisms are crucial to the reputational and financial health of any business.

Training

Another key component is training. Training staff on compliance policy is important, but equally important is training in the local laws that a firm may be submitted to is crucial—depending on where business is being done. Canada has its own Corruption of Foreign Public Officials Act (discussed in Section 4a), but many countries

have their version; therefore, knowing legislation, staff training, and promoting awareness to such rules is key to doing business abroad.

Other considerations

Finally, from a prevention standpoint, an important facet is knowledge of clients and people dealing with the company, internally and externally. Ignorance is not a valid defence when it comes to the application of regulations. Consequently, companies that intentionally plead ignorance on irregular practices or use agents to corrupt public officials are jeopardizing their future if they are not conscious of the consequences.

4. Legal Perspective

The relationship between ethics and law can be defined as follow: “the legal system functions as an incentive mechanism to promote ethical behaviour in society shaping incentives through its rules, regulations, and punishments” (Zekos, 2004). Legal systems should thus be flexible enough to adapt to a society’s comportment while ensuring the protection of its citizens’ values. Therefore, when multiple countries share enough similar values, they will unite in order to create international societies that will create their own norms through respect of all members’ values and beliefs.

As most laws and conventions criminalize bribery and corruption related to public officials, the need to define “public official” is central:

Article 2 a) “Public Official” shall mean:

- i) any person holding a legislative, executive, administrative or judicial office of a State Party, whether appointed or elected, whether permanent or temporary, whether paid or unpaid, irrespective of that person’s seniority;

ii) any other person who performs a public function, including for a public agency or public enterprise, or provides a public service, as defined in the domestic law of the State Party and as applied in the pertinent area of law of that State Party;

iii) any other person defined as a “public official” in the domestic law of a State Party. However, for the purpose of some specific measures contained in chapter II of this Convention, “public official” may mean any person who performs a public function or provides a public service as defined in the domestic law State Party and as applied in the pertinent area of law of that State Party. (United Nations Office on Drugs and Crime, 2004)

a. National and International Laws and Conventions

Corruption comes with its remedies: laws and conventions. However, countries where corruption is high are less likely to adopt effective legislation to block such practices, especially when the judiciary system and government are themselves corrupt. Therefore, regulators from developed countries as well as international organizations are regulating to prosecute cases of foreign corruption and to enhance companies’ responsibilities when doing business abroad.

Corruption of Foreign Officials Act (CFPOA)

In 1998, Canada ratified the OECD convention Combating Bribery of Foreign Public Officials in International Business Transactions. This convention ties its members—30 OECD members and some non-members—to legislate on bribery of foreign public officials by ensuring that bribery will be made a crime. Canada’s response

to that convention was the implementation of the Corruption of Foreign Public Officials Act (CFPOA)³.

CFPOA “focuses on anti-bribery provisions that prohibit the promise, payment, or giving of money or anything of value to any foreign official for the purpose of obtaining business or gaining an improper advantage” (PWC, 2013). In June 2013, the government amended the Act in order to increase its significance and reinforce penalties associated with infractions. The main issue with this act is similar to what Canada has been dealing with for years: a lack of enforcement and resources to prosecute offenders of these white-collar crimes (Tatum, 2013). However, in August 2013, the Ontario Superior Court conducted the first trial under this regulation, which led to the conviction of an individual. A review of that case will be conducted in Section iii.

Another limitation for prosecutions under CFPOA is that even though its scope should reach activities in Canada or elsewhere (Section 2),⁴ its application by the Supreme Court has been more limited: as stated by Justice La Forest in *R v Libman*⁵ “all that is necessary to make an offence subject to the jurisdiction of our courts is that a significant portion of the activities constituting that offence took place in Canada.” Therefore, Canada has been the “only OECD member that does not provide for nationality jurisdiction” (Tatum, 2013) and, thus, needs to implement a better legislative support and to widen its legal framework in order to move towards greater

³ S.C. 1998, c.34

⁴ Id.

⁵ [1985] 2 SCR 178 at para 74

accountability in fighting corruption. It is in this line of thought that in June 2013 the federal government made significant modifications to CFPOA by adopting Bill S-14, the main effect of which is that any Canadian can be sued for any activity, no matter where in the world. Canadian citizenship is now sufficient for anyone to be prosecuted regardless of where the act of corruption took place. Since the bill came into force recently, the Supreme Court has not interpreted it yet, and such interpretation may change drastically the fight corruption for all Canadian companies, non-profit or for-profit (Arshinoff, 2013).

US Foreign Corrupt Practices Act (FCPA)

CFPOA is equivalent to the US Foreign Corrupt Practices Act (FCPA) that can be enforced on any company listed on the US exchange, including any interlisted Canadian companies. Passed in 1977, FCPA deals with corrupt practices, such as bribery, in order to combat corruption both for companies doing business in the US and US companies abroad. The *Resource Guide to the U.S. Foreign Corrupt Practices Act* (Criminal Division of the U.S. Department of Justice and the Enforcement Division of the U.S. Securities and Exchange Commission, 2012) offers support and guidance to US companies in order for businesses to evolve in an honest and upright marketplace, which aims at being free of corruption and bribery. Its enforcement is supervised by the Securities and Exchange Commission (SEC), which created a special unit to ensure its application.

Over the years, over 200 cases in 80 countries were undertaken for FCPA violations; cases include major companies, such as Ralph Lauren (2013), IBM (2000),

and AB Volvo (2008) (U.S. Securities and Exchange Commission, 2014). Figure 6 diagram summarizes the number of actions brought by the SEC from 2008-2012.



Figure 6. FCPA Actions Brought by the SEC (U.S. Securities and Exchange Commission , 2012).

Implemented in 1977, the Act has led to numerous prosecutions and Figure 6 shows that the last years have been the scene of numerous scandals. As recently as January 9, 2014, the SEC charged Alcoa (a global aluminum producer) for bribery of government officials in Bahrain, representing over \$110M in corrupt payments (U.S. Securities and Exchange Commission, 2014). This scandal will be part of the highest penalties paid under the FCPA, as shown hereafter.

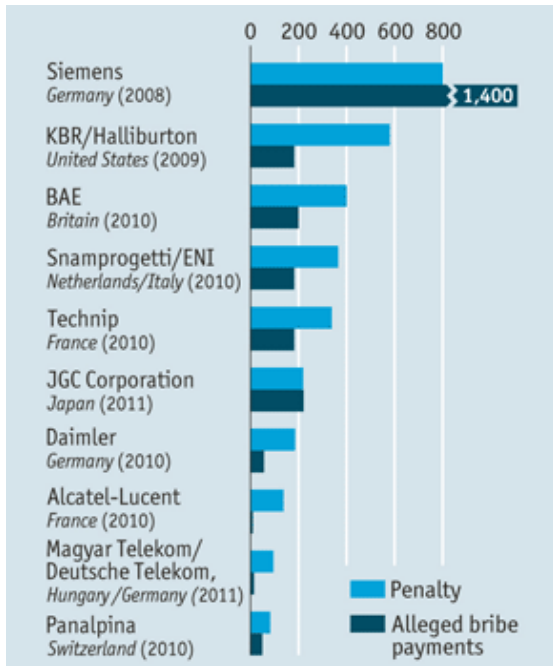


Figure 7. Largest Penalties under the FCPA (The Economist, 2012).

Figure 7 shows that the largest fines issued by the SEC. Moreover, the James Mintz Group provides the best summary of all SEC cases undertaken up to February 2013, with cases reviews and maps indicated in order to understand what happened where. This summary is presented in the figure below (Figure 8) and paints an alarming portrait of the issues occurring around the world.

WHERE THE BRIBES ARE

U.S. Government FCPA Cases Since the 1970s

The Foreign Corrupt Practices Act, passed in 1977, has led to more than 200 cases covering activity in about 80 countries.

INDUSTRY SECTOR KEY		SIZE OF PENALTY* ORDERED BY U.S. GOVERNMENT	
ENERGY	TELECOM	PENDING/ UNSENTENCED	\$1-\$10 MILLION
DEFENSE & AERO	HEALTH & PHARMACEUTICAL	\$0-\$100K	\$10-\$50 MILLION
INFRASTRUCTURE	MANUFACTURING	\$100K-\$1 MILLION	OVER \$50 MILLION
CONSULTING & MISC.	AGRICULTURE		

Information Sources: DOJ, SEC, FBI
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The size of each box within a country box corresponds to the approximate size of the penalty the government assessed. The penalty includes corporate and executive fines, disgorgement, interest, etc. In multi-nation bribery cases, a country's penalty was calculated according to the ratio of the bribes in that country to the total bribes in the case. The combined cases in which a company and its subsidiaries or associates were charged separately, if the bribes were not combined, the penalty was divided evenly among the countries involved. Technically the BNE charges were not brought under the FCPA, but they are commonly included in lists of FCPA cases because the company admitted making payments to foreign officials. We have omitted two cases, one a 1985 SEC case that contained court information about the countries involved, and another a DOJ case in 2011 that included alleged payoffs for LTR contracts. Cases in which penalties totaled less than \$1 million are represented by the smallest boxes.

Updated as of Feb. 21, 2013

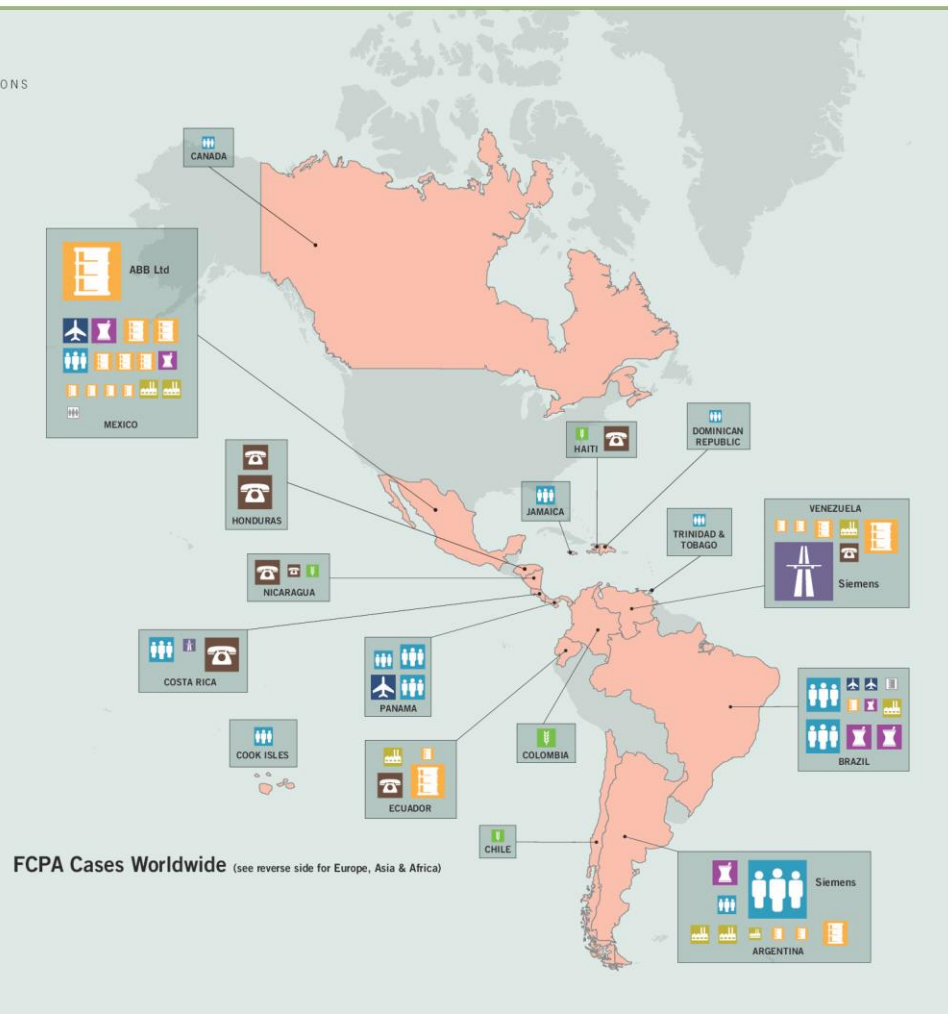


Figure 8. Where the Bribes Are – U.S. Government FCPA Cases since the 1970s. (Mintz Group, 2013)

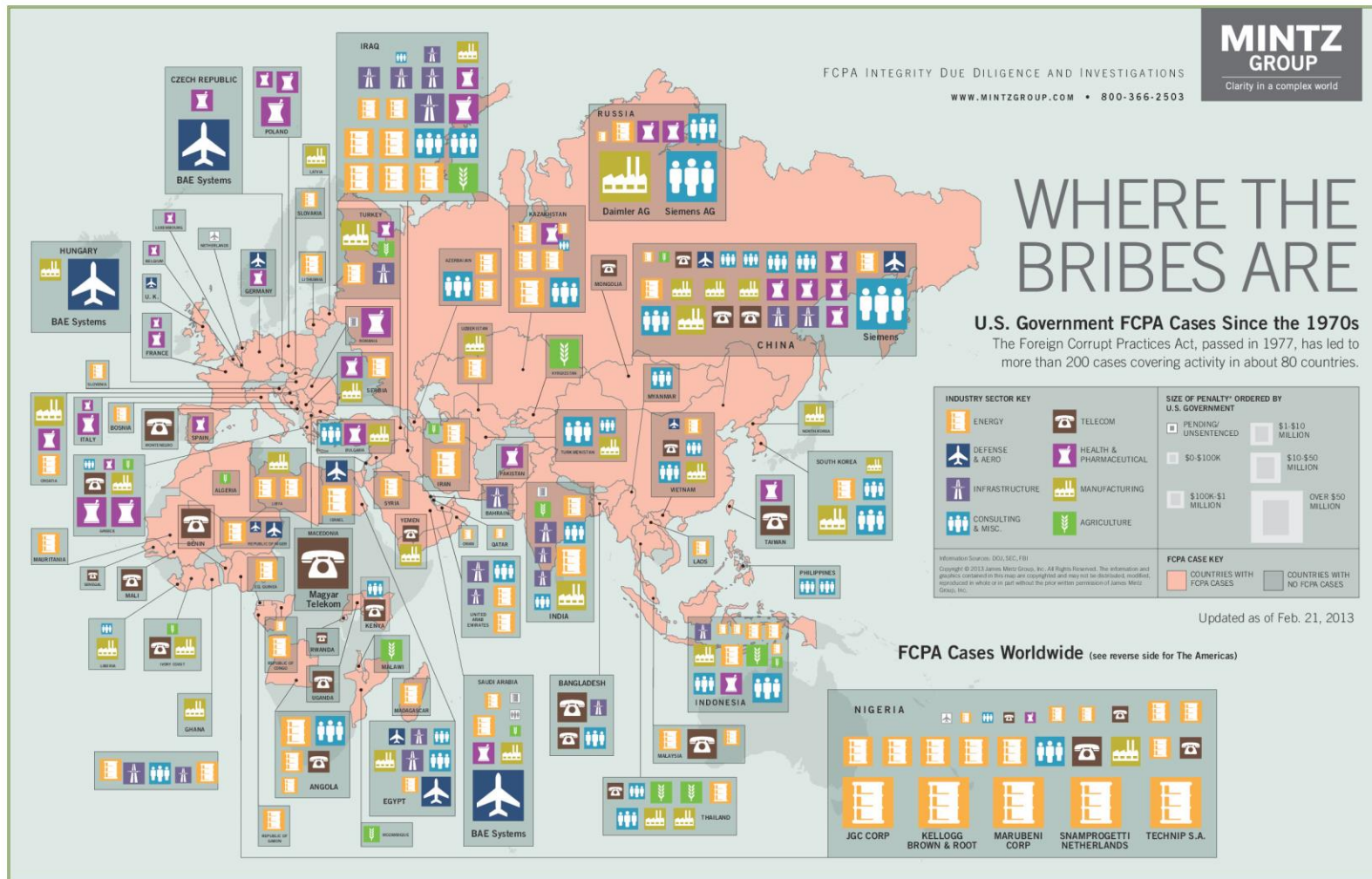


Figure 8 (con't). Where the Bribes Are – U.S. Government FCPA Cases since the 1970s. (Mintz Group, 2013)

United Nations Convention Against Corruption

In December 2005, the United Nations Convention Against Corruption came into force. A year later, the Convention was signed by 140 state parties and ratified by 80.⁶ The Convention was the first to be acknowledged by a broad consensus of countries, but also by society organizations, private, and public. The purpose of the Convention can be summarized as *prevent, combat, criminalize, repress, and support*. The complete table of content can be found in Appendix A. The Article 1 of the Convention can be read as follow:

The purposes of this Convention are:

(a) To promote and strengthen measures to prevent and combat corruption more efficiently and effectively;

(b) To promote, facilitate and support international cooperation and technical assistance in the prevention of and fight against corruption, including in asset recovery;

(c) To promote integrity, accountability and proper management of public affairs and public property. (United Nations Office on Drugs and Crime, 2004)

This Convention—the first of its kind due to its international impact and its global reach—has a major flaw: the absence of mechanism to punish violators. Some signatories argued that enforcement monitoring processes, as well as mechanisms to

⁶ “Ratification implies a commitment to take whatever legislative and administrative measures are needed to make the Convention effective and give it official support”. (Argandona, 2007)

implement the Convention should remain under each country's power, thus limiting the scope of application of the Convention. The UN is not allowed to prosecute violators, which limits the real impact of the Convention on companies. However, it is still a huge step in the right direction, as it shows that most countries are willing to take appropriate measures to fight and eradicate corruption on their grounds (United Nations Office on Drugs and Crime, 2004).

OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions

In 1997, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD, 2011) was adopted and signed by the 34 OECD members as well as by 6 non-members. By ratifying this convention, these 40 countries show their willingness to position themselves as active in their fight against bribery. This convention's intention is to prohibit bribery and, in collaboration with Transparency International (see Section 4.b.3), its implementation has ensured all signatories have passed laws to criminalize bribery. The main threat to this convention is the "lack of consistent enforcement [that] endangers [its] success" (Pieth & Labelle, 2012). Therefore, OECD is monitoring closely the signatories to ensure proper follow-up; however, the signature of the Convention by the four remaining unsigned G20 States—China, India, Indonesia and Saudi Arabia—remains key to its eventual global success.

b. International Agencies Fighting Corruption

Numerous organizations are trying to get involved in the fight against corruption. Since most of these have similar goals and are aiming at comparable objectives, four main organizations are examined below.

World Economic Forum Partnering Against Corruption Initiative (PACI)

Founded in 2004 by a group of CEOs, PACI provides businesses with standards to enhance levels of transparency and ethics when competing in foreign economies. Signatories of PACI principles are committed to a “zero tolerance policy towards bribery and corruption” (World Economic Forum, 2013). The goal is mainly to encourage discussions between businesses and governments in order to reduce the use of corrupt practices and to regroup collective efforts in one platform that benefits from a stronger impact. As of October 2013, over 100 members from all continents are contributing to this initiative. Moreover, they represent over 15 different industries, which, for potential members, is very attractive in order to discuss realities specific to their industries. Figure 9 shows the distribution of these signatories by industry in 2012.

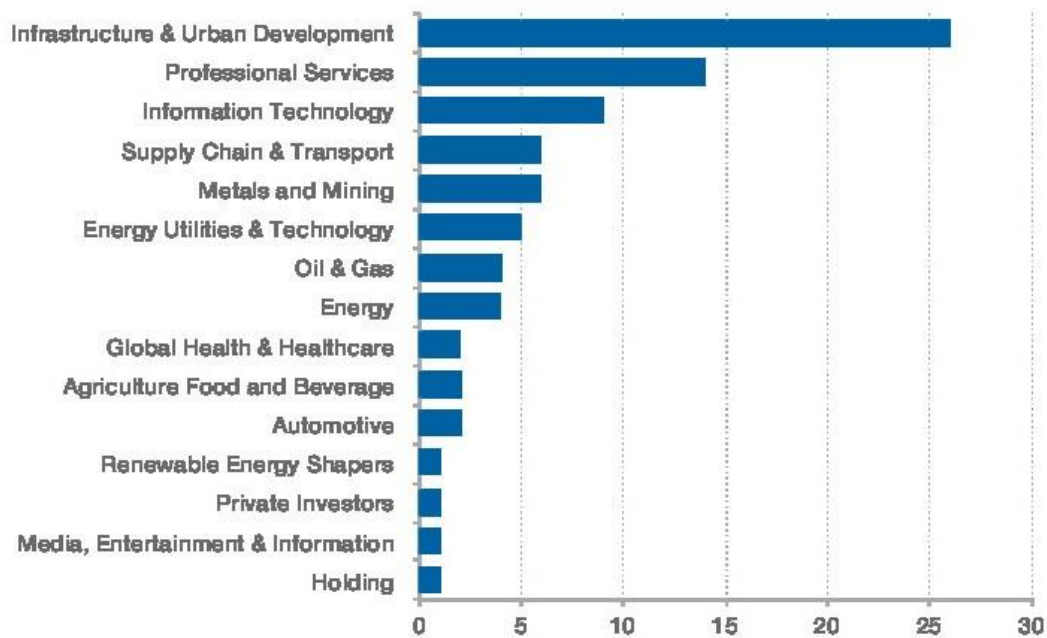


Figure 9. Number of Signatories by Industry, 2012 (World Economic Forum, 2013).

Commission on Corporate Responsibility and Anti-Corruption (International Chamber of Commerce)

In 1977, the International Chamber of Commerce (ICC) was the first to publish rules to fight extortion and bribery. Through the implementation of the Commission on Corporate Responsibility and Anti-Corruption, ICC provides guidelines and codes for businesses to prevent and fight corruption. Through an association of 250 business executives from 40 countries, ICC guides and supports businesses that voluntarily choose to be proactive against corruption by focusing on integrity and corporate governance. ICC's most notable recent actions include:

- Development of an Anti-Corruption Clause (2012) to be included in contracts in order for parties to comply with ICC rules and to prevent corruption
- Development of the ICC Rules on Combating Corruption (2011) which is “a method of self-regulation by international businesses and constitute what is considered good commercial practice in fighting corruption” (International Chamber of Commerce, 2012). This document includes the rules, models of contracts aiming at preventing corruption, and guidelines to develop an efficient compliance program, as well as references to further deepen the comprehension of corruption’s impacts in order to emphasize the prohibition of such practice.

Transparency International

Transparency International, a global coalition against corruption, is currently present in over 100 countries to enhance a collective conscience in regards to corruption and to provide tools for organizations to ban corrupt practices. Tools such as Business Principles for Countering Bribery, Integrity Pacts, and Corruption Fighters’ Toolkits have been elaborated to reduce corruption opportunities in both public and private sector. Finally, Transparency International follows business operations globally in order to publish, on their website, a profile of each country and its relation to corruption. (Transparency International, 2013)

International Anti-Corruption Academy (IACA)

Initiated by the United Nations Office on Drugs and Crime (UNODC) in collaboration with the European Anti-Fraud Office (OLAF) and other participants, the

IACA is based on the premise that professionals need to be ready to face the challenges of the future. Created in 2010, the IACA provides training and support not only to businesses but also to other stakeholders involved against corruption. As the first international initiative against corruption, the creation of the IACA consecrates the willpower of 64 UN member states and three international organizations to address issues related to corruption by providing a holistic approach, as in Figure 10.

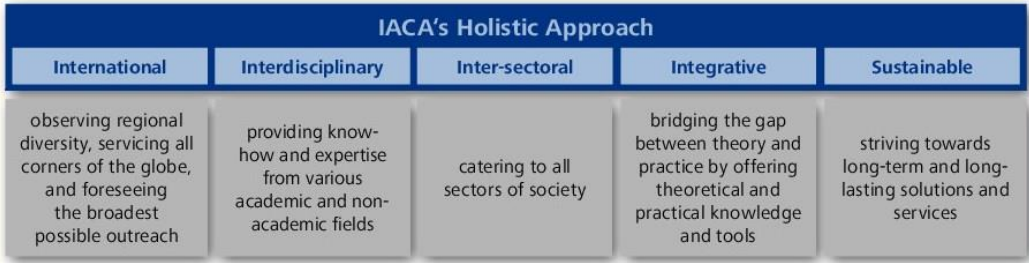


Figure 10. IACA’s Holistic Approach (IACA, 2013).

c. Analysis of a Historic Canadian Case

As stated in this paper, even though the Canadian legal framework seems to be supportive of prosecutions, no prosecution up to the recent *R. v. Karigar* has led to a conviction under CFPOA. Therefore, a study of *R. v. Karigar* judgment is primary to understand what Canadian companies now face when doing business internationally.

R. v. Karigar 2013 ONSC 5199

Being suited under CFPOA for offering bribes or have agreed to offer such bribes to Air India officials and India’s Minister of Civil Aviation to secure a contract, Mr. Karigar has been found guilty under section 3(1)(b) of the Act. Ultimately, the

contract was not awarded to Mr. Karigar's company, Cryptometrics, but evidence showed that Mr. Karigar had an agreement both with Air India and with a foreign public official. The onus of proof of guilt beyond a reasonable doubt secured, the Court found him guilty, with a sentencing hearing to come.

This judgment holds important lessons for Canadian companies doing business in emerging markets. Three main lessons learned included:

- i. Risks from third party agents: the use of local agents is risky and awareness of such reality may prevent a failure, resulting in corporate liability. The need for a thorough examination is central when involving agents.
- ii. A wider definition of *foreign public officials*: the definition is inclusive of both employees of the government but also of employees of state-owned companies, therefore, increasing the spectrum of the regulation.
- iii. Conspiracy to bribe is a fault: the judge also determined that to be in non-compliance with the Act, one need only be in agreement to an offer of bribes; there is no need for bribes to have been taken or delivered (Dattu, Morgan, & Gelbman, 2013).

This first conviction under CFPOA sets a milestone in the application of the Act. Prior to this conviction, some companies had voluntarily disclosed unethical behaviour and fines in excess of \$10.35M have been agreed to (*Her Majesty the Queen v. Griffiths Energy International*, E-File No.:CCQ13GRIFFITHSENER, Action No. 130057425Q1, January 25, 2013). This case highlighted that self-reporting and collaboration can

mitigate the verdict, but also that compliance programs have to be a key component of every company's strategy.

5. Conclusion and recommendations

From the thesis of this paper, "How do Canadian companies doing business in emerging markets navigate the challenges associated with corruption?", conclusions are more difficult to make than it may seem. Navigating in emerging markets is a daily battle as risks and hazards are omnipresent. Therefore, the implications for companies wishing to do international business are huge: from monetary risks to reputational risks, companies face a constantly changing world filled with unprecedented challenges.

In order to complete the literature review provided in the sections above, an answer to the question will be discussed from two perspectives: (1) what should senior leaders do to mitigate threats related to corruption, and (2) what should universities teach to tomorrow's leaders in order to prevent them from entering into corrupt practices.

a. Perspective A: Role of Senior Leaders

Canadian businesses wishing to do business abroad should ensure that their strategy and policies fit with the culture, practices, and regulations of the countries they are entering. These policies need to be applied by senior leaders within organizations, as these leaders most influence their managers. A main issue remains that decision-makers think that they cannot influence the global context in which they are evolving, but this is not the case. Every action taken is a small step towards eradicating corruption.

The Quebec construction industry, as stated in the introduction, was found to have systemic corruption. This corruption was exposed incrementally. A few years ago, a large American engineering firm entering the Quebec market acquired a small, local firm. At acquisition, the American firm sent a clear message to all employees: corruption would not be tolerated at any level and all violators would be dismissed. This reverberated through the entire industry. Within a few months, new procedures were instituted, stopping bids if collusion was apparent and impeding fair approach to clients. Due to the size of the organization, all other firms had no choice and began to follow similar rules: No more collusion, no more contribution to political parties, no more fraud—fair and unbiased proposal, as well as responsible contacts with clients. This example illustrates how one firm's decisions may influence an entire industry.

Five actions of ethical behaviors are suggested, which, supported by business leaders, may curb—or at least reduce substantially the risks of—corrupt practices.

- 1) Establish a strong organizational culture: If employees do know that the company's culture is against corruption, employees will be less tempted to join such practices. In fact, when higher management strongly discourage corruption and promote the intrinsic values of the organization, the staff will follow suit. However, if it is known that some managers are entering fraudulent activities, which can occur at any level, the propensity that these actions will reflect on the employees will be higher.

Moreover, the culture of the organization should promote responsibility for one's actions. If employees do not feel responsible or if they feel that they

were just following orders, chances of involvement in corrupt practices will increase. Therefore, the role of senior leaders is to make every employee aware of their responsibilities starting with themselves as role models.

Further, company culture should also promote a higher management that is accessible to all employees in order for them to feel comfortable to talk if they feel or are aware of any fraudulent actions taken by any employees.

Consequently, senior leaders should work to reduce power distance between them and employees in order to increase individual employee's ability to feel safe to bring forward corrupt practices.

- 2) Promote a zero tolerance policy and punish the violators: By establishing a strong corporate compliance policy, as well as a well-defined code of ethics, both supported by a detailed action plan in case of violations, senior managers will be in a position to prevent, control, and eradicate corruption. The implementation of guidelines is as crucial as the need for training all employees in the guidelines. Follow-ups, internal audit procedures, and reporting requirements are also important.

The challenge for businesses is to develop, maintain, and review these measures to respond to changing circumstances and to ensure their proper respect by employees, from interns to CEOs. Also, senior leaders should be involved in development and implementation of policy control. Moreover, if proof is made that someone acted contrary to policy, immediate punitive actions should be taken in accordance with the punishment established by a compliance policy

handbook. In order to eradicate corruption, no privilege should ever be granted.

The example set by senior managers, the rapidity and efficacy of their actions, as well as their personal involvement against corruption are key to the success of the implementation of a compliance handbook.

- 3) Promote responsible incentives and rewards: Risks of corruption increase if incentives are tied solely to personal goals. In fact, employees may be tempted to any action to meet their goals, and, therefore, corrupt practices may be initiated or furthered. Consequently, an incentive system based on both personal goals and team goals, as well as on goals that are not solely based on numbers can help achieve a balance between the appeals of the incentive system without stimulating unethical behavior.

Further, offering good pay to all employees should also limit the temptation for entering into fraudulent practices. Therefore, senior leaders should work on building a pay and incentive program that will be fair, as well as encouraging ethical behaviours.

- 4) Increase high management awareness towards corruption: Firstly, senior leaders should use tools offered by international organizations developed by specialists against corruption to support their actions. By using these tools, senior leaders may find valuable information that may guide their actions, and, in some case, they may find information that is specific to their industry. However, the main issue remains of lack of awareness of high management in relation to the existence of such material. High management should therefore have a duty to

promote the completion of their knowledge and skills, as well as their managers and leaders, in order to possess required intellectual background to face such issues. Emphasis should be on acquiring a proper skillset to complete conscientiously and ethically tasks and responsibilities delegated by an organization. The understanding of corruption and its underlying effects should be included in every manager's learning process.

- 5) Establish a confidential line/box for complaints managed by an independent firm: Even if managers are reducing the power distance between them and employees, chances of employees speaking directly against someone else to denounce corruption are low. Therefore, senior leaders should promote the establishment of a confidential and independent line or complaint box where employees can anonymously inform on potential violators. Organizations should also employ an unconnected firm to process to an analysis of all complaints received, in order for employees to benefit from an unbiased process. Senior leaders should promote the use of that line and circulate information on the importance of denunciation, while promoting the confidential aspect of it.

b. Perspective B: Role of Business Schools

With hundreds of thousands of students graduating every year, business schools are accountable to provide accurate tools to manage efficiently organizations in a responsible manner. Since many students will find themselves in high-power positions at some point in their career, their education in relation to corruption and fraud is crucial. Therefore, education provided by every faculty member should reflect socially

responsible lessons that will guide these future leaders decision-making. As in the previous section, what follows are five actions and behaviours that should be promoted by business schools to ensure students are not tempted by corrupt practices:

- 1) Promote fairness and equity throughout the school: The first influence from a student perspective is what he or she experiences. Thus, if a school and faculty members engage in unfair practices, the model reflected on students is a portrait of a corrupt society. If some teachers are giving privileges or special favours to some students, the belief that we live in a corrupt world will be enhance in some students mind, who will, therefore, repeat such actions once they graduate, in their personal and/or professional life. Since fraudulent practices can start at a very low level and can be as simple as turning a blind eye to cheating in class, the first thing to do is ensure that fairness is being promoted throughout the school and effectively applied by all faculty members, as well as administrative staff.
- 2) Use the Principles for Responsible Management Education: Sponsored by the UN, this initiative was established to “inspire and champion responsible management education, research and thought leadership globally” (PRME, 2014). These guidelines are to help universities staying “ahead of the curve” by implementing such principles in their daily activities. Students and schools could greatly benefit from the use of such principles. As of now, 534 institutions (14 in Canada) have decided to integrate these values in their curriculum in order to provide students with a more sustainable and ethical schooling.

- 3) Teach business ethics: Corruption prevention as part of business ethics should be included in every business school curriculum. Students cannot be expected to avoid corruption if they cannot define what it means in a business context. Therefore, not only do faculty have the role to define what it is, but they also need to raise cases and discuss issues in their current country, as well as abroad. Business schools need to make students aware of the impact of corruption and how small actions can lead to huge effects on organizations and people. It is essential to educate them on the risks associated with corruption, ethically and foremost legally. Students need to understand the potential impacts of their everyday decisions as employees as well as on their organizations.
- 4) Focus on sustainability and ethical behaviors in all aspect of the curriculum: Teaching business ethics is a good start to educate future responsible businessmen and businesswomen. However, a better way to teach corruption prevention is to integrate ethical behaviors in every class instead of only focusing on business ethics as a general topic: ethical finance, ethical organizational behavior, ethical strategy, as examples. Students need tangible examples of ethical behaviors in every discipline. If, from the beginning of their learning process, students face ethical challenges, their awareness to ethical conflict and potential corrupt practices will be enhanced and, therefore, help reduce risks of them becoming corrupt leaders of organizations.
- 5) Prepare students to face the realities that are intrinsic to power: “Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always

bad men.” This famous remark, by John Emerich Edward Dalberg-Acton (Acton Institute, 2014), summarizes clearly the link between power and corruption. As most students in business school are aiming at high-power position in organizations, they will face challenges associated with power. Since power can be exercised both in a positive and a negative way, business school have a duty to prepare students to both realities and to increase their awareness against the negative. In fact, schools have a mandate to encourage students to exercise positive power, influence, and leadership while instructing them on negative power in order for them to elude it. The perverse effects of power needs to be addressed in order for it to be fully understood; however, teaching student principals regarding corruption avoidance will resolve business corruption. Schools remain one out of many factors that may contribute to a better education, but they are many other learning sources that may influence the full understanding of corruption.

In conclusion, many tools and best practices may be adopted by organizations and business school to contribute to the fight against corruption. However, ending corruption needs to be taken seriously, investing into programmes and policies that will impact the actions of today's and tomorrow's leaders as well as to increase all stakeholders' awareness. The impacts of corruption are great; numerous organizations are caught everyday in a malicious circle of fraud, bribery, and embezzlement that vitiate the marketplace in which responsible companies are trying to operate. The fight against corruption is increasing and every party—from organization to schools and

citizens—need to understand corruption in all its forms to be able to fight against it, while remembering that every small step taken in the right direction will make a difference.

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Appendix 1 United Nations Convention Against Corruption: Chapters and Articles' List

United Nations Convention against Corruption: Chapters and Articles' List

Preamble

Chapter I: General provisions

- Art. 1. Statement of purpose
- Art. 2. Use of terms
- Art. 3. Scope of application
- Art. 4. Protection of sovereignty

Chapter II: Preventive measures

- Art. 5. Preventive anti-corruption policies and practices
- Art. 6. Preventive anti-corruption body or bodies
- Art. 7. Public sector
- Art. 8. Codes of conduct for public officials
- Art. 9. Public procurement and management of public finances
- Art. 10. Public reporting
- Art. 11. Measures related to the judiciary and prosecution services
- Art. 12. Private sector
- Art. 13. Participation of society
- Art. 14. Measures to prevent money-laundering

Chapter III: Criminalization and law enforcement

- Art. 15. Bribery of national public officials
- Art. 16. Bribery of foreign public officials and officials of public international organizations
- Art. 17. Embezzlement, misappropriation or other diversion of property by a public official
- Art. 18. Trading in influence
- Art. 19. Abuse of functions
- Art. 20. Illicit enrichment
- Art. 21. Bribery in the private sector
- Art. 22. Embezzlement of property in the private sector
- Art. 23. Laundry of proceeds of crime
- Art. 24. Concealment
- Art. 25. Obstruction of justice
- Art. 26. Liability of legal persons
- Art. 27. Participation and attempt
- Art. 28. Knowledge, intention and purpose as elements of an offence
- Art. 29. Statute of limitations
- Art. 30. Prosecution, adjudication, and sanctions
- Art. 31. Freezing, seizure, and confiscation
- Art. 32. Protection of witnesses, experts, and victims
- Art. 33. Protection of reporting persons
- Art. 34. Consequences of acts of corruption
- Art. 35. Compensation for damage
- Art. 36. Specialized authorities
- Art. 37. Cooperation with law enforcement authorities
- Art. 38. Cooperation between national authorities
- Art. 39. Cooperation between national authorities and the private sector
- Art. 40. Bank secrecy
- Art. 41. Criminal record
- Art. 42. Jurisdiction

Chapter IV: International cooperation

- Art. 43. International cooperation
- Art. 44. Extradition
- Art. 45. Transfer of sentenced persons
- Art. 46. Mutual legal assistance
- Art. 47. Transfer of criminal proceedings
- Art. 48. Law enforcement cooperation
- Art. 49. Joint investigations
- Art. 50. Special investigative techniques

Chapter V: Asset recovery

- Art. 51. General provision
- Art. 52. Prevention and detection of transfers of proceeds of crime
- Art. 53. Measures for direct recovery of property
- Art. 54. Mechanism for recovery of property through international cooperation in confiscation
- Art. 55. International cooperation for purposes of confiscation
- Art. 56. Special cooperation
- Art. 57. Return and disposal of assets
- Art. 58. Financial intelligence unit
- Art. 59. Bilateral and multilateral agreements and arrangements

Chapter VI: Technical assistance and information exchange

- Art. 60. Training and technical assistance
- Art. 61. Collection, exchange, and analysis of information on corruption
- Art. 62. Other measures: implementation of the Convention through economic development and technical assistance

Chapter VII: Mechanisms for implementation

- Art. 63. Conference of the States Parties to the Convention
- Art. 64. Secretariat

Chapter VIII: Final provisions

- Art. 65. Implementation of the Convention
- Art. 66. Settlement of disputes
- Art. 67. Signature, ratification, acceptance, approval, and accession
- Art. 68. Entry into force
- Art. 69. Amendment
- Art. 70. Denunciation
- Art. 71. Depositary and languages

(United Nations Office on Drugs and Crime, 2004)