

# Avoiding Corruption

How can Norwegian multinational companies avoid corruption in countries where this is a wide spread problem?  
-Establishment of best practice.

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*This Master's Thesis is carried out as a part of the education at the University of Agder and is therefore approved as a part of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.*

## **I. Abbreviations:**

BAE	– British Aerospace
BCG	– Business Conduct Guidelines
BPCP	– Business Principles for Countering Bribery
GDP	– Gross Domestic Product
IAGGA	– International Anticorruption and Good Governance Act
ICC	– International Chamber of Commerce
MNC	– Multi National Company
NMC	– Norwegian Multinational Company
NMFA	– Norwegian Ministry of Foreign Affairs
NSR	– The Norwegian Business and Industry Security Council)
OECD	– Organization for Economic Co-operation and Development
OSX	– Oslo Stock Exchange
PAM	– Principal Agent Model
SMB	– Small Medium sized Businesses
TI	– Transparency International
UN	– United Nations
UNGC	– United Nations Global Compact
UNHR	– United Nations Human Rights
WB	– World Bank

## II. Executive Summary:

This thesis combines the knowledge and practices of five Norwegian multinational companies doing business with, or within, relatively corrupt countries and the suggested guidelines and principles of leading international initiatives for establishing a best practice on how to avoid corruption. The author seeks to pinpoint some of the most relevant corruption-related aspects of international business today, and those whom Norwegian multinational companies frequently face abroad:

1. Cultural differences and practices,
2. Legislation and different jurisdictions,
3. Internal preventive measures such as corporate social responsibility programs, corporate codes of conduct, and towards employees and third parties.

The findings show that cultural differences and practices are somewhat diluted compared to a few centuries ago, but still important to pay attention to, and more importantly to respect to achieve a mutually beneficial and safe long-term relationship. Legislation and continuous changes are difficult to comply with, even for Norwegian multinational companies. Failing to comply is not an option, and as a result of this, and increasing awareness on CSR issues in general, companies have developed highly sophisticated internal compliance groups and corporate codes of conduct in the battle against corruption.

### III. Acknowledgements:

This thesis is obligatory and counts for 30 ECTS points. It is the final assignment to end my five-year long master studies and to achieve a Master of Science in International Management and Strategy at the University of Agder. The main purpose of the thesis is to teach students how to use scientific methods to analyze a given problem. By doing so, the thesis will give student the opportunity to go in depth in one or several subjects relevant to the education, as well as giving the student experience in doing scientific work.

Ethical issues started to grasp my attention during the first year in master level, while taking cultural and ethical related courses. Combined with the actual challenges that exist in the business environment gave me the curiosity to dig further into a subject that some consider being *the* main cause of many problems: *corruption*.

Corruption is a big and complicated phenomenon that takes on many faces. Much can be said about it and much can be considered as relevant to include in a thesis about corruption. Given the limited time, and acknowledging the fact that it is difficult to grasp the essence of all related subjects, the final result covers only a tiny part of the problem. Hopefully this tiny part can be beneficial, not only for those who have contributed, but for other Norwegian companies as well. Consider it as a contribution to those who face challenges related to corruption, so that they can better prevent corruption from happening.

I will give my sincere thanks to Andreas W. Falkenberg for being a highly valued resource, giving support, advice and inspiration during the process of writing this thesis. We have had many interesting conversations that have given me both motivation and inspiration.

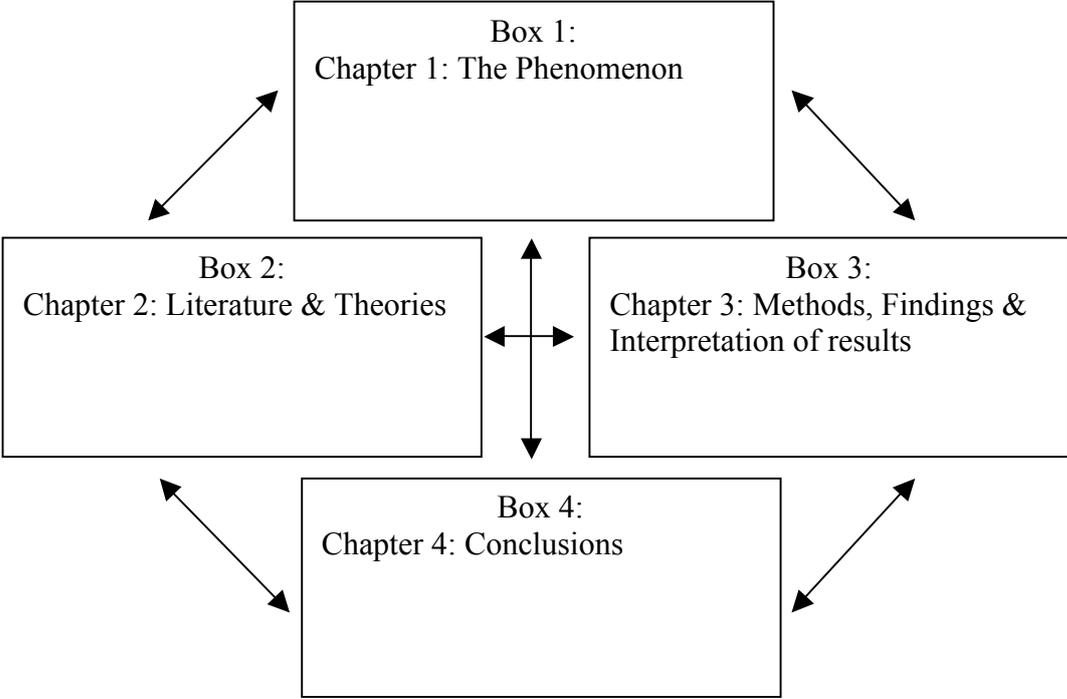
I would also like to thank former fellow exchange student Jake Unger for proofreading, colleagues, family, friends and my girlfriend for the support when priorities and efforts were put into this thesis rather than their attention. Last but not at least, writing this thesis would be impossible without the contribution I have received from the companies that have participated, giving me useful insights and experience in their work against corruption.

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This thesis is build up as suggested by Andreas W. Falkenberg, consisting of four boxes. The boxes are interrelated and build on each other.



Source: Falkenberg, A.W., Scholarly Thesis Writing.

## IV. Introduction and Contextual Placement:

Corruption has been around for centuries, but never before has corruption received so much attention as it does today. The reason for this is simply that we know more about corruption now than we did previously, thanks to the work of devoted researchers and international ethical initiatives.

Corruption comes in many forms and sizes, but it is basically theft. It is the opposite of Robin Hood, where the rich steal from the poor, leaving the lowest ranking people in societies suffer from their greed. More gently defined, corruption is “*the abuse of entrusted power for private gain*”, i.e. require money from people for whom you activate or speed up processes, or to enhance your position. This often occurs in bidding contests between private companies seeking to influence the decisions of public officials, often through strategic middlemen.

Corruption is a subject that is difficult to gather correct data about, because it is illegal and a crime, and therefore it is hidden from the public view. What we know, however, is that corruption has devastating effects. As time goes by, and as researchers and international initiatives cover new territory, the increasing need for change is becoming more and more obvious.

Dow Jones reports that in Russia in 2010, corruption counted for at least 50 percent of the country’s GDP – equivalent to \$ 650 billion. In Africa, the Kenya Anti-Corruption Commission reports that nearly 40 percent of the African GDP is lost in corruption. An IMF research paper dating back to 1998, based on a survey in 37 countries, found that corruption affects income inequality and poverty at a rate of 10 percent of GDP. All in all, GFI (2008) estimates that corruption costs approximately \$ 690 billion per year. Important for Norwegian multinational companies and international business in general; TI reports that corruption increases the cost of doing business by as much as 10 percent, and thus there should be plenty incentives for companies to develop and implement stricter internal anti-corruption policies, measures and guidelines.

The Norwegian industry is highly internationally oriented with a heavy presence on the international market, especially in the fields of oil & gas, shipping power transmission and construction (Søreide, 2004). Being internationally oriented brings along challenges related to

cultural differences and practices, different laws and legislations. Thus, the probability of facing corruption increases. There is no doubt that there is a possible negative competitive aspect linked to being the “one” that refuses to do corrupt business, and thus, Norwegian companies must ensure that their business practices and ethical standards are capable of dealing with both corruption and competition.

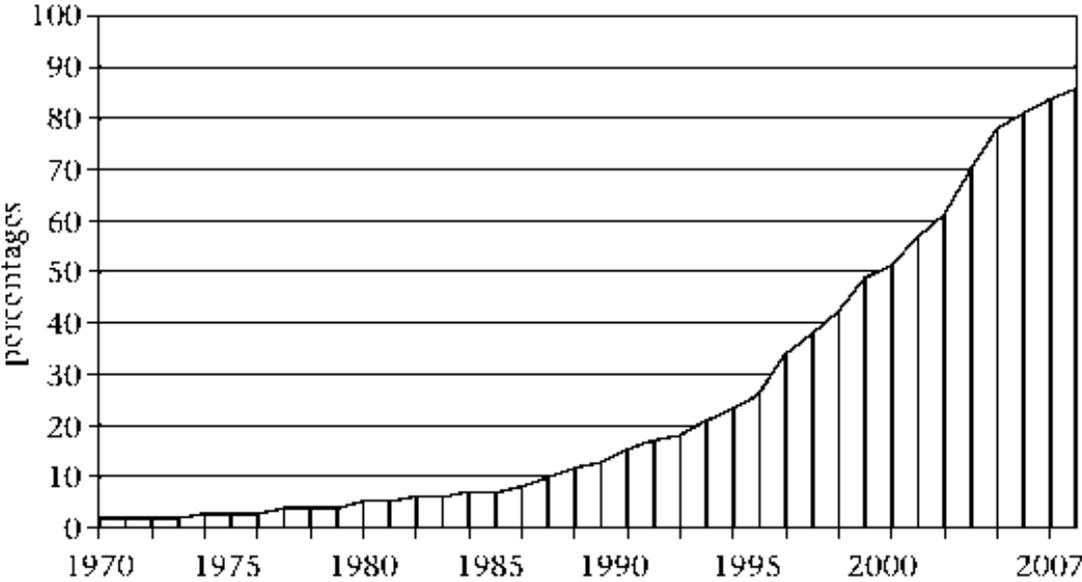
Research shows that Norwegian companies face corruption from time to time, and that most western people have negative associations with it because it is less a part of our culture compared to other cultures. In a recent survey done by the Norwegian insurance bank and insurance company Gjensidige, published in the Norwegian newspaper Aftenposten, four out of ten of the Norwegian companies asked answered that they, to some extent, have to take part in corrupt activities abroad to stay competitive. Surveys conducted by NSR found that 10 % of the 813 interviewed CEOs in Norwegian companies know of actual cases of corruption within their industry during the year 2010. What type of corruption, companies, specific industries and in which countries are unknown.

A 2009 PwC survey among Norwegian SMBs found that 80 % of the asked companies had developed and implemented anti-corruption programs, while only 22 % responded that the program was good enough. Other relevant findings from the survey are that 55 % of the respondents answered that reputation risks is what they are most afraid of, 28 % answered that their company did not communicate their efforts well enough, 45 % had avoided entering specific foreign markets due to the risk of getting involved in corruption, 45 % had experienced losing out on a contract due to corruption. 42 % had experienced competitors with unethical behavior, paying bribes and the like.

A 2008 Synovate Norway survey, among general managers or staff in charge from 300 Norwegian companies, found that many of the company representatives has a vague understanding of CSR but a positive attitude towards it, and that larger companies has a greater awareness of CSR issues compared to smaller companies. The survey further reveals that 54 % of the companies have written guidelines on CSR, that the responsibility for CSR lies with senior manager or no one person in particular, 44 % report on CSR, e.g. in their annual reports, and that CSR related issues are discussed frequently in 28 % of executive management teams and in 20 % of company boards.

The 2009 Global Corruption Report of TI shows that companies with anti-corruption programs and ethical guidelines have up to 50% fewer incidents of corruption and are less likely to lose business opportunities, relative to companies without such programs and by implementing operational and functional anti-corruption programs and ethical guidelines, employees and partners have a reliable tool to use when they face situations that are either doubtful or illegal. The 2009 report also presents an overview on the trend of having its own ethical guidelines implemented in the time span from 1970 to 2008 among the Fortune Global 200 companies.

**Figure 1: Ethical guidelines implemented among fortune 200 companies (1970 – 2008):**



Source: Transparency International, Global Corruption Report 2009.

A 2009 survey conducted by the Norwegian project “*Bærekraftig Verdiskaping*” (sustainable value creation) consisting of the biggest Norwegian financial investors, found that anti-corruption policies and efforts are among the highest ranking priorities in Norwegian companies. In a Price Waterhouse Coopers survey done for TI in 2009, the goal was to find out to what extent efforts on anti-corruption was present in the 25 biggest Norwegian companies listed on OSX. The findings showed that most of these companies had information about relevant values, ethical guidelines and anti-corruption policies on their home page, but that it was difficult to retrieve. 64 % of the companies presented values in a way that confirmed or showed that anti-corruption policies is an important aspect of their every-day business operations. 57 % of the companies announced their ethical guidelines on their home

pages. 44 % of the companies presented information that is likely to constitute a part of a program that intends to fight corruption, but few companies seemed to have comprehensive anti-corruption programs.

A master thesis survey conducted by Odd Sverre Volle (2011) on sustainable development and corporate social responsibility among Norwegian companies listed on OSX found that issues related to environment and labor practices ranks higher than corruption.

The Ernst & Young European Fraud Survey, 2011, conducted through interviews with 2365 employees from 25 different countries, reports that one out of five respondents find it acceptable to pay bribes to win or retain business. There has been little progress in this field since the 2009 Ernst & Young European Fraud Survey, and the reason for this is mainly that one out of four respondents do not trust their management to behave ethically and 59% of those interviewed expect management to cut corners in order to achieve targets, and half of management agrees.

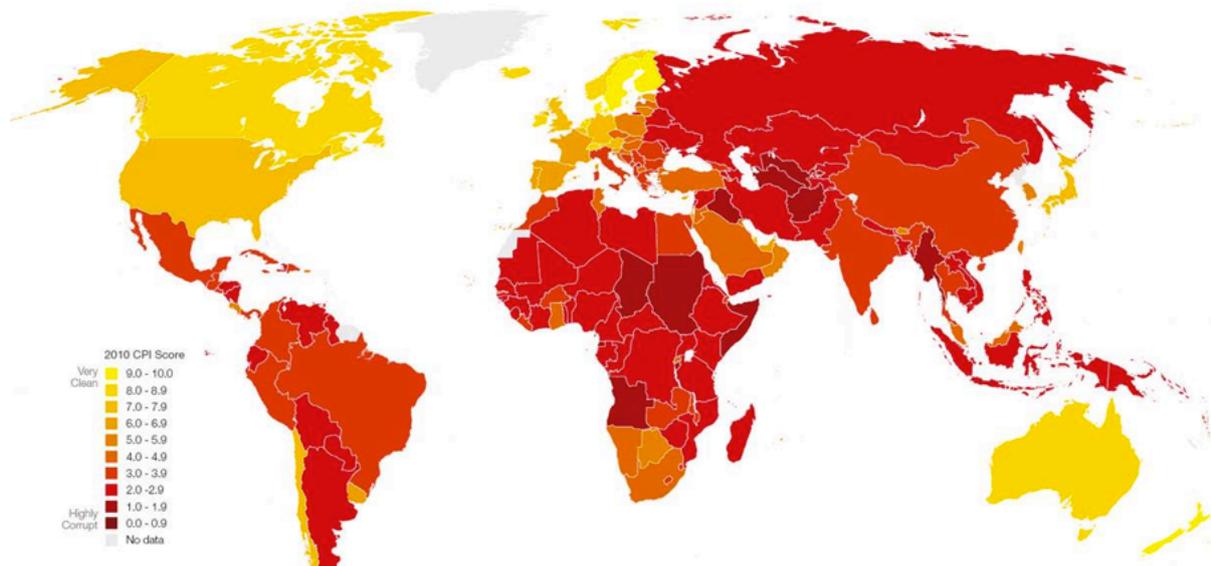
## V. Limitations:

This thesis addresses Norwegian companies with operations abroad. Norwegian multinational companies are used as a collective term for all Norwegian companies doing business abroad.

This thesis does not address petty corruption, such as giving of small gifts, paying for a lunch and the like. The intent of this thesis is to provide guidelines for how to avoid getting into corruption in broader and more harmful measures, such as paying bribes to decision makers and public officials, getting involved in corrupt networks or doing business on unethical and potentially corrupt premises.

Corruption exists all over the world, but in some countries to a larger extent. Transparency International and their Corruption Perception Index rank countries based on their perceived level of corruption.

**Figure 2: Corruption Perception World Map, 2010:**



Source: Transparency International, Corruption Perception Index 2010.

As the 2010 maps shows (red=corrupt), most parts of Asia, Africa, South America and Eastern Europe are relatively corrupt compared to North America, Western Europe, Japan and Oceania. The data presented, and the definition “wide spread” is based on a general assumption of the information available in the market and the Transparency International

Corruption Perception Index that shows some countries to be relatively corrupt compared to other countries. What makes countries corrupt is not based on any “hard facts”, because such evidence is hard to come by (Rose-Ackerman, 1999).<sup>1</sup> Gundlach and Paldam (2009) argue that there is a Corruption Transition; as countries get rich, corruption tends to vanish.

According to the Bribe Payers Index (BPI), corruption exists in every industry. BPI measures corruption across industries and across nations. The index provides a clear indication on how common bribery really is within different countries. Exporting and foreign-investing countries and their companies are measured on their relationship with, and acceptance of bribery. The richest countries are those who often score best, but still bribery still occurs. The worst companies are often those from developing countries. Industries in which corruption is most likely to occur are (1) contracting and construction, (2) weapon and defense industries, (3) energy/extracting industries, such as oil and gas, (4) real estate & property and (5) telecommunications industry. The participants in this thesis represent three out of five of these industries.

Governments and social networks are generally complex and often work as hidden channels for corruption, in which social relations and confidentiality make it possible to “hide” corruption from the public. This thesis does not pay extensive attention to the complex social networks and relations that may exist domestically and internationally.<sup>2</sup>

There is no intention to prove or falsify anything related neither to corruption, any related subject nor about the companies that has kindly agreed to participate.

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<sup>1</sup> Some types of governments, i.e. democracies and regimes tend to promote corruption more than others. See appendix 5.1.1 for a brief review.

<sup>2</sup> For insights on corruption in Norway, see Carl August Fleischer (2006), *Korrupsjonskultur, Kameraderi og tillitssvikt i Norge*.

# 1. The Phenomenon:

## 1.1 What?

Corruption is theft. Corruption is the “*abuse of entrusted power for private gain*” and it has devastating effects on entire nations, cultures and individuals. Corruption has the ability to speed up business transactions, gain priority access to resources and deal with governmental related problems, which is why some many people embrace it.<sup>3</sup> The Norwegian industry is highly outward oriented and highly dependent on international business. Norwegian multinational companies are some of the best in the world with respect to ethical standards and business practices, but research shows that there are still plenty of challenges regarding ethical issues in general, and corruption.

## 1.2 Why?

It has been proven that corruption is harmful for a country as a whole, its inhabitants, economic development and its ability to trade internationally. Corruption has effects on government expenditure, deprives development and human rights, creates tax havens, distorts competition and in general reduces the economic efficiency of a country as a whole.<sup>4</sup> Norwegian companies might face legal risks, reputation risks and negative network associations if they get involved in corruption. This is why it is important to avoid corruption. In the future there will be increased interaction and trade between different cultures and companies. As different cultures try to equally enhance value creation, there might be different ways of doing so. For Norwegian companies to stay competitive in the future, it is important for them to pay close attention to ethical issues such as corruption.

## 1.3 How?

To assess the problem of corruption it is important to understand the underlying factors, as well as the repercussions of corruption. This will be elaborated in the theoretical part, where corruption will be described briefly followed by discussion of underlying theories that are relevant in order to properly address the problem of corruption, and relevant aspects of it. The analysis and the empirical part will be based on a set of interviews with representatives from Norwegian multinational companies and a brief comparison of the company codes of conduct

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<sup>3</sup> See appendix 5.1.2 for a brief literature review on basic conditions for corruption.

<sup>4</sup> See appendix 5.1.3 for a brief literature review on the effects of corruption.

and suggestions/guidelines from ethical initiatives to qualitatively establish a “best practice” on how Norwegian multinational companies can avoid corruption.

## 2. Theory:

The purpose of this section is to address relevant theories suggested by researchers, authors and ethical initiatives that can be used later in the analysis as a basis to confirm, compare, discuss and disconfirm new findings.

The first part is a set of useful definitions, followed by what current research and viewpoints of anti-corruption initiatives suggests as the most important steps towards reducing corruption. For private companies relevant measures are to appropriately deal with cultural differences, respect legislation and the viewpoints of leading anti-corruption guidelines, implement internal measures such as operational corporate codes of conduct and education of employees (Transparency International – Business Principles for Countering Bribery, 2009). These are the steps that are addressed in the theory part.

### 2.1 Useful Definitions:

The definitions in this chapter cover general subjects that are related to the phenomenon. In the following chapters more specific subjects and related definitions are provided step-by-step as the reader continues.

#### 2.1.1 Corruption:

Since there are so many types of corruption, each isolated case of corruption being different from another, it also has many different definitions. Most of the definitions relate to public corruption but they are also applicable to private corruption, which is corruption between private parties.<sup>5</sup> The most used definitions are those from World Bank, Transparency International and United Nations Global Compact. WB defines corruption as: “...*the misuse of public office for private gain*” while TI and the UNGC define corruption, as “*abuse of entrusted power for private gain*”. Next, they distinguish between “*according to rule*” and “*against the rule*” corruption, which is a genuine example of the cultural differences that exists in the world today and the blurred boundaries of international regulations. What is being characterized as corruption in one country or culture might constitute the norm of everyday business elsewhere. Rose-Ackerman (1978) suggests that corruption arises when

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<sup>5</sup> The UK Bribery Act includes the private corruption. Most legislation only includes the public sector.

*“some third person, who can benefit by the agents actions, seeks to influence the agent’s decision by offering him a monetary payment which is not passed to the principal”.*

The most common form for corruption is bribery, which is an *“offer of money or favors to influence a public official”* or *“the offering, promising, giving, accepting or soliciting of an advantage as an inducement for an action which is illegal or a breach of trust”* (TI-Business Principles for Countering Bribery). In an event of corruption, herein bribery, there is always a minimum of two parties involved, engaged in what is often referred to as active and passive corruption. Active corruption or “active bribery” is defined by OECD as *“paying or promising to pay a bribe”*. Passive corruption or “passive bribery” is defined by U4 as *“the offence committed by the official who receives the bribe”*.

There is an important distinction between administrative corruption *“that alters the implementation of policies, such as getting a license even though you are not qualified for it”* and political corruption *“that influences the formulation of laws, regulations, and policies, such a revoking all licenses, and gaining the sole right to operate in monopoly”*.

Another important distinction is between grand corruption *“involving substantial amounts of money and often high-level officials”* and petty corruption *“involving smaller amounts of money and typically junior level officials”* where national laws, regulations and norms can differ.

According to Søreide (2004), the most common grey zones and types of corruption in international business transactions are those with an unclear judicial status:

1. *Facilitation payments*, or smaller bribes paid get things done. The defense of facilitation payment is often based on a lack of bargaining power.
2. *Marketing* targeted at specific individuals, where expensive gifts and excursions are offered to encourage informal relations with the potential client. Many firms claim this kind of marketing to be essential.
3. *Political pressure*, for instance in the form of subsidies, export-credit deals or aid, sometimes also presented as threats of political sanctions.

### 2.1.2 Institutions:

An institution is defined as “*an organization founded and united for a specific purpose*” (Princeton, 2011) or as “*humanly devised constraints that shape human interaction*”.

Institutions, as we know it, constitute the foundation and building pillars of any society.

There is a difference between formal and informal institutions. Formal institutions being the “hard evidence” such as written laws and documents not subject to judgment, while informal institutions are referred to as the subjective judgment and enforcement of such laws, documents and norms.<sup>6</sup>

Institutions differ from one country to another. Governmental imposed institutions are those who promote transparency. If they are absent, the level of transparency will be relatively low. In countries where corruption is common, it is often because of inadequate institutions. This is why the effects of institutions are not identically comparable under different jurisdictions or in across different cultures. The main intention of institutions is to *shape human interaction* in a way that is positive, contributive to growth and human flourishing.

*Corruption should be understood as a behavioral pattern that always appears as a consequence of an institutional failure, which may however be unavoidable if other goals have to be attained” (Colombatto, 2001).*

Even if we know that institutions cause growth, we know little about which institutions are fundamental in the growth-process (Rose-Ackerman, et. al. 2006). Countries differ in their orientation towards corruption and thus the efforts put into establishing adequate institutions to deal with corruption differ. Some countries have other goals that they focus on, despite corruption being a problem, and thus anti-corruption is less likely to be the highest priority (Colombatto, 2001).

Institutions play an important preventive role by providing a legal framework to social guidance, and law enforcement. The absence of adequate institutions or institutional failure tends to promote patterns of corruption (Colombatto, 2001). However, institutional quality is

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<sup>6</sup> For a throughout discussion, see <http://plato.stanford.edu/entries/social-institutions/>

of great importance to a country's overall economic growth potential, economic efficiency and securing property rights (Knack & Keefer 1995).

In countries going through a transition or countries that are less developed, where there are blurred lines between the government and citizens, people tend to have difficulties relying on and trusting newly established institutions because they are skeptical about the institutions ability to influence the government (Rose-Ackerman 2001). In order to gain credibility among citizens, institutions have to climb on to solid ground. The aim of building institutions, and important to communicate to citizens, is that institutions increase the level of accountability and at the same time they reduce the discretionary power of public officers because institutions interfere with already established corrupt networks (Bardhan, 1997).

### **2.1.3 Business Ethics:**

Ethics is defined as *“the discipline that examines one's moral standards or the moral standards of a society”* (Princeton, 2011). Moral is defined as to what extent an individual is *“concerned with principles of right and wrong or conforming to standards of behavior and character based on those principles”* (Princeton, 2011). Business ethics is defined as *“the application of morals to behavior related to the exchange environment”* (Zikmund, et. al. 2010, p. 88).

#### **2.1.3.1 Moral and Ethical Relativism:**

Ethical relativism theory holds that morality is different within cultures, in which what is right and what is wrong depends on the norms and laws of the society. One action might be morally correct in culture A, but totally forbidden in culture B and thus ethical relativism occur.

What *we* see, and what *we* western people think is ethically correct in terms of corruption, human rights and the equality of human life, such as caste systems, is shown to be totally different from what is practiced in other parts of the world, especially in emerging and developing countries (Falkenberg, 2004).

Moral relativism is what people perceive as right and wrong and good and bad, based on the fact that the moral of people is not universal, just as ethics and cultures are not universal. If there exists a state of relativism, it often refers to the many different cultural practices on how

things can be done in the most appropriate manner. There are two main forms of moral relativism (Stanford Encyclopedia of Philosophy, 2011):

- *Descriptive Moral Relativism* (DMR). Based on the empirical moral differences and disagreements that exist across societies and that “*these disagreements are much more significant than whatever agreements there may be*”.
- *Metaethical Moral relativism* (MMR). Based on the truth or falsity of moral judgments and/or their justification as not absolute nor universal, but “*is relative to the traditions, convictions, or practices of a group of persons*”.

Moral and ethical relativism shows that the appropriate reaction to corruption is not universal, nor is it universally applicable. Companies receive a lot of criticism from NGOs, especially within the areas of human rights, environment and justice (Falkenberg, 2004):

*When you are in Rome, it might not be right to do what the Romans do, if the local institution allows feeding Christians to the lions.* (Falkenberg, 2004)

Ethical relativism stems from different the national and cultural differences that exist, which can be referred to as legal relativism and cultural relativism. Legal relativism refers to the legal system within a country, often a result of the adequacy of the institutional framework. Cultural relativism is formed on basis of the cultural values. They tend to deviate from each other when comparing different cultures. Common for moral relativism and ethical relativism is that the differences that may occur are those creating what we can identify as tension, and the tension is what creates problems in a world we wish to unite. We must remove incentives for corruption, herein ethical and moral relativism, to defeat corruption in the international business arena.

### **2.1.3.2 Ethnocentrism:**

It is common to believe that the culture you belong to and the values within it are better than all others. Ethnocentrism is defined as the “*belief in the superiority of one's own ethnic group*” (Princeton, 2011). Ethnocentrism exists in every culture and range from good and useful, such as pride and identity, all the way to bad and destructive, such as ethnic cleansing, i.e. the extermination of Jews during World War Two (Falkenberg, 2009 – Lecture notes).

### **2.1.3.3 Rights:**

A right: “*an abstract idea of that which is due to a person or governmental body by law or tradition or nature*” (Princeton, 2011). According to Buchholz (2009) a person has a right when that person is entitled to act in a certain way or is entitled to have others act in a certain way toward him or her (Buchholz 2009). Typically there exist two types of rights; legal rights that are created by law-making institutions and moral rights that are a result of a person's cultural belonging. Moral rights are those that human beings of every nationality possess to an equal extent simply by virtue of being human beings. These rights are not only limited to a jurisdiction, but are universal (Velasques, 2006).

Rights are highly correlated with duties, in which if a person has a right, assumingly someone has a duty to fulfill that other person's right. If you, by law, have the right to free health care in your country, then someone has the duty to fulfill your rights. Or, if you have the right to live a life in freedom according to UN Human Rights, then someone has a duty to make sure you are able to do so. It is important, however, to understand that even though there are rights and duties, a high level of inadequate institutions is likely to deprive those rights by not doing their duties.

Donaldson (1989) presented a model with correlating rights and duties for MNCs to view as minimum duties for them to commit to (Falkenberg, 2004).

**Table 1: Rights and Duties for Multinational Companies:**

	Duties		
Rights	(A) Avoid depriving	(B) Help protect from deprivation	(C) To aid the deprived
Freedom of physical movement	X		
Ownership of property	X		
Freedom from torture	X		
To a fair trial	X		
To non-discrimination	X		
To physical security	X	X	
To freedom of speech and association	X	X	
To basic education	X	X	
To political participation	X	X	
To subsistence	X	X	

Source: Donaldson, 1989 (as presented in Falkenberg, 2004).

The model contains three categories of duties (A), (B) and (C). Given that companies have the duty to avoid depriving (A), they also help protect from deprivation (B). Given that a company does not employ all people, it would be a too far reach to demand that companies should aid the deprived, given (A) and (B).

**2.1.3.4 Justice:**

Justice is the concept of moral based on ethics, rationality, law, norms, fairness, equality, including more or less all subjects where there might arise a problem of interest or conflicts. Justice is defined as “*the quality of being just or fair*” and “*judgment involved in the determination of rights and the assignment of rewards and punishments*” (Princeton, 2011). The existence of justice is generally seen as crucial to maintain stability in societies, but also to guide the society towards a rightful future, without strangling or retaining necessities that are crucial for people and societies to prosper, grow and live flourishing lives.

Institutions are mostly the providers of “visible justice”, in which they have the power by law to enforce and serve the society. However, moral aspects such as whether corruption is right or wrong are an ethical challenge, which requires adequate institutions for just and fair guidance.

In his book *A Theory of Justice*, Rawls (1971) presents his theory of justice; the concepts of all social primary goods, such as freedom, opportunity to flourish, equality and self realization, income and wealth are to be distributed equally, if such a distribution is favored.

Rawls two principles of justice hold that (Western Kentucky University, 2011):

1. Principle of equal liberty: *Each person has an equal right to the most extensive liberties compatible with similar liberties for all.*
2. Difference Principle: *Social and economic inequalities should be arranged so that they are both to the greatest benefit of the least advantaged persons, and attached to offices and positions open to all under conditions of equality of opportunity.*

Rawls' principles are widely adopted by such as NGOs, and serves as overall objectives that are seen as ethically correct.

Justice and corruption does not go hand-in-hand because, as shown earlier, corruption undermines and deprives peoples lives, people are deprived of their rights and social and economic inequalities are *not* arranged to the greatest benefit of the least advantaged persons.

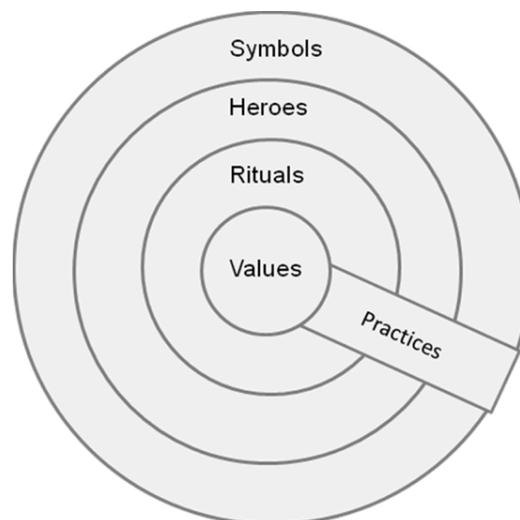
## 2.2 Culture:

Culture is defined in many ways: “*the system of shared beliefs, values, customs, behaviors and artifacts that the members of society use to cope with their world and with one another, and that are transmitted from generation to generation through learning*” (University of Manitoba, 2011). Hofstede (1991) defines culture as “*The collective mental programming of the people in an environment. Culture is not a characteristic of individuals; it encompasses a number of people who were conditioned by the same education and life experience*”.

Kluckhohn et al. (1951) defines it as “*a conception, explicit or implicit, distinctive of an individual or characteristic of a group, of the desirable which influences the selection from available modes, means and ends of action*”.

Hofstede (2001) presents the manifestations of a culture in his “culture onion”, in which the ones closest to the center are the most deeply rooted and those most difficult to change, e.g. religion or ways of exchanging money and privileges.

**Figure 3: Cultural Onion:**



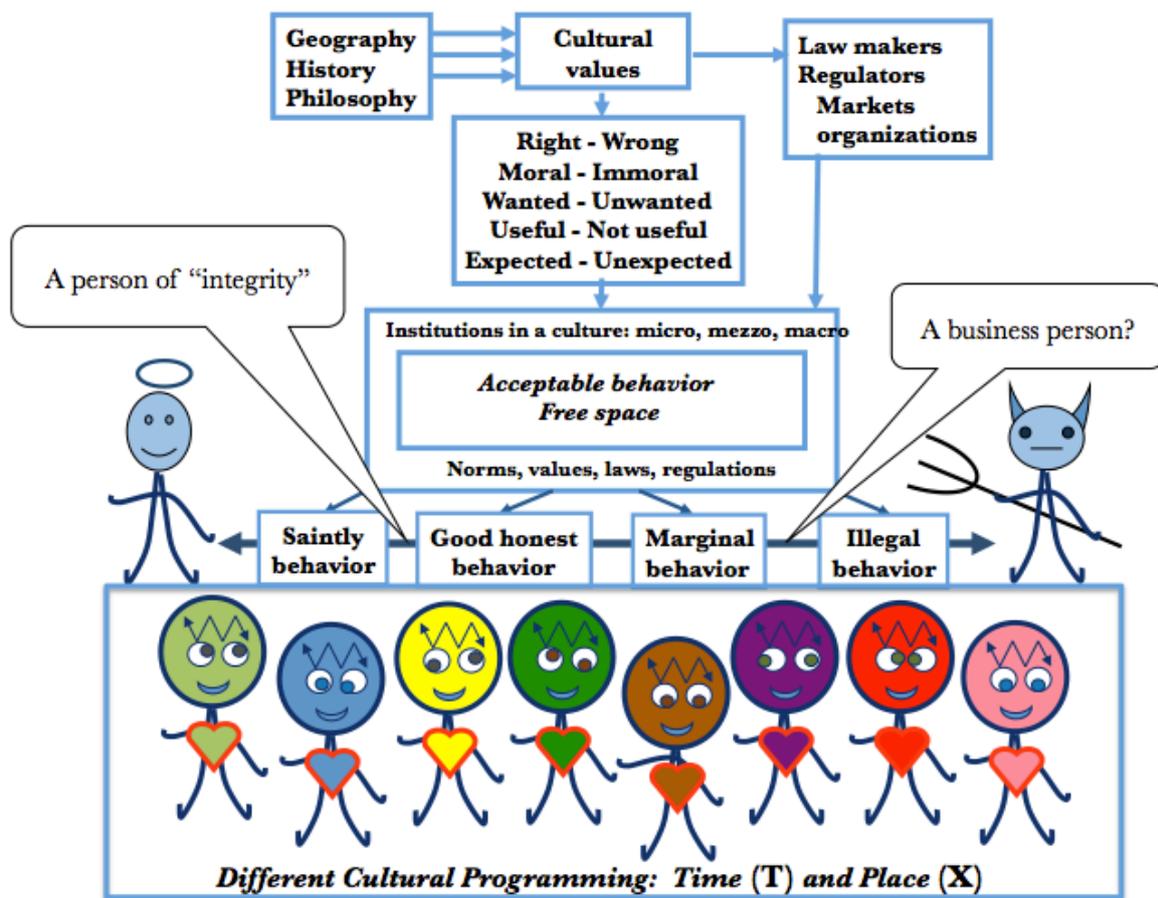
Source: Hofstede, 2001.

*Symbols* are often expressed as words, gestures, pictures or objects and are the most volatile as they tend to be highly influenced by external forces because the symbols that exist can in most cases only be recognized by that particular culture. *Heroes* are a set of role models, people dead or alive, showing high valued properties that people within the culture like to

affiliate with themselves. *Rituals* are activities that are both socially important but also a way of reaching for future goals, in which the rituals are often seen as redundant but necessary. The core of the model, which is values, is based on Hofstede's definition "a general notion to prefer certain states of affairs over others". The practices are in turn reflecting cultural values, symbols, heroes and rituals.

The formation of a culture relies on the values that exist within the given society, as well as external influence (Falkenberg, 2009 – Lecture notes). From an international perspective, a culture might be seen as either ethical or unethical, depending on the practices of the given culture. Hofstede (1991) suggests that culture is "the collective programming of mind which separates members of one group or category from another", and that "culture is learned not inherited".

**Figure 4: Culture Model – Formation of Cultures:**



Source: Falkenberg, 2009

Falkenberg suggests that cultures are affected by external and often international trends and development. To what extent cultures are able to implement changes and to be a part of the global development is important to being accepted in the external and international environment. Factors contributing to the formation and development of cultures are different. What is appropriate for one given culture is not universally applicable to another culture, and good and honest behavior in one culture might be illegal in another culture, or even illegal according to international standards.

### **2.2.1 Cultural Dimensions:**

Between 1967 and 1973, working as a psychologist at IBM, Geert Hofstede conducted a survey where he collected and analyzed data from over 100 000 employees from 40 different countries. Based on his study, considered as one of the most comprehensive cross cultural business related studies, Hofstede suggests five dimensions for indentifying different cultures:

- *Power Distance*: Cultures differ in their power distance, in which, there is a difference in distribution of power within a culture. A culture with high power distance, a top-down hierarchy, is a culture with relatively unequal distribution of power, in which the power lies with a few high ranking people, and many people have relatively little power. With power comes money, and thus the distribution of income is also relatively unequal. A culture with low power distance is a culture with relatively equal distribution of power, in which people are more equal in terms of power, income and a flatter hierarchic ranking.
- *Individualism vs. Collectivism*: Individualism is the opposite of collectivism. People's orientation and preferences towards either group integration or individual integration is created from birth onwards. People's interest in participating in a group, and thus function as a group member, identifies a state of collectivism. Whereas the opposite, operating individually, identifies a state of individualism. The level of loyalty, protection and distribution of benefits are distributed with the intent of serving the group as a whole in the best way, unlike the way individualists seek to benefit them selves, in which it is a more egocentric approach.

- *Uncertainty Avoidance*: Avoiding uncertainty refers to a culture's level of uncertainty-tolerance, in which uncertainty is a state of not knowing or not being sure of something. Uncertainty creates a low level of structure where things remain unknown until they appear to be certain. Uncertainty-avoiding cultures seek to provide the truth through a well-established legal framework and institutions that can strictly monitor relevant measures. Cultures with a low level of uncertainty avoidance are cultures mostly based on philosophical and religious values, which are not intended to provide the truth, as we know it, but rather provide a system of relativism and interpretation.
- *Long-term vs. Short-term orientation*: Long-term oriented cultures tend to drive the society toward a future that is either identified or seen as the "ideal future". Planning and viewing ahead is the proper approach to long-term orientation. Cultures with traditions and deeply anchored values tend to be short-term oriented, in which they live alongside with what they have and what they provide for, without the need for a detailed view of the future, as the perception of what the future might bring is not complete or desired.
- *Masculinity vs. Femininity*: Masculinity is the opposite of femininity, referring to the distribution of roles between genders. In masculine cultures, factors such as assertiveness, success, competition and achievement are the main identifiable drivers within a culture. In feminine cultures, modesty, fairness and caring are core values, -in which they deviate from being masculine. The studies of Hofstede showed that masculine values differ more among cultures opposite to women's feminine values.

Jones (2007) refers to the most popular criticism of Hofstede, being that the survey is based on domestic populations as a cultural homogeneity. McSweeney (2002) argues that in order to understand cultures, you have to know more about the richness and diversity of national practices and institutions, and that the theory of Hofstede is profoundly problematic because of its general and superficial measurement of *national* cultural differences.

### 2.2.2 Culture and corruption:

Whether it is across national borders or cultural borders, deMooij (1998) argues that it would be very difficult for a group to function well together if they did not have the same cultural patterns, organizational systems and values. Huntington (1996) suggests that in the future, national borders might diminish and transform into civilizations, in which a civilization is a cultural entity where people with similar cultures gather and the level of functionality will increase. Rose-Ackerman (1999, p. 91) states that people make distinctions on behavior according to their cultural norms and thus some behavior might seem appropriate while some inappropriate. In addition, Hofstede (1997) points out that cultural differences have severe impact on business practices. Thus, corruption is likely to occur more frequently in some cultures relative to others. In some countries and regions, cultural traditions and practices include corruption and other illegalities that constitute the norm (Fadahunsi & Rosa, 2002).

Previous research fails to properly link culture and corruption together (Ades and Ditella, 1999; Beets, 2005). The reason for this is that cultures are not nation-bound and that the vast variety of cultural aspects, and contexts in which corruption occurs, has to be linked together.

### 2.2.3 Separating crooks from the good people:

Corruption must not be understood as generally accepted in foreign cultures. Just as lying is seen as inappropriate or illegal in most cultures, it still happens. The same goes for corruption. Thus, it is not correct to address cultures as being corrupt, but rather that corruption is more frequent within some cultures. It is important to separate the crooks from the good people because it is fundamentally wrong to classify entire cultures as corrupt when most people are law-abiding and honest citizens.

Seleim and Bontis (2009) argue “*predicting corruptive practices using cultural differences is important for multinational and international firms*” and “*the importance of a cultural perspective in explaining corruption*”. To do so properly, it is highly important to distinguish between culture values and culture practices. The findings of Seleim and Bontis (2009), supported from previous evidence, show that corruption is most commonly the result of individual collectivism practices and uncertainty avoidance.

When facing cultural practices that differ from company standards, Schein (2009) suggests a step-by-step approach to overcome such challenges, referring to both employees and people from foreign cultures:

1. Unfreezing: Creating the motivation to change. Disconfirmation, creation of survival anxiety or guilt, and creation of psychological safety to overcome learning anxiety.
2. Learning new concepts, new meanings for old concepts and new standards for judgment, imitation of and identification with role models, scanning for solutions and trial-and-error learning.
3. Refreezing: Internalizing new concepts, meanings and standards, incorporation into self-concept and identity incorporation into ongoing relationships.

Disconfirmation is, according to Schein (2009), important when facing a foreign culture and its practices, in which economic, political, technological, legal, moral and internal threats are crucial to pay attention to.

## **2.3 Laws, Company Value Chains and Competition:**

### **2.3.1 Anti-Corruption Laws:**

To overcome the threat of corruption, countries and ethical initiatives increasingly focus on creating an internationally applicable legal framework, also known as international law. International law is defined as “*the body of laws governing relations between nations*” (Princeton, 2011), often referred to as global administrative law, that can be understood as global administration, in which many previous domestic administrative and regulatory functions are now performed in a global context (Krisch 2007). Many laws have extraterritorial reach, meaning that a crime can be charged under a country’s law when happening in a foreign country, such as the Norwegian Penal Code §§ 276a, 276b and 276c on corruption.<sup>7</sup>

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<sup>7</sup> See appendix 5.1.4 for a translated version of the Penal Code.

Internationally applicable judicial systems are the result of domestic and international institutional capacity building to preserve existing ethically appropriate cultural values by making accepted behavior legal and unaccepted behavior illegal (Søreide, 2004).

Some international initiatives, especially those between nations, such as UN, have a legal framework that applies to its members and indirectly companies within all member nations. Being a member of e.g. OECD you are as a nation obliged to fight corruption and bribery, through the anti-bribery convention, and impose domestic laws that are in accordance with OECD requirements. FCPA and UKBA are also relevant in international business, not only because all domestic companies in these countries are forced by law to comply, but also for foreign companies because the legislation imposes standards that are seen as good and healthy with powerful enforcement in an international business context.

To what extent international law is sufficient is not precisely known, but it is assumed that with their increasing presence in peoples' minds and company's strategies, that they have an effect on how companies and individuals act (Posadas, 2000). Benvenisti and Downs (2007) argue that international law to some extent is a result of a calculated effort of some countries to create a system that only them, or few, have the capacity to alter. Fragmentation of these laws, in which fragmentation is defined as "*the increased proliferation of international regulatory institutions with overlapping jurisdictions and ambiguous boundaries*", makes it difficult for weaker countries to be a part of the international system because of the transaction costs involved. Benevenisti (2008) points out the changes in behavior of national courts, that they no longer operate entirely on their own but seek to align with other national courts, putting pressure on low performing nations to live up to global standards. As a result, there grows an increasing gap between companies from nations that follow global standards compared to companies from nations that do not.

An important and difficult aspect of international law in the multinational and international business environment, both for companies and countries, are the continuous changes that are made according to UNGC (About the 10<sup>th</sup> principle). It requires extensive efforts to keep up with increasing demands of international legislation. With external influences, it is questionable how relevant domestic laws are enforced, or if they cease to exist. Burley (1993) refers to pragmatism as a relevant aspect of international law, in which the same law can be enforced differently. Another relevant aspect of pragmatism is generally how laws are

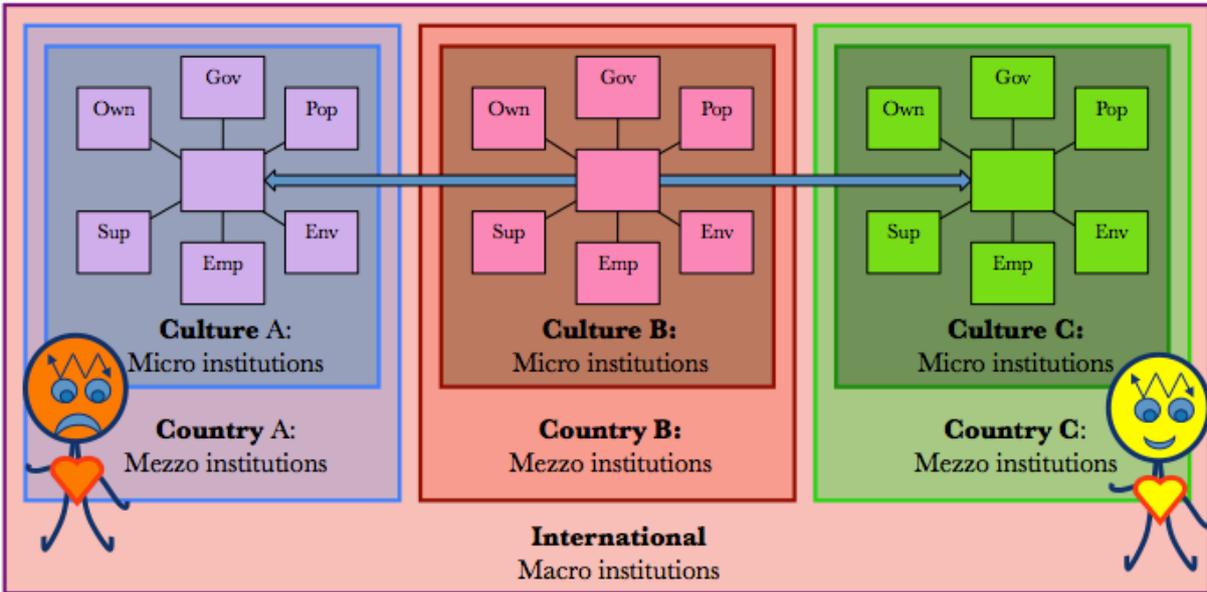
enforced and how open they are towards educating versus punishing illegal activities (Vanasco, 1999).

**2.3.2 Laws and Company Value Chains:**

Multinational companies consist of a multinational value chain, downstream and upstream. Companies search for perfecting the value chain with regards to response time and profits and are sourcing raw-materials, finished products, and the like, from different countries. When companies does business within a foreign country, the legal framework in that given country applies and the level of institutional adequacy is the determinant of how common corruption is.

Falkenberg (2009) presents a model on international value chain that illustrates different jurisdictions companies might have to deal with when doing business abroad. In a more complicated scenario even more jurisdictions can be added to the model.

**Figure 5: Power and Responsibility in International Value Chains:**



Source: Falkenberg, 2009

Jurisdictions and legal frameworks can be very different from each other, in terms of laws, norms and the enforcement of these. Søreide (2004) found that 32 % of the companies experience a gap between formal and informal rules in any of the areas they operate, and that 52 % find it difficult to respect the law. She interprets two possible solutions: (1) That those

who respect the law may not be fully aware of the legal status of corrupt practices or (2) companies that are more exposed to corruption are better updated on new rules.

**2.3.3 International Law and Competition:**

Unfortunately, corruption is often used as a tool in competition, such as bribing middlemen or strategic persons, who have the capacity to influence decision-makers. Laws usually regulate competition and laws usually try to impose some minimum ethical standards on companies. When they fail to do so, it creates an unlevel playing field.

According to Søreide (2004), there is no visible link between corruption and competition in the relevant literature. There are signs of corruption having an effect on competition, in which companies that refuse to do business with corrupt people, companies or bureaucrats, might lose out on contracts, strategic geographic land and locations, and in general sources for gaining competitiveness. In a survey among 82 executives in Norwegian large (L), medium (M) and small (S) companies, Søreide (2004) found that the exposure to corruption, as a function of size and competitive pressure is in fact a highly relevant problem:

**Table 2: Exposure to Corruption among Norwegian companies:**

Response	Total (%)	Turnover (%)			Competitive pressure (%)	
		L	M	S	Low	High
We think/are convinced that we have lost a contract due to corruption	66	84	65	56	47	73
Our firm has decided not to operate in a country mainly because of corruption or similar problems	34	42	39	25	22	42

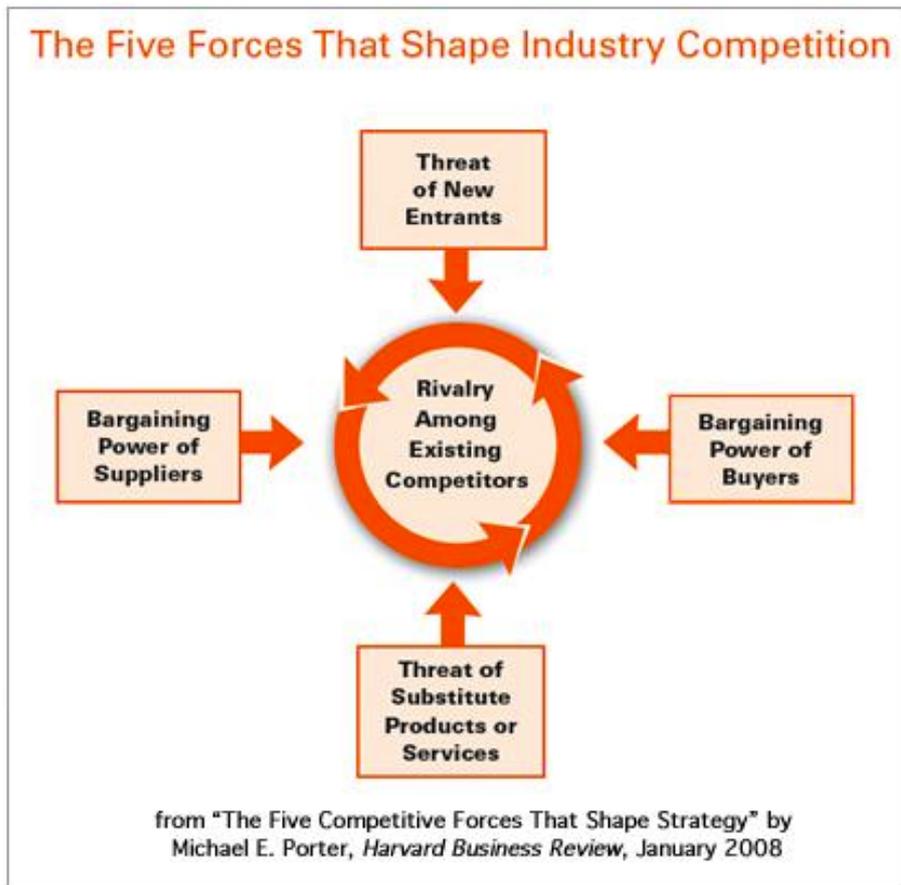
Source: Søreide, 2004

In total 66% of the companies answered that they think/are convinced that they have lost a contract due to corruption, especially among large companies, and mostly under high competitive pressure. 34 % of the respondents, especially large companies, answered that they

had decided not to operate in a country mainly because of corruption or similar problems, mostly under high competitive pressure.

In 1979, Michael E. Porter introduced The Five Forces framework. It is a tool to analyze the competitive environment within an industry:

**Model 6: The Five Forces Model:**



Source: Porter, 1979.

*Threat of New Entrants:* New firms entering the market challenge your market position. Often there exist barriers to entry, such as scale-based advantages, economies of scale, product proliferation and product differentiation

*Bargaining Power of Buyers:* Small number of buyers can lead to strong bargaining power. Buyers can enhance their bargaining power if the product produced does not clearly produce cost savings or enhance the quality of life.

*Threat of Substitute Products or Services:* New or existing products that can be, wholly or partially, a substitute to your product or service and threaten the position of your company.

*Bargaining Power of Suppliers:* Suppliers' ability to raise/lower the quality of goods and services. On the other hand, the more suppliers, the easier it is to keep margins low and to challenge suppliers on prices.

*Rivalry Among Existing Competitors:* Rivalry among competitors can reveal the true strength of competitors within an industry and can contribute to build the industry stronger, but also harms those with low margins and less efficient value chains.

Porter (1986, p. 15) emphasizes the growing importance of international competition and the issues related with it, such as competition being more fierce and brutal, but yet important for companies to stay competitive in the increasingly globalized business environment. The well-known five forces framework does not directly take into consideration the important cultural and ethical competitive aspect that has emerged with the era of globalization, including judicial and cultural differences, and whether companies within an industry choose to obtain and/or enhance their position in an ethical or unethical way (Stonehouse & Snowden, 2008).

Openness to international trade will increase competition and as foreign companies become involved in a domestic market, the monopoly power of domestic producers will be reduced (Treismann, 2006). In turn, this would give incentives for domestic companies to seek profitability beyond what is seen as ethically appropriate business practices, especially if the common practices in their culture have no proper ethical foundation.

In the search of how to establish a level playing field between countries, companies and industries, and remove incentives for committing to corruption, Ades and Ditella (1999) find that the competitive environment has an effect on the amount of corruption, in which competition contributes e.g. to remove rent-seeking behavior among bureaucrats. Corruption is more common in countries where domestic companies are protected from international influence and foreign competition, and as a way to solve this they suggest to implement policies aimed at making markets more competitive as important to control corruption. Emerson (2005) suggests that if countries wish to develop industrial competition, it is necessary to devote efforts to create policies aimed at reducing the level corruption.

Klitgaard and Parris (1996) argue that in the long run competition will reduce corruption as long as it contributes to limiting monopoly power, but that in the short run, the rules of the game tend to change so quickly that new opportunities keeps coming up, with little or no adequate law enforcement. Darrough (2009) finds that the overall level of corruption would fall significantly if competition without bribery were to become a standard practice in more nations, and thus there should be incentives for both companies and governments to impose stricter laws governing competition within industries.

## 2.4 Established Principles, Guidelines and Initiatives:

### 2.4.1 General Incentives:

In a case of corruption, or any other ethical challenge, companies’ can to some extent chose how to respond. Peng (2008, p. 110) suggests four alternatives. These alternatives are not mutually exclusive because companies might adopt strategies as the ethical challenge progresses.

**Table 3 - Strategic Responses to Ethical Challenges:**

Strategic Responses	Strategic Behaviors
Reactive	Deny responsibility, do less than required
Defensive	Admit responsibility but fight it; do the least that is required
Accommodative	Accept responsibility; do all that is required
Proactive	Anticipate responsibility; do more than is required.

Source: Peng, 2008.

The UNGC 10<sup>th</sup> principle, highlights three practical steps for fighting corruption, calling for a high level of interaction between companies, stakeholders, governments and cultures:

- Internal: *“As a first and basic step, introduce anti-corruption policies and programs within their organizations and their business operations;”*
- External: *“Report on the work against corruption in the annual Communication on Progress; and share experiences and best practices through the submission of*

*examples and case stories;*”

- Collective: *“Join forces with industry peers and with other stakeholders”*.

Companies operating internationally are likely to face ethical issues, herein corruption, when operating in a country with relatively low ethical standards. In its 10<sup>th</sup> principle *“Businesses should work against corruption in all its forms, including extortion and bribery”*, UNGC highlights some key reasons for companies *not* to involve in any corrupt practices:

- *Legal risks:* Corruption is increasingly becoming illegal in a company’s home country to engage in corrupt practices in another country (OECD, UKBA and FCPA). Corruption is increasingly becoming an issue of significant political importance in countries and emerging markets and there is a growing determination to act and to take those accused of corrupt practices to court.
- *Reputational risks:* Company policies that fail to meet high ethical standards or have compliance with laws run the risk of being exposed to serious reputational risks. Companies should act in a transparent manner to avoid unfounded allegations. Inadequate laws, cultural norms, etc. are not acceptable excuses.
- *Financial costs:* Corruption, in some countries and regions, increases the cost of doing business by 10 %, and might add up to 25 % to the cost of public procurement.
- *Repeat demands:* Companies known for paying bribes and committing to corrupt practices are more likely to be under pressure to do so in the future. It is important for companies to have a principle stand against corruption before employees face such pressure.
- *You cheat me, I cheat you:* If companies tolerate corruption and it becomes widely known, it will erode staff loyalty and in general lower stakeholders’ loyalty to the company, and thus it will be difficult to implement or enforce high standards because in the end they do not apply.
- *Companies focus on sustainable social, economic and environmental development:* Corruption has undermined social, economic and environmental development companies realize what they might lose out on, and the damages of corruption in the long run become more and more visible (inefficiency, drugs and organized crime, terrorism, etc.) companies are now paying increasing attention towards social, economic and environmental issues to avoid being associated with major international challenges.

### 2.4.2 Principles:

DeGeorges (1993) 7 principles for MNCs to follow when entering foreign markets are popular for serving as universal guidelines. With respect to the chapter above on cultural and ethical challenges, what companies see as wrong and right might not be universal, but given that they are multinationals, their orientation *should* be up to international standards.

**Table 4: DeGeorges 7 principles for multinational companies:**

<b>MNCs should:</b>
<ol style="list-style-type: none"><li>1. Do no intentional direct harm,</li><li>2. Produce more good than bad for the host country,</li><li>3. Contribute to the host country's development,</li><li>4. Respect human rights,</li><li>5. Pay their fair share of taxes,</li><li>6. Respect the local culture,</li><li>7. Cooperate with the host government in developing ethical background institutions.</li></ol>

Source: DeGeorge, 1993.

The principles build on one core principle, that companies should do no intentional harm and that it is expected from companies to act in a corporately social manner. The principles of DeGeorge firstly require companies to act according to law. Next, companies should be ethical and philanthropic as far as possible.

### 2.4.7 Caux Round Table:

Caux Round Table – “Moral Capitalism as Work”, is, according to CRT themselves “*an international network of experienced business leaders, who work with business and political leaders to design the intellectual strategies, management tools and practices to strengthen private enterprise and public governance to improve our global community*”. CRT was established in 1986 by Frederick Phillips, the former president of Phillips Electronics and Oliver Giscard d’Estaing former INSEAD Vice-Chairman as a response to the increasing awareness on the importance of maintaining a stable global trade-arena. CRT is as of today affiliated with many international ethical initiatives and institutes, including UNGC.

The CRT principles for Responsible Business were developed during the 1980’s and 1990’s and first launched in 1994. The principles, seven in total, cover the most relevant issues

within the field of CSR, including corruption and bribery, and supplementary guidelines on stakeholder management. The principles are “*rooted in three ethical foundations for responsible business and for a fair and functioning society more generally, namely: responsible stewardship; living and working for mutual advantage; and the respect and protection of human dignity*”. The stakeholder management guidelines are a result of the growing importance of stakeholders for success in business.<sup>8</sup>

### 2.4.3 Guidelines and knowledge databases:

#### 2.4.3.1 Norwegian Ministry of Foreign Affairs

Norwegian Ministry of Foreign Affairs, suggests some minimum measures for Norwegian companies operating on the global market to follow. “Say no to corruption – it pays!” is extracted from Report No. 10 to the Norwegian Parliament – “*Corporate social responsibility in a global economy*”. NMFA is very specific towards maintaining stakeholder interests, compliance, employees and third parties. The suggested measures of NMFA are stated as minimum requirements in any business context:

- Undertake thorough studies of the risk of corruption in the relevant markets.
- Ensure that all employees are familiar with the Norwegian and relevant foreign legal provisions on corruption.
- Introduce ethical guidelines, regular internal audits and routines for detecting irregularities.
- Consider establishing a contact point, preferably outside the company, that employees can turn to if they have any suspicions of corruption.
- Ensure that employees, intermediaries and agents are involved on a regular basis in measures to reduce the risk of corruption.
- Be particularly aware of roles in which employees could come under strong pressure to offer or accept bribes. Job rotation and other measures to reduce the risk of corruption should be considered.
- Check the references of employees, agents and partners who represent the company and insofar as possible keep a close eye on their activities.

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<sup>8</sup> See appendix 5.1.5 for the CRT principles and stakeholder guidelines.

- Require that employees, intermediaries and agents agree to comply with the company's rules for combating corruption.
- Maintain a high ethical standard and avoid circumstances that could call impartiality into question.
- When faced with a difficult situation, focus on mutual interest in working together in an open, lawful manner. Suspicions of corruption can have extremely serious consequences.
- Seek the advice of experts if necessary.

#### 2.4.3.2 OECD:

OECD is focusing on helping member countries in four main areas, in which the most relevant is *“helping governments re-establish healthy public finances as a basis to ensure future sustainable growth”*. OECD has close ties and co-operative relations to non-member economies to broaden its scope and global interests through Global Forums. The Global Forums seek to address relevant trans-boundary issues and to enhance the quality of dialogue between OECD countries and non-member countries. The OECD Anti-Bribery Convention has established legally binding standards that criminalize corruption among its members. All 34 members, including Argentina, Brazil, Bulgaria, and South Africa have entered the convention, even though they are considered relatively corrupt countries. The convention provides guidelines for multinational companies to combat bribery.

According to OECD, Multinational Enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage. Nor should enterprises be solicited or expected to render a bribe or other undue advantage. In particular, enterprises should:<sup>9</sup>

- Not offer, nor give in to demands, to pay public officials or the employees of business partners any portion of a contract payment. They should not use subcontracts; purchase orders or consulting agreements as means of channeling payments to public officials, to employees of business partners or to their relatives or business associates.
- Ensure that remuneration of agents is appropriate and for legitimate services only. Where relevant, a list of agents employed in connection with transactions with public

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<sup>9</sup> This is only section VI. See appendix 5.1.6 for an overview of the main guidelines.

bodies and state- owned enterprises should be kept and made available to competent authorities.

- Enhance the transparency of their activities in the fight against bribery and extortion. Measures could include making public commitments against bribery and extortion and disclosing the management systems the company has adopted in order to honor these commitments. The enterprise should also foster openness and dialogue with the public so as to promote its awareness of and co-operation with the fight against bribery and extortion.
- Promote employee awareness of and compliance with company policies against bribery and extortion through appropriate dissemination of these policies and through training programs and disciplinary procedures.
- Adopt management control systems that discourage bribery and corrupt practices, and adopt financial and tax accounting and auditing practices that prevent the establishment of “off the books” or secret accounts or the creation of documents which do not properly and fairly record the transactions to which they relate.
- Not make illegal contributions to candidates for public office or to political parties or to other political organizations. Contributions should fully comply with public disclosure requirements and should be reported to senior management.

#### ***2.4.3.3 Transparency International:***

Transparency International is the leading global NGO fighting corruption founded in 1993. Their famous Corruption Perception Index is published every year, showing the perceived level of corruption with countries. TI is known for their efforts put into doing research in the field of corruption, but also their fight against it on a national level. TI has 90 nationally located chapters around the world, functioning as an information-hub for relevant players in societies.

*The **purpose** of Transparency International’s Strategic Framework 2008-2010 is to provide inspiration, guidance and cohesion to the efforts of Transparency International (TI) to fight corruption around the world. It aims to enable the Transparency International movement to build on its leadership position in the field of transparency, accountability, justice and good governance – and to be able to anticipate and adapt to the changing needs and demands of the political and economic environments that influence the anti-corruption agenda.<sup>10</sup>*

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<sup>10</sup> Transparency International Strategic Framework 2008-2010

Business principles for countering bribery were developed as a response to the increasing need for integrity, responsibility and expression of core values among enterprises and for the purpose of providing anti-bribery guidelines for companies to help create a more level playing field in international business. BPCB was developed through a multi-stakeholder process, involving companies, NGOs and trade unions as a tool to assist companies to develop effective and sufficient anti-bribery programs, applying to both bribery of public officials and private companies. BPCP is based upon two core values:

- *“The enterprise shall prohibit bribery in any form whether direct or indirect”*, and:
- *“The enterprise shall commit to implementing a program to counter bribery”*

Through such programs, TI believes that companies will strengthen their reputation, gain credibility among important stakeholders, gain respect from employees and support company-commitments to corporate social responsibility.

#### **2.4.3.4 PACI:**

Chief executives from the Engineering & Construction, Energy, Metals and Mining industries launched the Partnership Against Corruption Initiative in January 2004.

PACI is a multi-stakeholder initiative, working with OECD, TI and UNGC, that seek to engage companies from all over the world, and from different industries to fight against bribery and corruption. Today it contains 150 signatures from industry leaders, and CEOs committing themselves to actively engage by implementing a zero tolerance policy.

PACI is a project that seeks to develop *“principles and practices that will result in a competitive level playing field, based on integrity, fairness and ethical conduct”*. PACI also recognizes the experience, knowledge and capacity of large multinational companies, placing them in *“a unique position to guide governments' and international organizations' strategies and policies on anti-corruption”*. So far, two Norwegian companies have joined PACI (Norsk Hydro ASA and Statoil ASA).<sup>11</sup>

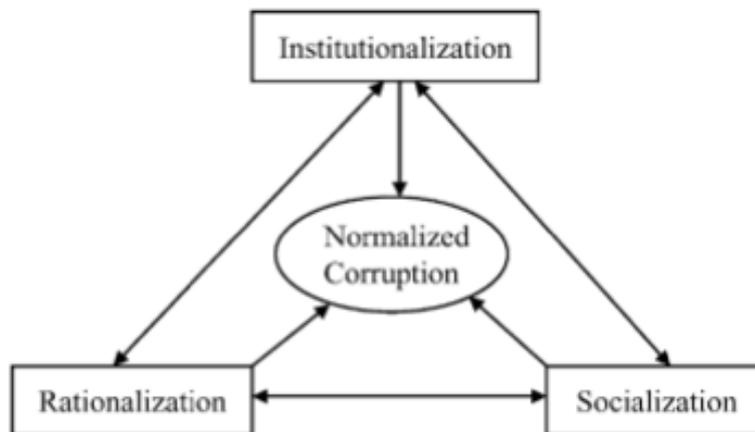
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<sup>11</sup> See appendix 5.1.7 for the PACI principles on why not engage in corruption.

## 2.5 Internal anti-corruption measures:

Ashford and Anand (2003) propose a model on the normalization of corruption within organizations. They argue that the corrupt practices becoming the standard routine, rationalization aspects and education of employees, creates a situation where corruption is much more likely to occur:

### Model 7: Normalization of corruption within organizations:



Source: Ashford and Anand (2003)

For companies to be able to avoid corruption, internal anti-corruption measures are necessary. Any measure of significance, herein actively engaging in anti-corruption must be initiated from the top management, or someone with respected authority (Ashford and Anand 2003).

### 2.5.1 Corporate Social Responsibility:

Corporate Social Responsibility (CSR) is defined as: “a concept whereby organizations take responsibility for their impact on society and the environment” (Science.org, 2011).

Companies have realized the necessity of being socially responsible to secure their position as a top contestant in the international business environment, as well as international guidelines and local laws may require it. Since the birth of modern CSR in the 1950s, much good has been done by companies, which realize their position in societies by contributing beyond value creation (Carroll, 1999).

### 2.5.1.1 CSR Pyramid:

Carroll (1991) presents The Pyramid of Corporate Social Responsibility, in which he highlights companies' different stages of responsibility. One has to understand the pyramid as a step-by-step approach, in which companies have to ensure their own profitability and be law-abiding before they can be ethical or philanthropic.

#### Model 8: The Pyramid of Corporate Social Responsibility:



Source: Carroll 1996.

The never-ending debate on stakeholder vs. shareholder view would fit in here, but instead, acknowledging the fact that the debate is relevant; the view of Carroll considers both alternatives.<sup>12</sup> Economic and legal responsibilities are seen as minimum requirements for a company to operate, while ethical and philanthropic responsibilities are next in line, as presented in the table below.

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<sup>12</sup> See McWilliams, 2001 for insights to the stakeholder vs. shareholder debate.

**Table 5: Economic and Legal Components of Corporate Social Responsibility:**

<b>Economic Components (Responsibilities)</b>	<b>Legal Components (Responsibilities)</b>
1. It is important to perform in a manner consistent with maximizing earnings per share.	1. It is important to perform in a manner consistent with expectations of government and law.
2. It is important to be committed to being as profitable as possible.	2. It is important to comply with various federal, state, and local regulations.
3. It is important to maintain a strong competitive position.	3. It is important to be a law-abiding corporate citizen.
4. It is important to maintain a high level of operating efficiency.	4. It is important that a successful firm be defined as one that fulfills its legal obligations.
5. It is important that a successful firm be defined as one that is consistently profitable	5. It is important to provide goods and services that at least meet minimal legal requirements.

Source: Carroll 1991.

Being ethically responsible as a company means taking action in a territory or a country without adequate legal institutions, to ensure that the international standards are kept. Being philanthropic, meaning that companies do more than required and above international standards, such as education, health care services, food and shelter are often responses to a society’s expectations and/or responses to build up an adequate standard for employees and their families, as presented in table 6 below.

**Table 6: Ethical and Philanthropic Components of Corporate Social Responsibility:**

<b>Ethical Components (Responsibilities)</b>	<b>Philanthropic Components (Responsibilities)</b>
1. It is important to perform in a manner consistent with expectations of societal mores and ethical norms.	1. It is important to perform in a manner consistent with the philanthropic and charitable expectations of society.
2. It is important to recognize and respect new or evolving ethical moral norms adopted by society.	2. It is important to assist the fine and performing arts.
3. It is important to prevent ethical norms from being compromised in order to achieve corporate goals.	3. It is important that managers and employees participate in voluntary and charitable activities within their local community.
4. It is important that good corporate citizenship be defined as doing what is expected morally or ethically.	4. It is important to provide assistance to private and public educational institutions.
5. It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.	5. It is important to assist voluntarily those projects that enhance a community’s “quality of life”.

Source: Carroll, 1991.

**2.5.1.2 Corporate Social Responsibility and Corruption:**

According to Rodriguez et.al. (2006), companies are often evaluated for their performance in political engagement, anti-corruption and CSR. McWilliams and Siegel (2001) found that there is no difference in profits whether practicing CSR or not (neutral relationship), and refer to inconsistent evidence between CSR and firm performance. One of the latest additions to CSR shows the changing trend, and the general development in firms’ perspectives on social and environmental issues. Porter (2011) introduces the concept of shared value, which focuses on the connections between societal and economic progress, competitive advantage and social issues, and accordingly has the power to unleash the next wave of global growth. Shared value is defined as “...policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the

*communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress*". There are three key ways that companies can create shared value opportunities by rethinking products and markets, redefining productivity in the value chain and enabling local cluster development. According to Porter, to succeed in the international arena, it is necessary for companies to engage in CSR, or "shared value", herein anti-corruption efforts.

### **2.5.2 Corporate Codes of Conduct:**

Codes of conduct are also known as business conduct guidelines, ethical guidelines, etc. As a response to increasing demand towards companies to actively engage in social responsibility, sustainability, human rights and all relevant ethical issues. Many companies have created their corporate codes of conduct as an operational and promotional tool, often with an emotional content, such as child labor and poverty, and thus for some companies it can serve as a promotional element and/or to gain leverage on their behavior (Jenkins 2001). Companies with a heavy international presence are more likely to have corporate codes of conduct. Companies that are using a written code of ethics are less likely to find bribery acceptable while doing business internationally (McKinney & Moore, 2007).

For codes of conduct to be functional, and to "*perform in a manner consistent with expectations of government and law*" (Carroll, 1991) they must include policies and guidance on how to act when the company faces a situation. According to Jenkins (2001) corporate codes of conduct limit themselves because many of them are no more than general statements, with no clear signs of being implemented or being operationally adequate. The reason for this is that many of the codes are a product of an industry, sector or NGO standard requirements. Few of the codes are actually a product of a company initiative and seldom pro-active.

Murphy et. al. (1993) found that employee awareness on unethical behavior is less prevalent in organizations with adopted codes of conduct. Somers, 2001 emphasizes that such codes must be a product of an organization that actively promotes, encourages and supports high ethical standards and it becomes a "*way of life*", to have an effect on employees. In addition, according to Raiborn and Payne (1990) and Kaptein (2004), codes must also be accountable, open to feedback, able to stimulate the work environment, updated and relevant, clear and with status, available, convincing, structured and presented appropriately.

### 2.5.3 Employees, Third Parties and The Principal agent problem:

A third party is “*A person or entity that is not directly involved in the transaction that is the subject of a contract*” often with legal, property or transactional interests at stake in the contract between parties (Yale, 2011).

Recalling the definition of Rose-Ackerman (1978) that corruption occurs when: “*some third person, who can benefit by the agents actions, seeks to influence the agent’s decision by offering him a monetary payment which is not passed to the principal*” highlights the importance of developing a close bond between employer and employee or third parties.

The PAM model addresses the general assumption in, for example, employer - employee, aid donors - recipient governments or company – agent relationships. The principal cannot control the agent to an extent where both parties are equally leveled in terms of information sharing and performance monitoring. The PAM addresses this problem in three stages (Miller, 2005):

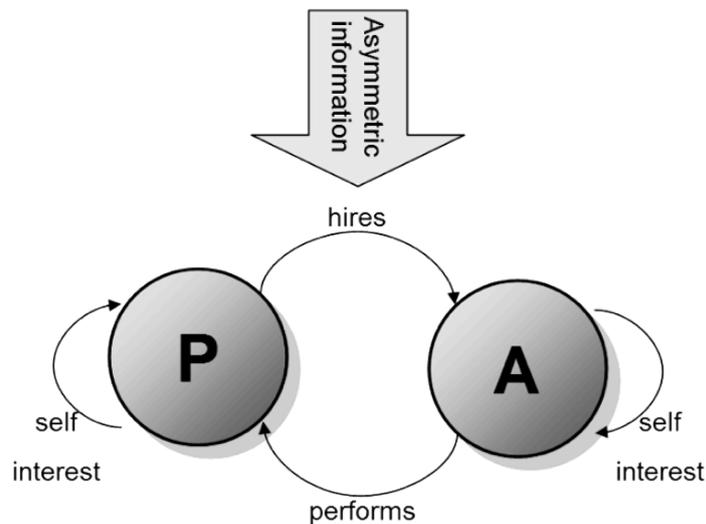
1. The objectives for the principal and agent are in conflict e.g. the principal wants the agent to perform at a certain level, while the agent might chose to perform at a lower level and put less effort into his work.
2. The existence of non-contradictable information:
  - a. The agent knows something the principal does not.
  - b. The agent performs actions that the principal cannot observe.
  - c. The principal can observe one of the above, but is not able to draw conclusions based on it e.g. because the information is non-verifiable because the principal is only able to observe partially.
3. The action chosen or information known by the agent cannot be inferred with the outcome alone.

The PAM can be applied to different situations, whether the relationship is public-public, public-government or government-government. Differences in hierarchies and organizational aspects as well as the number of agents and clients, make it possible to construct many different scenarios where the PAM is applicable.

To illustrate the theory in a simple way, the model below shows that the asymmetric information is the main cause of the principal (P) agent (A) problem. Miller (2005) exemplifies the principal-agent problem referring to the relationship between an insurance provider and the customer. Imagine you, the agent, a thrill-seeker, on your way to school, riding your bike down a steep hill a cold and icy winter morning. At the bottom of this steep hill there is a junction, the road is slippery and suddenly you find yourself laying in the ditch with a smashed computer in your backpack.

- The person with detailed information about this event is obviously the agent, who can freely choose how to describe the situation or even exaggerate it.
- Because the agent is insured he or she takes fewer precautions to prevent a loss because efforts are costly, in which the self-interest is a dominating factor.
- Because the agent is insured he or she take actions that differ from what the insurer would like him or her to do, which is also a dominant factor of self-interest.

**Figure 9: The Principal Agent Model and Asymmetric Information:**



Source: Miller, 2005.

There are two main problems of the principal agent theory known as *moral hazard* and *adverse selection*. These are based on respectively hidden actions and hidden information that can function as a basis for the principal agent problem.

*Moral hazard* refers to situations where the agent performs relatively costly actions to improve the outcome for the principal, with the principal being unable to observe the action. The principal can, however, indirectly observe the performed actions based on the outcome.

Being unable to directly monitor the actions gives the principal no opportunity to monitor cost driving factors, such as work hours, number of agents necessary, etc.

*Adverse selection* refers to the difficulties for principals to distinguish agents because the types are fixed, in which the agent has extensive information that the principal does not and this can lead to adverse selection because of the agents’ willingness to inform the principal in light of self-interests.

When the public addresses itself to the government, or employee to employer for that sake, a principal – client relationship occurs. As the government employs public officials to carry out the work and have the full responsibility to solve inquiries, the public official serves as an agent. The simplified self-constructed model below illustrates such an event:



In a scenario of corruption happening, the public (client) seeks to influence the public officer (agent) who has the decision power on behalf of the government (principal). The agent makes decisions on the basis of incentives, which differs from those of the principal, and thus leads to a loss of control or an abuse of power (Miller, 2005)

Given that the PAM seeks to explain the expected utility (EU) of the agent, Bøhren (1995) defines the model as a determinant of the agents’ wealth and effort to attain wealth.

$$EU = f(\text{Wealth} , \text{Effort}) \tag{1}$$

The existence of asymmetric information on micro-level, as referred to *adverse selection* above, changes the utility formula:

$$EU^* = g(\text{Wealth} , \text{Effort} , \text{Information use}) \tag{2}$$

Seeking utility maximization, the variety of information that *can* be used is wide, but dependent on the moral of the agent. Information within or outside ethical restrictions is available for the agent in most cases and thus (2) better represents the PAM environment

today. In order to optimize the mix between high wealth and low effort, the agent is able to use private information without any ethical restrictions, thus revealing the principal-agent problem.

In the battle against corruption, Klitgaard (1998) suggests to restructure the principal-agent-client relationship to leaven monopoly power, circumscribe discretionary power and enhance accountability. Also there must be a focus on recruitment, to select the right agents, reward and penalty policies and the moral costs of corruption to strengthen the tools to prevent corruption from happening. Mishra (Rose-Ackerman, et.al, 2006) illustrates the relationship between PAM and corruption, as one being dependent on several factors; especially the levels of hierarchy and bureaucratic structure, as they tend to create blurry guidelines and responsibilities.

#### *2.5.3.1 Employee Education:*

To align the future motives of both employer (principal) and employee (agent), it is important to create a united communication and strategy platform. Human capital is the core of every business and education of employees is crucial for companies and industries to develop, both from an industry perspective and a competitive perspective. Blundell et. al (1999) found that education and training of employees in general give positive economic returns to not only companies but also employees, serving as an incentive for both parties.

There is logic between the principal agent problem and education. The principal agent problem exists either because of misguidance, lack of information or the incentives for individuals to increase their utility. Educating employees on the difficulties and challenges that exist in the international business arena, regarding all the different subjects mentioned in the theory to this point, reduces the chance for employees or the company as a whole to be involved in corrupt activities. By educating employees they are more aware of the dangers, and when they are able to identify risks they are also familiar with their options, including using whistle-blowing systems as a supportive tool.

## 2.6 Summary of theory:

Cultures and their practices are complex to understand and difficult to address. This is why culture is an important element in the battle against corruption and this is why companies must understand how to appropriately deal with cultures to avoid corruption from happening.

Cultures are not nation-bound, but they must obey laws and legislation imposed by the governments of the countries they are situated in. This adds a second dimension to the problem of doing business abroad. Norwegian multinational companies should obey all relevant laws, but it is difficult to know what laws to obey, and for what reason. In the international business arena, there are many competitors operating with ethical standards that are completely different from the standards of Norwegian multinational companies. There is not yet a level playing field, and it is difficult to accept that some companies are allowed to be corrupt. Many countries do not have adequate legislation, seen from the perspective of western people and companies. This is why international and domestic law, such as FCPA, UKBA and NMFA, should be followed; to avoid corruption from happening, to the extent it is possible, when doing business abroad with foreign cultures and under different legislations.

To overcome the liability of not being able to deal with cultural differences, different and demanding legislations and competition, Norwegian multinational companies must develop internal programs, processes and policies. Such internal measures are necessary to keep a high ethical standard *and* to stay competitive in the international business arena, which is *not* a level playing field. Yet.

The theory part is the foundation for the three main questions in the analysis, which seeks to answer:

1. How, why and to what extent are cultural differences necessary to pay attention to when doing business internationally?
2. How, why and to what extent are laws and regulations necessary to pay attention to when doing business internationally?
3. How, why and to what extent are internal anti-corruption measures necessary when doing business internationally?

### **3. Methodology:**

This chapter starts with giving the reader a brief insight in the choice of research method followed by a short presentation of the companies and respondents, but only with limited information due to the confidential agreement between the author and the participants. Next, the analysis consisting of three main parts: (1) presentation of relevant findings from the interviews, (2) a table comparing suggestions from ethical initiatives and NMC codes of conduct, and (3) interpretation of results, including the most relevant findings and successful examples from (1) and (2) in light of the theory presented in the theory part, and the actual experiences of the respondents and their respective companies.

### 3.1 Research method:

#### 3.1.1 Qualitative versus quantitative approach:

**Table 7: Differences between qualitative and quantitative research methods:**

<b>Qualitative Methods</b>	<b>Quantitative Methods</b>
Methods include focus groups, in-depth interviews and reviews	Surveys
Primarily inductive process used to formulate theory	Primarily deductive process used to test pre-specified concepts, constructs and hypotheses that make up a theory
More subjective: describes a problem or condition from the point of view of those experiencing it	More objective: provides observed effects (interpreted by researchers) of a program on a problem or condition
Text-based	Number-based
More in-depth information in a few cases	Less in-depth but more breadth of information across a large number of cases
Unstructured or semi-structured response to options	Fixed response options
No statistical test	Statistical tests are used for analysis
Can be valid and reliable: largely depends on skill and rigor of the researcher	Can be valid and reliable: largely depends on the measurement device or instrument used
Time expenditure lighter on the planning and heavier during the analysis phase	Time expenditure heavier on the planning phase and lighter on the analysis phase
Less able to generalize	More able to generalize

Source: Oak Ridge Institute for Science and Education (ORISE)

Qualitative research methods are most often used for the purpose of exploring, orienting or clinical research. *To explore*: problem definition, development of hypotheses and to test structured interview schemes. *To orient*: learn to understand the respondents' understanding and use of concepts, learn to understand and handle different and unknown surroundings. *Clinical*: describe/understand the underlying motives, attitudes and personality traits of individuals, and/or to describe/understand processes such as decision-making processes within an organization.

Quantitative method could reveal subjective experiences, but would demand much more knowledge about the specific companies and detailed information about their operations. Because of the limited time span of this thesis, and the little possibility for insights in companies anti-corruption programs, tools and efforts, the qualitative approach was more or less chosen to be the most appropriate. Corruption is a complex subject, and with no standard or interpretable answer at all. It is therefore difficult to go into detail with a quantitative approach, although researchers do that from time to time and are able to describe problems. The importance of being able to, -not only describe problems related to corruption, but to go into detail with the problems that exist and get personal opinions and experiences from the respondents further argues for a qualitative approach.

In order to establish a “best practice” it is necessary with detailed information. It is not sufficient to do research on “how many Norwegian companies faces corruption abroad”, “what kind of corruption”, or the like, because it will give no insight in their experience or anti-corruption effort, and the respondents will not be able to express their opinions and give useful advice.

### **3.1.2 Data collection:**

Data is defined as unfounded allegations that meet the following two requirements: 1) *inter subjectivity requirement*: can be achieved when many interview subjects agree on them, i.e. they must be accepted fairly universally, regardless of political, ideological, religious and other beliefs, and 2) *relevance requirement*: they must be used when testing or justifying hypotheses, beliefs, or the like (Baune, 1991).

Qualitative data can be collected in many ways, depending on what kind of information is relevant for the research. *Individual depth* interviews are conducted on a one-to-one basis for the researcher to get extensive information about a certain topic or certain aspects of a topic.

### *3.1.2.1 Sampling design & strategy:*

Sample is a “subset, or some part, of a larger population”, in which the population is “any complete group of entities that share some common set of characteristics” (p. 387). The reasons for using sampling when conducting research are the well-known time and cost limits. There is no point conducting research if the costs of doing so exceed the benefits from it. Thus, samples are used to represent the population.

Samples must provide a result from which we can generalize. This means that the samples must be able to represent the population. The larger sample size, the more detailed view of the reality is possible to get, and the easier it is to achieve accuracy in the research. According to Kvale (1997) qualitative research should contain statements from approximately 15 respondents, because of the limited time and resources the researcher possesses and the law of “declining dividend”. For a student writing a thesis, time and resources are relatively limited. Kvale (1997) also states that many researchers would benefit from reducing the number of respondents, which is another researchers and theorist’s viewpoint on the seemingly never-ending discussion about the number of respondents and ability to generalize.

The sampling process is suggested as follows: (1) define the target population, (2) select a sampling frame, (3) determine if a probability or non-probability method will be chosen, (4) plan procedure for selecting sampling units, (5) determine sample size, (6) select actual sampling units and (7) conduct fieldwork (Zikmund, et. al. 2010).

1. The *target population* (1) is Norwegian multinational/international companies that have extensive international presence. This means companies with their origin in Norway, presence within and outside Europe, including countries with relatively high levels of corruption.
2. The *sampling frame* (2) is restricted to people working for these companies with relevant international experience and that have a position within their company relevant to the subject of the thesis.
3. Because of the low level influence one single student can have in an sampling process, companies and/or relevant employees will be asked directly in a *non-probability sampling* (3) level by phone or e-mail. This is also due to the limited number of companies operating within industries identified as relatively exposed to corruption.

4. The *procedure for selecting sampling units* (4) will be done through screening relevant companies and preferably contact employees directly. Many companies use standardized contact schemes, and using these will be the most appropriate way to contact them. The most attractive companies, those with the most international presence and experience will have highest priority.<sup>13</sup>
5. The *sample size* (5) is dependent on the number of positive responses. The sample size will be based on the number of positive responses from the companies requested to contribute. Positive response means that they are willing to contribute through an interview and the interview will be carried out. The ideal number would be 5 respondents, because of the limited time and resources. The sample size is relatively small, but the idea is not to generalize among entire populations, only among companies operating in relatively corrupt foreign countries.
6. The *sampling unit* (6) consists of 26 companies.<sup>14</sup> There are a limited number of Norwegian companies with extensive international presence and experience. Of 26 companies asked to contribute 5 came out positive. Of 26 companies, 17 did not have the time to participate and 4 were not interested in participating.
7. The *fieldwork* (7) was conducted over a time-span of one month and 14 days, March/April, 2011.

### **3.1.2.2 Interview:**

According to Kvale (1997) it is not important for the interviewer to guide the respondent, but more important to keep track of where the questions lead to. The interviewer should know what he is asking about, and why it is relevant to ask, which will create a better foundation for the analysis. Since the respondents have different knowledge about the theories presented in the theory section, the interviews will be conducted without being heavily theory oriented. This is why the questions are a set of headlines for guidance and for the respondents to answer according to their experience, personal views and company business conduct. The questions proposed are only guidelines for the interview. The intention is to maintain a conversation that flows without the respondent feeling tied up to something. To get insights and detailed information it is believed that the respondent will more easily get to this by being allowed to talk freely, but with some guidance, so that all the topics are covered. The interviews were conducted informally, face to face with the respondents.

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<sup>13</sup> See appendix 5.2.1 for the inquiry.

<sup>14</sup> A list of the companies could have been included, but to the level anonymity as high as possible such a list is not provided.

### ***3.1.2.3 Use of tape recorder:***

The interviews were conducted with a tape recorder. The use of a tape recorder is beneficial to get correct information in detail, and to further transcribe it onto the computer to analyze it. Conducting qualitative interviews with only pen and paper will be an obvious source of misinterpretation and researcher bias.

### **3.1.3 Presentation of data:**

As this is a qualitative research approach, the interviews will not be presented in full, but central and valuable information, general and specific viewpoints will be compared among the respondents based.<sup>15</sup> This will be done by presenting citations from each of the respondents for each question, followed by an analysis and a preliminary conclusion.

#### ***3.1.3.1 Ethical statements:***

According to Zikmund, et. al. (2010, p. 88), business research works best when all parties involved act ethically, in the sense they provide the full truth and all relevant details. Corruption is a difficult issue for many companies to speak about publicly. If the respondents argue that corruption is not a problem for them, they (1) do their work properly, (2) they wish not to share all details with the researcher, or (3) they might not have adequate systems for dealing with corruption and to identify such events. Either way, it is not the intention to dig into such questions. It is not correct to draw conclusions, whether someone is corrupt or not, based on the statements of the individuals representing their companies in this research.

The respondents might have had other international experiences in another company previously or only in a restricted business area within the same company. Thus, the views expressed are not to be interpreted as the company's overall objectives or the company's viewpoint entirely, and cannot be used against any of the companies in any context as the expressions given can contain traces of previous experiences.

The interview does *not* seek to reveal any particular incidents of corruption and the interviewer will *not* try to reveal such information as this may damage the reputation of the company and the quality of the answers provided by the respondent. The respondents and their respective companies are treated anonymously, but their experience and general

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<sup>15</sup> See full interview transcriptions in attachment 5.2.2

information about company practices, excluding names and specific details, will be described as far as allowed by the respondent.

### **3.1.3.2 Citations:**

Presenting the information gathered during interviews will be done by the use of citations. According to the University of Agder Guidelines, citations should be marked with quotation marks (before and after). If the quote is longer than five lines, it should be separated from the rest of the text, but without quotation marks.

### **3.1.3.3 Best practice:**

Best practice is defined as *“a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark.”* (Businessdictionary.com, 2011) The intention is to compare, discuss and align relevant and successful suggestions, guidelines and experiences and practices to establish a best practice.

### **3.1.3.4 Critics of method:**

Since the respondents are selected according to a convenience sampling procedure, there might be some bias towards certain aspects within one industry or certain aspects of the interview depending on the experience of the respondent.

The number of respondents could preferably be larger but because of many unforeseen international events, ranging from multiple civil wars to a devastating tsunami, the answer to my request for many of the largest Norwegian multinational companies is that they have their hands full. Such unforeseen events are impossible to account for, and due to the limited-span this thesis, it may had been possible to conduct even more interviews at another time.

The respondents differ in their international experience, work experience and relationship to corruption. Thus, some answers might be inconsistent and others more detailed and reflected. The respondents have a close relationship to their company's ethical guidelines. What they are willing to speak about in detail, and about their company, is assumingly restrained. Respondents with a greater deal of personal experience, such as working for different companies in different countries, might answer more detailed compared to the respondents who have gained their experience through their respective companies and previous employers.

There are only large multinational companies with heavy international presence. It might be difficult for smaller companies to use the same precautions, tools and procedures that are presented in this thesis. The reason for this is that they require extensive knowledge and financial resources.

## 3.2 Presentation of the companies and respondents:

All the respondents, R1, R2, R3, R4 and R5 work within a company, which is referred to as C1, C2, C3, C4 and C5 respectively. When referring to all companies simultaneously, the abbreviation NMC is used.

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**With the respect to the companies, the respondents and the agreement between us, the information below will not include information and details that can be used to identify the companies or the respondents that have kindly agreed to participate.**

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### 3.2.1 Companies:

The companies operate within different industries. They are, however directly related to each other as they exist within each other's value chain as close-tier suppliers, either as service providers, contractors or raw-material providers. Within their respective industries, they all are among top ranking companies on sustainability and ethical business conduct indexes.

C1 is a multinational Norwegian company employing over 20 000 people in over 30 countries, such as Angola, Russia, China, India, and Brazil.

C2 is a foreign multinational company with its own division in Norway. C2 employs over 50 000 people worldwide, with operations in 19 countries, such as Brazil, Tanzania and Chile.

C3 is a Norwegian multinational company with over 17 000 employees worldwide. They operate within the offshore and onshore industry, mainly as a contractor, with operations in many countries, such as Brazil, China, USA and Azerbaijan to mention a few.

C4 is a multinational Norwegian company with more than 5000 employees and international operations in several foreign countries. C4 operates within different industries in different countries, herein China, Brazil and Korea.

C5 is a foreign multinational company with its own divisions in Norway. C5 has over 40 000 employees and operations in over 50 countries. C5 is mainly a contractor, operating in countries such as India, Cambodia and Peru.

### **3.2.2 Respondents:**

The respondents differ in their orientation towards corruption, and how they have answered the questions they were asked. Common for all the respondents is that they are in a position relevant for the subject on behalf of Norwegian multinational companies. The respondent's experience, perception and general relationship to corruption is somewhat different.

R1 is head of a 50-employee division in Russia. R1 has several years experience from national and international business in a global industry.

R2 is Head of Human Resources and Manager of Quality & Corporate Affairs. Through his position he is developing and monitoring policies for sustainable development and frequently facing HSE relevant issues, including corruption from time to time.

C3 provided 2 representatives. R3.1 is Corporate Risk Manager, with several years experience working abroad in China for other companies. R3.2 is Head of Enterprise Risk with experience from Norway, international projects and dealing with global issues, including corruption.

R4 is compliance officer, working with development; monitoring and maintaining ethically correct business practices of C4. R4 has previous experience from public organizations that are known for being exposed to corruption.

R5 is Vice President & General Counsel of C5, working with contracts, legal issues in general and monitoring of business practices in Norway and internationally.

### 3.3 The responses:

In the following discussion the individual responses will be presented. Some responses on certain subjects are missing or left out, due to the required level of anonymity. The level of anonymity also makes it difficult to keep a consistent path, or a specific system when presenting the responses. This is because it is necessary to keep the respondents, companies and context as anonymous as possible. The respondents may express similar opinions on some subjects, and thus the reader might experience some repetition. The questions were asked without including any theoretical definitions or words that the respondents might not know about or find confusing.

#### 3.3.1 Definition of corruption:

In order to avoid, or even better, fight corruption, it is necessary to understand the scope of the problem. The various definitions of corruption are basic, in which they, as all other definitions seek to explain the basic elements. For Norwegian multinational companies to understand corruption, and actively engage to avoid corruption, various definitions of corruption can serve as a basis for properly addressing relevant factors when doing business internationally.

Trying to combine the several definitions of corruption; corruption is when *“someone, in light of his or her position misuses the power that comes with his or her position, whether it is public or privately related to achieve private benefits.”* For private companies, such benefits can also be interpreted as benefitting a company as a whole in addition to individuals such as paid middlemen or public officials, as defined WB, TI and UNGC.

How the respondents define corruption does not necessarily mean that the companies they work for use the same definition. Whether it is based on personal perception, laws or other general definitions, their definition serves as a basis for the rest of the analysis, in which the respondents highlight aspects that are perceived to be important for them and the work they do from an anti-corruption perspective.

R1 defines corruption both as something relevant to private and public services. R1 also states that he along with company C1, are widely using the international and local definitions, definitions provided by legislations and by international initiatives, implying that all definitions are relevant, but the scope of their applicability might be limited to e.g. nations,

cultures and business areas: *“In the company I work for, we have a whole lot of definitions on various types of corruption and ethical issues.”* (R1)

C2 operates with a corporate definition of corruption, in which it is embodied in their principles of sustainable development, which in turn is based on company perceptions and leading international standards. R2 shows a different, more specific approach on defining corruption, in which being aware of potential sources of corruption is the best tool for prevention: *“The definition was corruption starts with our vision and values and continues down to the policies of sustainable development in our business principles.”* (R2)

R3 refers to laws and international standards as the basis for their definition: *“We base ourselves on laws. The core of these laws is that you offer someone something of value, whether money or other things to receive a special position in a contract or any situation that you otherwise would not have been given, and that there is a person who is not qualified to accept the money, or should not accept according to law.”* (R3)

R4 refers to C4 company codes of conduct, and their interpretation of FCPA and public officials as important for their business: *“A payment of money or anything of value (including non-monetary gifts or favors), to a foreign official, an official of any political party or a political candidate, or any official of any public international organization, directly or indirectly (such as, through an agent or intermediary) For the purpose of influencing an official act or decision in order to obtain or retain business or secure any improper advantage.”* (R4)

According to R5, C5 does not have a precise definition of corruption, in which might this imply that a precise definition is not a necessary prerequisite for avoiding corruption as long as you make sure to follow laws and regulations.

*It's not correct to say that we have a precise definition of corruption or that we define corruption in any special way. We rather decided that we should be in accordance with current regulations. Much of our operations are subject to U.S. laws, so this applies to all employees regardless of which country they work in. In the education of personnel we include definitions of American criminal law and the applicable Norwegian rules. These are generally good enough.* (R5)

How corruption is defined is different among the respondents, but, in the end, their definitions are somewhat similar in the sense that corruption does not contribute to their business in a positive way. On the basis of how people and companies pursue their own happiness and utility it is somehow difficult to understand why someone would allow bribery to happen, as the best for all parties would be a healthy and profitable relationship without bribery existing. It calls for a deeper look into how cultures function, and why cultural differences are so important to pay attention to.

Whether companies operate with a clear and distinct definition of corruption, or base themselves on laws and regulations, it does not make anyone more or less vulnerable to corruption if requirements of laws and regulations are met. Some of the respondents also refer to their definitions of corruption being based on the definitions of leading international standards put forth by international initiatives. Thus, one can say that the international initiatives have a position within all of the companies, in which they provide functional, and up to date standards and definitions on corruption. To what extent laws and international standards are able to complement each other is difficult to estimate. International standards might be too financially demanding for some countries and cultures, and thus companies are forced to follow local legislation but with certain minimum requirements.

Within an industry there is usually competition among companies from different nations, operating under different legislation and with different ethical guidelines. It calls for a deeper understanding on how competition affects companies with regards to corruption, tools, procedures and policies they use.

Developing corporate codes of conduct and educating employees are internal measures generally seen as important when doing business, whether it is domestic or international. Many of the respondents use company codes of conduct as a reference when defining corruption, implying the importance of having a document for support when either talking about or taking measures against corruption.

Doing business internationally involves external parties, hiring of foreign personnel and to a larger extent involving another culture and cultural practices. The principal agent problem is a difficult obstacle in business, and also relevant for companies' anti-corruption work.

### 3.3.2 Culture:

In Russia, C1 and R1 has been interviewing Russians to get insights into their perception of corruption. The results were devastating: *“We interviewed 5000 Russians, and 75% of them say that during the past year they have personally been involved in, or have paid money in a corrupt context. ¾ of all Russians are experiencing this as a daily part of life.”* (R1)

Other interviews conducted by C1 and R1 show that because of corruption and the way business is currently done, most students believe it is not possible to deal with and their future work-life will most likely be abroad.

In light of the era of globalization, and the increased knowledge about corruption, one can argue that foreign cultures understand that corruption is illegal, but it is practiced anyway because there are no or few disincentives. In addition, little or no adequate law enforcement creates a culture in which lawlessness and people’s everyday struggle to make a living are the only priorities: *“Everyone grabs for himself what he can, because, in a way, no one would thank them for not doing so.”* (R1)

Another potential result of little or no law enforcement, or even in the scenario of having no relevant laws to enforce, is the mixture of roles, in which people in politics have ownership in public companies and they have the power to influence through administrative and political corruption: *“The mixture of roles, like we in Norway and many countries in the west with relatively low corruption are very concerned about is what you are struggling with fundamentally, in Russia.”* (R1)

Cultures and their practices are to some extent determined by how people are able to influence each other, meaning that if you live within a society where corruption is commonly practiced, refraining from it would bring along challenges that are difficult to overcome:

*There are plenty of countries where corruption has a kind of a snowball effect. If the neighbor is corrupt, why should not I be able to do the same and get myself more money. (...) How common it is will also depend on the perceptions of other people. If you are perceived to be a fool not doing it, or not smart enough to do it. If you expect that your neighbor will always try to cheat you, you think that you have to take what you can because otherwise you will lose. The confidence that*

*you can live easily and well without engaging in corruption probably has some significance in relation to how common it is. (R3.2)*

To what extent companies can influence and/or teach cultures different practices differs, but the most basic and necessary measure is to make them understand that corruption is not tolerated. Given that Norwegian companies operate with relatively high ethical standards, meaning they have a set of strict procedures to follow, is an obvious source of conflict if they differ from the practices of a foreign culture: “...*they think our practices are completely hopeless, not only that, but also rude...*” (R1)

According to R2 the most important aspect when entering foreign cultures is to learn to understand. Learn why things are how they are, and learn what you can do to avoid getting into a cultural grey zone. R3.1 emphasizes that it is a too far reach to teach cultures, but you can show them that good and sound behavior on your terms are very functional, and be an inspiration. R3.1 argues that: “*It’s a bit too ambitious to teach other cultures what is right and what is wrong, but we can start with ourselves and see what the minimum standard for what one accepts, and thus there will be an identity developing over time.*” (R3.1)

Supported by, R3.2 stating that: “*It is quite common whether you are an English, American or Norwegian company, to have some minimum standards. I think this actually is an educational aspect for others who want to do business with Western companies.*” (R3.2)

Acknowledging the fact that cultures differ, R3.2 adds: “*We might want to work more explicitly with anti-corruption in some cultures, but I do not think one should have the sort of attitude saying “yes, it is [corruption] common over there, so its okay to buy you expensive dinners, etc.”*” (R3.2)

R2 argues that it takes a mutual effort to establish adequate standards, at least for the company and its stakeholders, in order to do business with a foreign culture:

*It is all about capacity building. We must learn to understand. In other countries, such as Tanzania, corruption is accepted and they have a clear relationship to it. People down there are poorly paid, so it is a natural way to supplement their income. Consequently, they have gained much more*

*consciousness about systems on corruption compared to what we are used to in our culture. Therefore, they may find that we are naive. R2*

Given that the Norwegian business culture is relatively “up-to-date” on the international business arena, much of what we Norwegians see as appropriate might be the opposite in other cultures: *“It is more so now in most other countries (corruption being illegal), so they pretty much understand that it is illegal anyway.” (R3.1)*

The respondents identify different aspects that are important when approaching a different culture, but mainly focused on capacity building and creating an environment, including some minimum standards, to overcome what is seen as a liability: getting involved in practices that tend to promote corruption, such as low level of transparency, monitoring and control.

From a general view, R3.1 argues that cultural differences should not matter: *“You have a way to be sensitive to other cultures and understand that people might think differently.” (R3.1)* Standing against foreign cultures practices and norms when entering a foreign country might be difficult, but as R1 argue, you must show that there is a point with what you are doing: *“...showing that there is a point with what we are doing and that there are good results from it, and it will be an inspiration and an example for others to follow.” (R1)*

Establishing relationships in other cultures found to have a high level of collectivism-relationships that are safe and healthy, may require some initial qualifications such personal relationships, country of origin, and the like:

*Our assisting law-firm division in China and I have perception that you come far with grabbing the opportunity of presenting your own culture, why we behave like that, our legislation and why we must do what we do. I do not think it is true that even if you are in another part of the world then you have to do things the way it is expected there. One can hold on to anchored values, strategies and policies, and I have the impression that this is the attitude we have on our overseas offices. (R4)*

R3.1 suggests that Norwegian companies has become known for how they do business and their identity will help them to convince future potential business partners about what is appropriate and what is not when doing business with a Norwegian company.

When you can not trust people around you to do business based on the same interests as your company, and know that there might be much hidden information, the question of accountability becomes relevant: *“They do not always understand that doing due diligence and checking documents on who are the shareholders in the company, company history, full financial statements, etc. is the way we operate, and that it is a requirement from our side, and something that they must accept if they wish to continue working with us.”* (R3.2)

### **3.3.3 Laws and Regulations:**

All of the companies base themselves on laws, but in some cases companies will, as R1 argues, act on basis of their intentions and tools that are developed to avoid corruption: *“As long as we have done what we are expected to do, in relation to, for example, the selection of suppliers and it turns out later that this was a corrupt company, according to legislation you have shown reasonable efforts avoiding corruption in what you did, and thus you will most likely not be accused of having acted negligently by having selected a company you should not.”* (R1)

With support from R3.1, stating: *“It is not easy to always know what is legitimate and what is not”*, some countries and some cultures might be difficult to do business with and operate within at the same premises. On the other hand, R2 argues: *“If in doubt, there is no doubt about what you should do.”* If there is any doubt, e.g. mistaking a supplier being corrupt or not, you should avoid doing business with this supplier or do more and/or better research before proceeding.

R4 argues that some laws are of a greater concern for C4 compared to others, because C4 is dependent on following the highest international standards when operating in different countries: *“Basically, it is Norwegian and local law, FCPA and UKBA that we must consider and comply with. OECD It is also used by us and implemented, but they have been lagging behind in the recent years. However, we certainly use it as a basis for our operations.”* (R4)

It can be difficult coping with different laws in different jurisdictions, especially when laws are enforced differently:

*As I have understood Norwegian and European law are much more forgivable and willing to cooperate. This does not seem to apply in the United States. If you report that you are not in compliance, then you get your punishment. If you hide it, you will get punishment when the authorities find out. The penalties can be somewhat lower, but you never know. In Norway and Europe, there are more reasonable incentives to take the bull by the horns, admit your mistake and get rid of the problem in cooperation with the authorities rather than keeping it hidden. R5*

Given that some laws are enforced differently in different countries and jurisdictions, some with educational intentions and others with intentions of punishing, it is a highly individual task for each company to properly comply with relevant laws.

Changes in legislation are necessary to comply with: “...one cannot talk about how they were thinking 10-15 years ago, and with respect to how we operate today, since most countries and companies are different, driven by changes in legislation.” (R1) ...And crucial to pay attention to if you want to succeed in international business: “I think that there are many smaller countries, African and Asian, which are going to have major problems in relation to satisfying these requirements. I do not think there is a big problem for us in that we have such legislation, and that we have taken it upon ourselves and are used to it.” (R4)

In order to keep up with the changing legislation and new legislation such as UK Bribery Act that must be paid attention to, because they are of relative significance. R4 also mentions that the UK Bribery Act requires much more detailed documentation, procedures and policies on anti-corruption work, raising the bar even higher and forcing companies to develop and implement more sophisticated internal measures. As new legislation increases and continues influence standards domestically and internationally, countries and companies without necessary capacity will lag behind more superior nations.

*It's a little scary to some, but the rules are becoming stricter and stricter, as the UKBA, which makes it not only government officials who may be subject to corruption, but also private individuals. The industry that manages to be in compliance and be the best in class, even if it is expensive at the beginning, is the one that survives in the long run. There are many companies that will fail to comply with the strict regime that many states will adopt in the future. (R5)*

The development and enforcement of laws will only increase the gap between countries and cultures. Being a Norwegian company is more or less synonymous with having proper ethical standards, but it creates a difficult scenario, with respect to the discussion on cultural differences above, that Norwegian companies have to deal with the increasing gap between what is required from them, and the practices of foreign cultures.

*The main sources for these procedures are the Norwegian laws and other strict laws, like the U.S. Foreign Corrupt Practices Act, which is strongly enforced, and the UK Bribery Act. National legislation will by definition almost always be more specific and stringent than international treaties. These [international treaties] have a useful function to try to get everyone on the same track, but it is clear that a specific personnel system will always be stricter and more specific. So we try to stick to strict national regulations when we do international business. It means that we often impose stricter standards for ourselves than what the OECD, UNGC etc. requires. (R3.2)*

Little or no law enforcement creates lawlessness and potentially dangerous business environments. R5 argues that it is necessary to balance risks and benefits when doing business or screening potential business opportunities: *“West Africa is an attractive area in our industry. There are several countries where we have operations, but our sales department wants to enter WA because of its great potential. (...) As of now I know that there are countries in West Africa that we do not want to establish ourselves in because we cannot ensure that we are in compliance with the American law.” (R5)*

R5 further argues about the importance of taking preventive measures:

*(...) at this time [the planning stage], at an early stage, these departments take necessary measures and check that the conditions actually are good enough for us, and are in accordance with our ethical standards, rules and regulations we are subject to. This should be done as early in the process as possible, because at some time, often difficult to determine, you're past the "point of no return". Therefore, it is important that the compliance group is involved as early as possible to see if we actually have something to do there. Corruption is a central part of compliance and will be considered relevant in any context. (R5)*

### 3.3.4 Competition:

R1 argues that corruption is an issue in international business because companies are operating on the basis of different ethical standards: *“By saying no to corruption, the competitor might take our place, because the competitor does not have the same ethical guidelines and ethical values that we have.”* (R2)

According to R1, procurement is especially exposed to corruption because of the competition among suppliers and their ability to influence the buyers and their upstream value chain that may be even more exposed to corruption. R3.2 highlights bidding contests as the most dangerous, with several incentives for bribery:

*What we are particularly careful about, and what we know there is much demand for and what makes it difficult for us, is where individuals want to enrich themselves in connection with the rewards of, e.g. a construction contract, usually by a client or at the state oil companies where there are numbers of competitors offering the same job, and especially where there is a big difference between quality and price, and not necessarily large contracts, but there are technically advanced issues.* (R3.2)

Within an industry there are often a few large and many smaller companies which can provide the same products, at least to a certain extent, with world class engineering and within the most advanced and expensive fields of technology, but on different premises. R3.2 brings up the issue of individuals with the decision power in procurement processes: *“...it’s a very competitive environment and it is conceivable that there may be many who can provide roughly the same deal, and then there will be individuals who decide and who must sit in a position to decide.”* (R3.2). This might be especially relevant for smaller companies that have to defend their position against larger companies.

R1 argues that it is the only way to stay competitive, to avoid corruption and promote your efforts:

*If you want to succeed in business, whether large or small scale, in the future, I think that by having a high rating, that is, to come from a country that scores well on corruption indexes and as a company, is a huge competitive advantage while before it was the opposite, -a disadvantage. Then there were those who were willing to pay and grease, giving them many business opportunities. Now, not to mention the future, it will be just the opposite. This will therefore be crucial to run a business, to have high ethical standards, both in their own ranks and in relation to the supply industry in the country you operate. (R1)*

R1 emphasizes the importance of “license to operate” as an incentive for following laws and regulations. For example, without a license to operate in country A, where the necessary resources are cheapest, you must operate in country B, and as a result pay more for the same resources. Competitors with access to country A will then have a relative competitive advantage: *“The whole thing is "license to operate" because if our reputation is that we are venal or that we bribe in order to achieve our interests, it is totally devastating for us, seen in a worldwide competition perspective where there are close links between people's everyday lives, and corruption.” (R1)*

According to R2, many industries and companies benefit from governmental funding. To receive funding there are often strict requirements involved, herein company ethical standards.

*Today, it is true that our competitors are banned, for example, from the pension fund and the Norwegian oil fund. Our strategy is growth, growth, and growth. If you grow you need capital, you need money. -Extremely large amounts that you can get from the German bank, the French bank and the oil fund. If you are blacklisted due to corruption or unethical behavior, you get no money, so it's a dilemma. We can get the capital, and therefore it is so incredibly important for our company to have a working culture that does not allow corruption under any circumstances. (R2)*

### 3.3.5 Corporate Social Responsibility:

Putting aside all legal requirements, companies can engage in CSR to promote their position within an industry or among stakeholders: *“For this company and for most other international companies, it is not legislation, it is an interest in stakeholders, and not just act with benign guile, like it was previously. Today, doing so [only following legislation] is far too reactive.”* (R2)

According to R2, C2 focuses heavily on CSR, ranging from paying fair taxes to building junkyards and infrastructure: *“The most important thing we do is to pay taxes and royalties. That means not just take out resources, but put a lot back. Because our values are so strong, it has led us to be asked to establish ourselves in different countries all over the world, because people realize that we actually do care about them.”* (R2)

Some companies operating in a very competitive industry, such as C2, are highly dependent on getting access to areas where raw materials exist, or where they are of best quality. For other companies in other industries industry, whether it is paint, tools or microchips and independent of the company’s previous international experience, the best way to enter a foreign country and to get access to the best resources, is to play the game fair.

When dealing with CSR related issues, it basically means creating a more fertile relationship with important stakeholders. Stakeholders are necessary for any business relationship but also the ones that play an important role in the future.

*If we believe in something when we enter a foreign country, then we will contribute more than just protect our own interests. We want to help the lives of people become better through CSR programs and in all activities that create jobs and make sure you get a multiplication effect in relation to the common people by hiring one person, which in turn helps 4 - 5 other individuals [family], to say it simply. If we believe in something like that, then it will help combat corruption. We cannot think like this while being suspected for corruption. It sends out a message that does no good.* (R1)

One cannot neglect the importance of creating relationships and healthy networks in international business today. Nations and cultures are much more aware of companies and

their actions today than before: *“It is up to us to define who our external stakeholders are at every level and know that they should be treated respectfully and in culturally appropriate ways through projects prioritized to maintain external stakeholders with regard how they think of themselves and the expectations they have from us.”* (R2)

The trend among these companies within “mature” industries today is that they are forced to comply with international standards to stay competitive, and thus this reflects the CSR commitment of such companies: *“We shall be in accordance with Norwegian, American and all laws relevant to the areas where we operate. We have no problem with this, so then we are aiming at being as ethically correct as possible, which normally goes beyond the law, and often is a result of what we see as necessary ethical measures, but certainly with the influence of international ethical standards.”* (R5)

### **3.3.6 Corporate Codes of conduct:**

Developing and implementing codes of conduct can be difficult, according to R2, because *“it’s hard to know what to do and how systems should be designed before you are in the middle of it.”* One approach to such a problem according to R4, is developing universal codes with detailed sub-codes: *“We have universal codes that apply to all our business areas, in addition we have a code of business conduct and compliance, ...a very comprehensive document that deals with anti corruption programs more in detail.”*

Implemented and operational codes of conduct serve as a reference for those who are committed to it. According to R4, C4 operates with different codes, due to internal risk assessment of operations. These codes play different roles: *“Our code of Ethics is the main statutory principle. The code of business conduct and compliance is more operational and adds much more to our daily business operations and our programs. This is especially important for the agents and marketing representatives, and it’s quite clear that this is the main risk area in terms of corruption.”* (R4)

Having a corporate code of conduct is a preventive measure against ethical challenges. According to R5, codes of conduct function as an educational tool that *“allows everyone to be aware of potential risks and not act in a way that they might put themselves or the company in*

*any kind of risk.” Further R5 argues: “The fact that we have a code of conduct and follow it means that we are comfortable with our procedures and the way we do business.”*

Companies monitor the external environment to keep their codes up to date. In light of their practices regarding international law, the same applies to the MNC codes of conduct, as they are a product of the company’s attitude toward enforced laws and regulations. Using codes of conduct in international business is not only a tool to prevent corruption from happening, it is also an important tool for benchmarking the company against competitors, suppliers and buyers, and to achieve a greater understanding about each other requirements:

*When we do business with other companies we get their code of conduct and sign it, and vice versa. It's always sent to the compliance group, to see if we can accept their code of conduct in relation to our standards. If someone comes to us and require even higher ethical standards, this can be a challenge for us because we have to go one step further. But, generally we have no trouble accepting other people's code of conduct because we have such a strict regime ourselves. (R5)*

Using corporate codes of conduct actively as a tool to promote company standards and for the purpose of influencing relevant stakeholders requires a deep understanding of relevant factors, as it is no longer “window dressing”, but rather creating an identity that should be reflected in everything the company does.

According to R1, the CEO is completely devoted toward doing business in the most appropriate manner, being ethically correct at all times and taking into consideration all possible scenarios that may arise. The CEO has initiated complex programs to develop different sets of codes of conduct for different business areas, and by doing so, the company comes as close as possible to eliminating the threat of being caught in doing illegal or unethical business: *“It is terribly important, terribly important, if we are to deal with corruption to have a high banner bearing and a high corruption readiness (tools to face corruption) that must come from the top management.” (R1)*

R1 further argues that if the management fails in having a strong focus on anti-corruption, the company will be out of business in the near future, especially if the company operates in countries and markets that are relatively corrupt. They will lose out not only because of the

bad publicity, but also, the threat of large enough fines to bankrupt a company. As R1 puts it: *“Having a high banner bearing and high corruption readiness is absolutely necessary if you are to deal with corruption, or be able to deal with it.”* (R1)

R3.1 speaks about their efforts in creating an organizational culture that is universal, no matter what cultures that might exist and what problems related to corruption might arise. What R3.1 is arguing is that their company has a lot to gain from creating an identity that not only the employees are very aware of, but also external parties and foreign cultures. The intention behind this is to promote their rules of the game, and by doing so avoiding potential business partners which do not have the capacity to comply: *“One must engage in some active work to promote what the company stands for, -so that everyone understands the company values and identity.”* (R3)

R4 also adds that C4 has no strategy on creating a concrete identity in the near future, because such an identity already exist: *“I rather feel that we have not documented it well enough, which means that we have no written and concrete strategy on it.”* The reason for this is that their company is widely known for whom they are; therefore efforts in creating a concrete identity are not necessary. One can still maintain a positive identity without trying to create one: *“in practice there is no doubt that there is a strong identity associated with our company. Our CEO is quite clear on that we should behave as we do here in Norway everywhere, and it has not resulted in any problems so far.”* (R4)

R1 is summarizes it all by stating that: *“If companies that have a high ethical standard goes into a corrupt country and believe that one can deal with it by having concrete ways to do it, at all levels, be in relation to training, following up on procurement processes, having good policies and high management focus, the corruption problem will be manageable.”* (R1)

### 3.3.7 Employees and third parties:

All of the respondents directly or indirectly identify employees and third parties as potential sources for corruption. Employees that are undereducated or not capable of conducting business in an ethically correct way and third parties, such as agents and middlemen with personal agendas are focus areas for NMC.

#### 3.3.7.1 Employees:

Training programs and education in general is important to NMC. R1 is striving for awareness among employees: *“I’m all about making the 50 employees in our unit to alert if something comes up, and I get quite a few inquiries from them about matters they do not feel comfortable with.”* R1 runs monthly training programs within his division, ranging from computer-based cases to more personal discussions: *“To have a discussion between us about it [different scenarios] is very interesting because it is clear that there are many who will not define anything as corruption, so when you get a dialogue on it, it is an important way to increase vigilance on corruption and the general understanding of it in a business.”* (R1)

R3.2 argues that training of employees is crucial. C3 is using mainly e-learning courses as frequently as possible: *“We are trying to arrange as many courses as possible and it’s easy to get good distribution on the e-learning courses providing interactive feature films with fairly common scenarios to get relevant training.”* Depending on what kind of position each employee has within the company, the training program varies: *“Employees must take these tests soon after they have begun to work with us. We also have courses for new leaders where we arrange training modules from 1-4 hours going through our main policies on corruption, our standards and our dilemma training where we discuss different cases. We often emphasize that our employees should address their managers when there is a case.”*

At the administrative level within the organization, R4 points out that employees in higher ranking positions must go through more complicated programs, *“compliance [training of employees] it is much heavier, including highly complex scenarios “*, relevant for the code of business conduct and compliance of C4.

According to R5, in which the compliance group of C5 plays an important role in educating and monitoring employees. The main goal of C5 is that *“all employees should know the rules*

*and the ethical standards our company has” and that “the primary work of the compliance group is to remove any incentives for employees own self interest.” (R5)*

### **3.3.7.2 Third Parties:**

Third parties are identified by R4 as one of the most crucial areas relevant to corruption because the sudden loss of control: *“During the contract period, there are limits for what we can gain insight into and what control we can have over the agent. So, it is more or less only the initialization phase and payment phase when have full control. The rest is up to the agents, and our ability to find the best and most trustworthy agents.” (R4)*

The main challenges for C4 are those in *“countries in which we have an extensively use of agents.”* R1 and R3 also recognize that there are many potential risks involved, especially when the company can be held accountable for the actions of external individuals or organizations: *“When you put out a contract, as in my business which can often be many billions worth, to a vendor that has a huge network of subcontractors, then it quickly becomes a third-party risk for us.” (R1)*

Most companies do not only focus on getting the cheapest deals by choosing the cheapest suppliers. As R2 argues it is also important to take responsibility for you customers. Depending on the type of company, i.e. being a raw materials supplier, it is much more important to get the best and most faithful customers than getting the cheapest “one time” deals and then being rejected as a supplier because customers are not willing to get involved with the third party risks that exist through the suppliers network. The views of R2 are acknowledged by R1, stating *“...if one of the players who come into the picture is corrupt, and this becomes public knowledge, this is the sort of reputation risk for us where we can risk being drawn to the court (...).” (R1)*

In some cases, internal capacity or knowledge might not be sufficient to do business with a foreign country or culture. The use of external agents is then the only solution and it is a potential risk of corruption. When dealing with foreign governments, according to R3.1, there sometimes might be “kick-backs” and other illegalities involved to the person who commanded you to work with specific suppliers: *“Sometimes there may be good reasons for such a cooperation, while other times there may be reasons to suspect the reason why one is*

*asked to work with a specific partner, is that there is a "kick-back" back to the person who gave the message that you had to work with this and that.*” (R3.1)

The use of agents might be necessary to get access to markets and countries. According to R4 *“It is absolutely impossible to have the internal capacity to get in position to do business in the countries we operate and the industry we mainly operate within.”* And thus the use of local agents is necessary. Since C4 chooses to work extensively with third parties, potential risks are also taken into account: *“in smaller contracts for example, the strategy is to the extent possible, to take over the role of the agent ourselves, or alternatively buy the agent itself, or at least what gives us maximum control.”* (R4)

R5 argues for positive sides of using agents and third parties, especially when facing unknown territory, for example in a country known for being corrupt: *“We will gladly send a third party, such as a law firm, to consider the conditions in this area and on the basis of our rules and policies, it is a decision the board must take, whether we should establish ourselves or not.”*

According to R3.2 there are several third party risks one must take into consideration when entering a foreign country:

*If we are to establish ourselves in new countries, such as a joint venture, we will check those we work with. To a certain extent, we also consider customers who buy from us, how goods are transported, to which countries, etc. and if we are allowed to do so in terms of export controls. So we take time to check customers and partners, our supply chain and potential suppliers. It is a quite extensive and expensive process, but it is necessary.* (R3.2)

From a long-term perspective, it is reasonable to assume that companies will develop mutual beneficial relationships with agents and third parties. According to R4 *“it is clear that the major contracts, that often stretch over a long time-span, forces things to sharpen up.”*

Among the respondents, in addition to solely relying on existing data and information, the companies use Intelligent Due Diligence (IDD), especially when facing new suppliers or in general when facing unknown business partners. According to R1, using IDD is a fairly easy

and cost effective method: *“By running an IDD process on them [the suppliers], it may mean that you go into a single database which can be purchased relatively cheap, such as the Transparency International database, and it will say a lot about all kinds of companies that have been documented have been involved in corruption previously.”* (R1)

While information about western companies for conducting an IDD is easily available, it can be difficult to gather precise information about companies from countries without such databases. R3.2 refers especially to *“public records, access to accounts, keeping accounts in a reputable manner, etc.”*

IDD can be practiced at different levels, again depending on the resources and capacity. Being a large international company, C1 has devoted extensive resources into IDD processes. For C1, the IDD process described above is just an initial IDD: *“If we are still unsafe [after the initial IDD process on existing databases] we go on a full IDD running in a separate internal unit in the company that is exclusively dedicated to conducting IDD and conducts fairly extensive research to attempt to indentify whether this (company/supplier) is questionable or not.”* (R1)

### **3.4 Comparison of principles, guidelines and practices:**

The principles and guidelines provided by leading international initiatives provide a basic ethical, and anti-corruption foundation for international business. Ethical initiatives in this comparison include bespoke principles, suggested measures guidelines and knowledge-databases. In order to establish a best practice, the practices of NMC should be compared with the leading principles and guidelines. The comparison is based on suggestions by international initiatives and NMC corporate codes of conduct and to what extent these clearly state or generally cover the criteria's listed in the tables below.

The five tables are based on the three main theory parts (culture, laws and regulations, and internal measures) that are presented in the theory chapter. As earlier, the reader must be aware of the required level anonymity. C1 and C3 codes of conduct are published on their home pages, while as C2, C4 and C5 agreed to provide their actual operative codes of conduct if kept confidential. The published codes are more general and brief, while as the confidential codes are more detailed and specific towards relevant fields of interest. Since all of the companies in this comparison are large Norwegian multinational companies, the outcome of the comparison is rather unambiguous, meaning that they all have detailed and precise definitions of corruption, including anti-corruption measures, included in their corporate codes of conduct. Some codes and guidelines are somewhat difficult to interpret, in which they are vague and not very specific. Thus, some subjective interpretation, based on articles and other published materials, is necessary to classify the ethical initiatives and NMC.

### 3.4.1 Culture:

	DeGeorge	OECD	NMFA	TI-BPCB	Caux	C1	C2	C3	C4	C5
General reference		X			X	X	X	X	X	X
Respect local culture	X	X			X	X	X	X	X	X
Stakeholder interests		X	X	X	X	X	X	X	X	X
Recognizing corruption		X	X	X	X	X		X	X	
Philanthropic measures	X	X			X	X	X	X	X	X

### 3.4.2 Laws, Regulations and Competition:

	DeGeorge	OECD	NMFA	TI-BPCB	Caux	C1	C2	C3	C4	C5
General compliance with laws	X	X	X	X	X	X	X	X	X	X
Foreign local law		X		X	X	X	X	X	X	X
Domestic law					X	X	X	X	X	X
All applicable laws		X			X	X	X	X	X	X
Changes in legislation			X	X	X	X		X	X	
Competitive conduct		X			X	X	X	X	X	X
Competition as an element of corruption				X	X	X				

### 3.4.3 Corporate Social Responsibility:

	DeGeorge	OECD	NMFA	TI- BPCB	Caux	C1	C2	C3	C4	C5
General CSR		<b>X</b>			<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Recognizing corruption		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Philanthropic measures	<b>X</b>				<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>		
Effects of measures						<b>X</b>	<b>X</b>	<b>X</b>		

### 3.4.4 Corporate Codes of Conduct (CCC) and Compliance:

	DeGeorge	OECD	NMFA	TI- BPCB	Caux	C1	C2	C3	C4	C5
Identifying a need for CCC		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Recognizing corruption		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Suggestions on measures			<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>		<b>X</b>	<b>X</b>	
Monitoring and review			<b>X</b>		<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

**3.4.5 Employees and Third Parties:**

	DeGeorge	OECD	NMFA	TI- BPCB	Caux	C1	C2	C3	C4	C5
Conflict of interest		<b>X</b>			<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Related pressure			<b>X</b>		<b>X</b>	<b>X</b>		<b>X</b>		
Education of employees			<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Monitoring and review			<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>
Risks related to the use of			<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>

### 3.5 Interpretation of findings:

The brief comparison of suggested guidelines, principles and NMC codes of conduct shows that the codes of conduct of NMC cover far more territory than what is required, or suggested, by some ethical initiatives. Not only does this show the efforts devoted to creating good and sound corporate codes of conduct, but also an insight into Norwegian multinational companies orientation towards anti-corruption and ethical issues in general. To what extent companies benchmark themselves against each other, or benchmark themselves with compliance with ethical initiatives is not known.

Given the long-term perspective of NMC, in which compliance with international ethical standards is important, compliance beyond what is required is the most reasonable approach for achieving future business opportunities, enhancing company competitiveness and avoiding potential harmful reactive measures.

Laws and regulations are, according to NMC, the core of every business activity. All laws that apply include local, domestic and international law. Also, “all laws that apply” includes changes in legislation, which is identified as crucial to pay attention to by the respondents. The ethical initiatives suggest compliance with laws in general is necessary. Only TI-BPCB provides guidance on changes in legislation. NMC also recognize competition and unlevel playing fields as potential sources of corruption and a problem when doing business internationally. Only CRT directly provides guidelines on competitive conduct where as CRT and TI-BPCB are the only ones identifying corruption as a directly related element of corruption.

### 3.5.1 Culture:

Classifying corruption in a cultural context might be difficult, simply because cultures are different. In some cultures, for example, capitalism is not as widespread as we westerners may believe, and that there are in fact an alternative to capitalism in many poor countries which are corruption. In such countries corruption tends to generate the perception of capitalism not serving their needs and demands, e.g. capitalism carrying a large legal framework, such as regulations, higher taxes and more government involvement that will take away peoples freedom in running their businesses without supervision (Di Tella & Macculloch, 2009).

Klitgaard (1998) suggests that corruption is a result of calculation, not passion. In Venezuela, a local corruption dictionary “*Diccionario de la corruption en Venezuela 1989*” has been published in two volumes. So, one could maybe say that for some, corruption is the passion for calculation. On the other hand, one could argue that corruption becomes a passion when the calculations are in favor of corruption, and this is what drives those who commit to corruption and over time contribute to the formation of cultural norms, laws and regulations that are different from each other across different nations and cultures.

Dealing with cultural differences to establish adequate ethical business standards can be difficult, but necessary. McSweeney (2001) argues that you have to know more about a culture before you are able to understand it. It calls for a deeper involvement by foreign companies, but also a deeper understanding from foreign cultures. Some practices are necessary for foreign companies to follow and the result is most likely better than what is has been previously. So, in addition to McSweeney (2001), there is also a potential educational aspect that companies can benefit from when facing foreign cultures.

Doing business internationally will reveal company weaknesses and strengths, including corruption. That fact that corruption is far from defeated means that someone, even companies from a relatively good ranking country such as Norway, will face challenges. Not necessarily because their business practices are not good enough, but that the host country and its cultural aspects find it difficult to comply with unknown practices. There is a reason for why large multinational companies devote efforts towards anti-corruption work, and it would be wrong to think that domestic company standards easily can be implemented elsewhere, without any effort. There is of course differences between countries and cultures, but in the

end, it is difficult to draw a distinct line between who is corrupt and not. Relatively corrupt countries are assumed to have cultural values and an institutional framework that differs from ours. It does not necessarily mean that relatively corrupt countries and cultures promote corruption, but they do not have the capacity to neither controlling nor reducing it.

#### *3.5.1.1 Cultural Dimensions:*

When Norwegian companies enter a foreign nation and foreign culture with the intention of doing business with a foreign company, the *power distance* dimension might be relevant. Norwegians are used to a low power distance, both in society and organizations, in which the organization is relatively flat and with relatively equal distribution of power. In cultures with high power distance, it might be difficult to grasp the attention of people with the decision power, both in the public and private sector, depending on the relevance and significance of the business proposal. Power distance is often synonymous with an uneven distribution of public goods, resulting in poverty and inadequate living and working conditions. Doing business with such a culture might require extensive efforts to live up to international ethical standards if the host company is not able to do so.

Opposite to Norwegians, many cultures are *collectivistic*, for different reasons. For example, women are not allowed to work outside the home, or families consist of many members, and many generations, in which only one or two out of the three to four generations are able to work and provide an income. They have a need for supplementing their income in any way possible, and accepting corruption, such as bribery, is in many cases the easiest way to bring in some extra money to the family, and the incentives are obvious. It does not matter if you are a public official or an employee in a private company, other than them having different levels of internal transparency and control procedures, we can determine how easy it is for employees to act with discretion.

It is obvious in international business today cultural differences are crucial to pay attention to, and that they generally complicate the way we do business. Some cultures are closer to others, and some cultures are very far from each other in terms of, not only practicing corruption, but also every possible aspect of life and business. R1 argues that even if cultures are different and even if they complicate the ways of doing business, there must be an upside involved in doing business with them, i.e. cheap raw materials, cheap labor and geographical location. If not, why do business with another culture?

In reality, how people think does not matter that much, because of the different practices of cultures, how companies make a stand point against corruption is crucial to pay attention to. To be sensitive is of course important, but only in a way that makes you able to follow company guidelines. When doing business with foreign cultures, it is assumed that to fulfill your demands, it is necessary to either try to change, or deal appropriately, with some cultural aspects. It is the general perception of cultures that deeply rooted values are difficult to change, but more superficial practices are easier to influence. In international business, there are several stakeholders involved and treating them appropriately might be a difficult challenge. R2 emphasizes that it is up to the company to define who the external stakeholders are, at every level, and that they should be treated in a respectfully and culturally appropriate manner. But, what if being treated culturally appropriate means dealing with corruption? In many cultures, corruption is a way of supplementing the income, and teaching cultures otherwise might be difficult.

From an *uncertainty avoidance perspective*, some cultures might reject being taught how to do things, but the only alternative for international companies that have steady policies and practices is to move out, and the other party might lose potential income and benefits. Thus, there are incentives for foreign companies and cultures to some extent to obey the demands of foreign companies, even though it differs from their cultural practices. The level of uncertainty avoidance in cultures, especially in cultures that are found to accept a lower level of institutional supervision is crucial, because their perception of corruption is better than their perception of capitalism. This is a relevant factor for companies doing business with foreign cultures. People safeguarding their own interests are the core of all corrupt activities, and can severely reduce the level of accountability.

Relevant to corruption, differences in *long vs. short-term orientation* might bring up problems regarding honesty, trust and relationship building in other cultures, including orientations toward the importance of keeping a healthy business relationship. R3.2 emphasizes the work that is done initially by C3 might harm business relationships, as the foreign culture is not used to detailed investigations, but both parties will benefit from it in the long-term. By doing so, the values of C3 are seen as healthy and beneficial to the foreign companies and thus it gives foreign companies incentives to keep a healthy relationship.

### *3.5.1.2 How to deal with cultural differences:*

The comparison shows that NMC takes far more precautions than what is suggested or required from the ethical initiatives. The potential result for Norwegian multinational companies in foreign countries and cultures, taking no precautions, is to be dragged into a spiral, or even networks of corrupt people, that have the power to influence the national court, take away company assets, freeze operations, and basically make business a living hell if a foreign company fails to comply with their procedures. This is why it is important to take as many precautions as possible, and this is why NMC are paying so much attention to this subject.

DeGeorge suggest that multinational companies should “*respect the local culture*”. Assumingly, this does not mean that multinational companies should act according to a foreign culture if it is below required ethical standards. OECD suggests “*The enterprise should also foster openness and dialogue with the public so as to promote its awareness of and co-operation with the fight against bribery and extortion*” meaning that the company should actively engage in the work against corruption. Not only for their own benefit, but for all stakeholders involved. UNGC and its 10<sup>th</sup> principle suggest that companies should “*Join forces with industry peers and with other stakeholders*”.

The findings from the interviews are that the perception of Norwegian, and western companies in general, operating in relatively corrupt countries is *not* universal: (1) the cultural values and business practices of western countries are healthy, or (2) the cultural values and practices of western countries are too demanding. The respondents also argued that it is ambitious to learn other cultures what is wrong and right, but necessary to impose certain minimum standards if companies wish to do business and at the same time comply with required ethical standards.

The views of the respondents are generally those that cultural differences complicate international business. Complying with inadequate ethical standards should not be an alternative, never ever. Companies are more or less free to choose whom they want to do business with, but in most cases some criteria's must be met. Depending on the importance of the potential foreign business partner, in which the relative importance is higher within some countries and cultures compared to others, measures should always be taken to enhance local ethical standards according to leading international ethical standards.

NMC finds it necessary to pay close attention to cultural differences when doing business abroad. Even though it is not always possible to change the behavior of foreign cultures, nor is it appropriate, it is necessary to impose standards and practices that respect the rights, wants and needs for the parties involved. It is important to understand that cultural values and practices not always go hand in hand. Corruption is very rarely an anchored value in a culture, because corruption is generally seen as something illegal. Thus, some practices within a culture do not have to be based entirely on values, but as the cultural onion shows, symbols, heroes and rituals also play an important role.

The respondents also argue that cultural differences are becoming more and more vanished, as potential business partners in foreign countries and cultures increasingly choose to comply with international ethical standards. Since the companies that are interviewed are relatively large, and most of them class leaders within their fields, they operate with large sum contracts and assumingly have a stronger influence on foreign companies, relative to smaller companies. Thus, foreign companies choose to adjust to their requirements because there are incentives for doing so.

### **3.5.2 Laws and regulations:**

All multinational companies must have a value chain that spreads over different jurisdictions. As there is no universal jurisdiction, problems do exist. Laws and treaties established by international initiatives are steps toward a level playing field. How does it affect multinational and international companies with respect to corruption?

With respect to domestic and international law or legislation in general, one can argue that it all comes down to being familiar and updated with what is going on in the international business environment. For companies with operations in different countries it requires extensive knowledge on domestic legislation, either through their own employees or the use of external consultant services and agents. On the other hand, international law is not yet powerful enough to include all nations and individuals, especially in countries with weak legislation and/or no or little law enforcement. As Benvenisti and Downs (2007) points out, this is a difficult situation for companies with no or low capacity to deal with the increasing demands from superior nations. Norway is such a country with enough capacity to enforce anti-corruption laws (relatively speaking) and the attitude developed against corruption rubs

off on Norwegian companies as well. Coming from a country with relatively high standards on anti-corruption not only give companies incentives to avoid corruption, but they are also forced to develop tools on how to do it.

According to UNGC, companies should pay attention to legal risks as *“corruption is increasingly becoming illegal in a company’s home country to engage in corrupt practices in another country (OECD, UKBA and FCPA). Corruption is increasingly becoming an issue of significant political importance in countries and emerging markets and there is a growing determination to act and to take those accused of corrupt practices to court”* and that *“Inadequate laws, cultural norms, etc. are not an acceptable excuse”*. The ethical initiatives suggest compliance with laws in general is necessary.

Laws and regulations are according to NMC the core of every business activity. All laws that apply include local, domestic and international law. Also, “all laws that apply” includes changes in legislation, which is identified as crucial to pay attention to by the respondents. NMC also recognizes competition and unlevel playing fields as potential sources of corruption and a problem when doing business internationally.

#### ***3.5.2.1 Keeping up with the “best”:***

Legislations change over time and failing to comply can result in huge fines, being excluded from countries or getting a bad company reputation. The international initiatives will also make sure that the rest of the world knows what is going on, which in turn will damage the reputation of the company. Changes in legislation, do not only present a threat to companies, but also an opportunity to do business in an ethically appropriate, or at least legal, manner. Some governments have laws and no law enforcement; others might have many laws and little law enforcement, while others have laws and law enforcement. Some governments have inadequate laws while others have adequate laws. No matter how the legal framework within a government is structured and how it works, companies should at a minimum act according the laws, and if necessary (i.e. institutional inadequacy) act according to international ethical standards.

As Benvenisti and Downs (2007) point out, it will be difficult for those without capacity to alter the legislation to be a part of the international system, herein international business. As a result, assumingly, this will create a bigger gap between countries and companies able to live up to increasing standards and those who are not. In the future of international business, and in relation to international leading anti-corruption principles, companies must undertake more detailed, capital and human capital intensive precautions. –In which, they must develop and implement tools and procedures to prevent corruption from happening.

Keeping up with the best, in which “*the best*” are those who constantly adapt to new changes in legislation and who constantly keep clean and healthy records. Although it dates back a few years (2004), Sørreide found that many Norwegian companies had difficulties following leading laws regarding corruption, even though we are perceived as being among the best. As more recent research show, with the increasing demands of local and especially international legislation, it is not easier to comply now compared to a few years back.

Given that some local legislation are inadequate compared to international law or Norwegian anti-corruption law, measures must be taken to implement a well functioning system that complies with both Norwegian, local and international law. International law is always perceived as ethically correct, and by following them the chance of avoiding corruption is better. Norwegian companies should be aware of how any legislation is enforced, in which it might be inadequate regarding local law. Another relevant factor is pragmatism, in which any given legislation, especially international law, can be enforced differently. The standards of FCPA, equal to those of any other legislation, e.g. EU or Norwegian, are subject to pragmatism. While as FCPA will punish you if you fail, no matter what, EU and Norwegian law might evaluate and analyze processes and measures taken by the company, and then determine if one can actually blame the given company for committing to corruption with intent or not.

Company value chains and any case of competition require extensive knowledge within the fields of domestic and international law. Norwegian companies will most certainly face competitors with lower ethical standards when doing business in relatively corrupt countries. Some companies see them as unlevel playing fields and will take no or few measures to act according to international standards. The larger and more internationally oriented the

company you deal with is, the trend is that they assumingly have relatively higher standards compared to domestically oriented companies within a relatively corrupt country.

At some point in business, by doing everything possible to avoid corruption, companies might fail, due to several reasons. In a country where company ownership, networks and company-details are hidden, manipulated or false, the risk of being involved with someone doing illegal business is imminent.

According to UNGC and in relation to its 10<sup>th</sup> principle changes in legislation make it difficult to do business:

*This changing environment of law, regulation and enforcement makes it harder for business managers to assess and quantify the legal risks to which corruption exposes their operations. Change brings uncertainty. Of particular significance for many large companies is the degree to which they may be responsible for agents acting on its behalf in other countries. What may yesterday have been considered an independent agent - for whom the principal company carried no responsibilities - may today be someone whose actions the principal company indeed can be legally accountable for. (UNGC – About the 10<sup>th</sup> principle)*

Only TI-BPCB provides guidance on changes in legislation, stating that *“The increasing enforcement of foreign bribery laws, the imposition of record fines and the threat of criminal penalties for company directors and employees are giving enterprises pause for thought”*, while as CRT principles are more holistic stating that *“a responsible business, everywhere it operates, respects all applicable national and international laws, regulations and conventions, while trading fairly and competitively”*. As a response to the increasing ethical requirements, CRT principles recognizes that *“laws and market forces are necessary, they are insufficient guides for responsible business conduct”* and that *“a responsible business therefore adheres to the spirit and intent behind the law, as well as the letter of the law, which requires conduct that goes beyond minimum legal obligations”*.

NMC identifies changes in legislation as challenging, but important to pay attention to. Even though such changes can impose restrictions to established procedures and operations, one

must keep up with it if the goal is to be the industry leader, or just a company with a strong ethical foundation. The tendency among internationally oriented companies and what is perceived by the respondents is that the country of origin, is a less important factor over time, because the relationship between companies are build on increasingly stronger foundations and with long-term perspectives. Another concern of the respondents are the increasing gaps between those who strive to comply with, and those who are not, and this can be fertile soil for sub-cultures that can benefit from being unethical, in which having adequate ethical standards is not a priority and this will in turn pose a threat to more ethical correct companies.

#### *3.5.2.2 How to deal with laws and regulations:*

There should be no other alternative than to comply with laws and regulations. The increasing enforcement of relevant laws has recently given companies incentives to take more and better measures against corruption. The best way to comply with laws and regulations is to comply always comply with the highest requirements. The comparison shows that NMC have a fairly rigid standard on how to deal with laws and regulations, while as the ethical initiatives only briefly suggest “what to do”, but not “how to do” it, providing little guidance.

Changes in legislation, often synonymous with more restrictions and heavier sanctions, can create a temporarily gap between business practices and legal requirements, and may be a potential risk factor that is necessary for all companies to pay close attention to. Changes in legislation are nothing new in the international business arena, and western companies have had to adjust to new and stricter requirements from time to time. Western companies face problems when doing business in relatively corrupt countries, or in countries with inadequate legal frameworks and/or little or no enforcement of laws, because of the gap between legal and ethical standards. Large multinational companies, and companies basing themselves on exporting to western countries or supplying western companies are argued by the respondents to be more aware of the requirements of Norwegian, and western companies in general. Doing business with such companies is not as difficult as doing business with companies that are unfamiliar with the requirements of western companies.

The best way to comply with laws and regulations, argued by the respondents, is to have a compliance group that is devoted to ensure all legal and ethical requirements are met. By having a compliance group, the company can benefit from having a hub of expertise that can be used to develop internal processes and policies, ranging from codes of conduct to social

responsibility programs. The long-term effect of having a well functioning compliance group is that the company is better equipped to face, and more likely to avoid and/or properly deal with corruption. In light of the Strategic Response to Ethical Challenges framework of Peng (2008), stakeholders are more important today than previously. Thus, companies wish to respond, or preferably be as proactive as possible and anticipate responsibility, to keep stakeholder relationships as healthy as possible. For companies to be proactive, compliance with laws and regulations is a minimum. Being proactive is possible through the compliance group. The role of the compliance group can, and should be, adjusted to surpass the requirements of laws and regulations. By doing so, companies are better equipped to face future changes in legislation.

### **3.5.3 Competition:**

The five forces framework of Porter illustrates how industry competitiveness is created, by threat of new entrants, bargaining power of buyers, threat of substitute products or services, bargaining power of suppliers and rivalry among existing competitors. Corruption and bribery are able to influence these forces and creates an unlevelled playing field. Those who commit to corruption can use their position to gain themselves a competitive advantage, either through middlemen, directly towards buyers and suppliers or through advanced hidden networks.

According to Porter (1986), international competition has shown to be increasingly fierce and brutal, yet his model, at that time, did not take into account the significance of cultural differences and corruption, as we know it today. Competition and corruption has been shown to give some companies enough power to influence prices and develop monopoly over time. More importantly, in such a case of British Aerospace, corruption has been shown to undermine and take control over laws and regulations that are intended to remove corruption.<sup>16</sup> In general, companies that commit to corruption do this to enhance or defend their position within an industry and/or a market to seek profitability outside what is seen as normal, often through bribery of public officials or strategic middlemen in a bidding process.

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<sup>16</sup> In September 2009, British Aerospace was prosecuted for offences relating to overseas corruption. On February 5<sup>th</sup>, BAE agreed to pay fines of 237 million GBP to the US and 30 million GBP to the UK. See: <http://news.bbc.co.uk/2/hi/business/8501655.stm> and <http://www.dailymail.co.uk/news/article-1248832/BAE-Systems-pay-280m-criminal-fines-settling-corruption-charges.html>

The research done by Søreide (2004) on corruption and competition provides empirical facts that show corruption is harmful for Norwegian international and multinational companies, in which they think/are convinced that contracts are lost due to corruption. In the international business arena one can say for certain that there currently is not a leveled playing field and that all companies certainly do not play by the same rules. There are assumingly forces that might put pressure on profitability and future potential of survival of the organization that force companies, even though they normally avoid it, to maneuver over the law or below ethical and moral guidelines and standards.

In every aspect of international business, it is important to have an adequate institutional framework. That is, a framework that can create and maintain a level playing field. Ades and Ditella (1999), and Emerson (2005), argue that governments must initiate such institutional framework, or they should at least be devoting efforts toward developing and establishing policies on competition and anti-corruption. By doing so, one can either remove or impose fines on companies with illegal practices or force them to change their business practices.

What is discussed above also means that without a leveled playing field, in which suppliers and buyers are following the same rules, inter-industry competition can be damaging both for companies with high ethical standards and for companies with low ethical standards. It all depends on what the market allows, in which country and culture specific ethical standards are determinants. Companies which deny any ethical responsibility or operate with relatively low ethical standards can enhance their position in bidding contests and in competitive scenarios where the buyer a) are not aware or, because they have no screening/IDD processes, or b) accept such behavior because the total outcome of the agreement is at a much lower cost or higher profit. Companies who operate with relatively high ethical standards might have a better chance of getting into contract positions with larger buyers that also operate with higher ethical standards, securing potential long-term agreements, company stability and profitability.

Given that the bargaining power of buyers is high, and combined with the rivalry among existing competitors that might exist in bidding competitions, there are incentives for suppliers to do unethical business. It depends on the requirements of the buyers and their policies and processes in uncovering unethical behavior. If both supplier and buyer accept

operating with relatively low ethical standards, allowing bribery and other forms of corruption, the bargaining power of buyers will be difficult to precisely define.

Some industries are widely known for being more corrupt than others. The drug industry is one thing, but legal industries such as oil and gas, chemicals, insurance, pharmaceuticals, and so on, probably covering every legal industry that exists, all have cases where corruption have taken place. Some industries are also more exploited due to several factors such as industry size, level of multinational trade, trade with distant and highly different cultures and trade with countries where corruption is “the nature of business” such as Russia and many African countries.

From the perspective of the five forces model, industry rivalry faces a potentially vicious challenge that can undermine what larger companies with a great deal of integrity have built up. The competitive environment has changed drastically over the past few decades. Earlier, the only way to stay in business was to pay money and grease people. Nowadays, things are the opposite. At least, most people would argue that corruption is harmful for international business, and companies should distance themselves from corruption by publically expressing their ethical standpoint.

CRT provide guidelines on competitive conduct, identifying corruption as a directly related element of corruption, stating that companies should: *“foster open markets for trade and investment”*, *“promote competitive behavior that is socially and environmentally responsible and demonstrates mutual respect among competitors”* and *“not participate in anti-competitive or collusive arrangements or tolerate questionable payments or favors to secure competitive advantage”*.

NMC and the respondents identify competition as an important but dangerous aspect of international business. The reason for this is that there actually is an unlevel playing field, and that some companies, that are competitors, allow themselves to do business on unethical and illegal premises. This is especially common in contracting and bidding processes. The respondents argue that competition is difficult, but they are confident that their long-term and ethically correct strategy will pay off when laws and regulations tighten up.

The comparison shows that NMC have a competitive conduct, but few actually identify competition as an element of corruption in their codes of conduct. The respondents, however, clearly define corruption as an element of corruption.

#### *3.5.3.1 How to deal with competition:*

Competition can be fierce in the short run, but advantageous for those who play the game correct, in the long run. There should be no doubt that being prosecuted for corruption is far more harmful than loosing out on a contract or two. Competitors most certainly have their own internal processes and policies. These should be of no interest to the company to copy or to follow, as long a competitor is not a potential business partners. The reason for this is that the competitors' processes and policies might be harmful to the company.

In contracting and bidding processes competitors gather. Bribing strategic persons is still common and unfortunately difficult to avoid. On the other hand, as argued by the respondents, it is important to express disappointment and reject any future cooperation with competitors and potential suppliers that allow corruption to be apart of their business.

If a company, with its own compliance group, proactive processes and policies experience competition as a threat to its integrity, they have to rethink and most likely redo the work of the compliance group. The intention with having a compliance group, relevant to competition and corruption, is to point out a path that is *most likely* to be free from any corruption-related threats.

### 3.5.4 Internal Anti-Corruption Measures:

There are plenty of incentives for why companies should avoid corruption. Internal measures must be taken, but a reasonable question to ask is, “how and how much?” The ethical initiatives included in the comparison have different viewpoints and to some extent specific interest. DeGeorges 7 principles are more general suggestions, and a useful tool for companies to benchmark themselves and identify potential problems at an early stage. The principles can also serve as statutory principles.

DeGeorge suggests that multinational companies should “*cooperate with the host government in developing ethical background institutions*”. These principles are relevant to corruption in many ways. Committing to corruption is doing harm intentionally. Even though not all corrupt individuals have knowledge about the following effects of corruption, every representative of a multinational company should.

Corruption has also shown to have devastating effects on countries as a whole, in which corruption has a multiplication effect. Corruption also undermines country development, herein education, health services and infrastructure. The lower levels of a society are those who end up suffering from corruption, and the results are people living in poverty and conditions below human rights requirements. Paying taxes contributes to serve societies through established institutions, at least in countries without ruthless dictators. Foreign cultures can be difficult to both understand and respect, but it is necessary to remove any doubts or misconceptions about each other.

Cooperating with the host government on developing ethical background institutions can increase the institutional capability, also with respect to anti-corruption. Thus, companies should contribute to such if they feel that existing institutions are inadequate. What we can see, especially from the comparison in, is a change in strategic response to ethical challenges among NMC and most likely western companies in general.

#### *3.5.4.1 Corporate Social Responsibility:*

The findings between CSR and profits (McWilliams and Siegel, 2001), and that there is a neutral relationship between those, is assumingly partly outdated and/or partly seen from a short-term perspective. When companies engage in CSR activities today it is generally not because they seek short-term profits, but because it pays over time. –Not necessarily in direct profits, but indirectly through licenses, funding and other important factors on the market. The Concept of shared value (Porter, 2011) argues that it is increasingly necessary for companies to involve in CSR related issues to overcome the liability of not being CSR oriented.

The trend among most companies, especially in Norway, is to engage in CSR activities, or at least claim to do so.<sup>17</sup> The concept of shared value is an extension of what we know as CSR, in which Porter argues that the level of company stakeholder involvement is at a level where it is a competitive factor and that every firm should look at decisions and opportunities from the perspective of shared value as this will lead to new approaches that generate greater innovation and growth for companies—and also greater benefits for society.

According to Carroll (1991) companies need to fulfill economic and legal responsibilities before fulfilling ethical and philanthropic responsibilities. When talking about CSR, most people might not think of corruption as a relevant issue. There are, however, plenty of relevant measures companies can involve in and contribute to reducing the level of corruption, such as giving proper education, paying a proper salary and in general contributing to institution building.

Some companies are especially known for having high ethical standards. These are often companies with large amounts of international experience, financial capability and human capital. When one company sets the bar, other smaller companies with less developed and implemented standards may feel the need to follow, since there are both negative and positive aspects of being the underdog:

1. Companies run the fear of being put in a bad position, not being capable to keep up with the development of ethical standards practiced by other companies, or;

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<sup>17</sup> According to the 2008 Synovate Norway survey presented in the introduction.

2. They have a great opportunity to learn from the experience of other companies, learn about their tools, procedures and policies, and by doing so be able to develop internal ethical standards more efficiently and effectively.

CSR commitment is the primary foundation for most stakeholder relationships, whether it is domestic or international. The efforts put forth by any company in CSR related issues will most certainly have positive net effects over time, but one cannot engage in such activities with the intention of creating direct profits and short-term benefits. In its broadest sense, CSR programs of some companies can be comprehensive and very detailed, developed as a response to inadequate institutions or more philanthropic measures that can strengthen the position of the company within a society. Depending on type of business, and in what country, compliance with legislation is often not sufficient if business partners choose to do the opposite. Thus, companies must actively engage in reducing incentives that promotes corruption. As corruption have the tendency to severely damage societies and peoples lives, companies can rely on their efforts, if properly conducted, being acknowledged by stakeholders and bring along positive side effects. How to engage in CSR, and to what extent, depends on what any given company wishes to achieve, either through the networks of established ethical initiatives or performing activities according to in-house-developed programs.

OECD Guidelines for Multinational Companies is highly stakeholder oriented, taking into account economic, social, environmental progress as well as formation and development of sustainable practices as the core of a multinational company's CSR orientation. CRT suggest that companies should *"promote harmonious relations between business and other segments of society"* and that *"a responsible business therefore contributes to the economic, social and environmental development of the communities in which it operates, in order to sustain its essential 'operating' capital – financial, social, environmental, and all forms of goodwill."* Further, the principles state that *"a responsible business maintains its economic health and viability not just for shareholders, but also for other stakeholders"* and that it *"respects the interests of, and acts with honesty and fairness towards, its customers, employees, suppliers, competitors, and the broader community."*

The CSR orientation of NMC is highly visible throughout the respective organizations. NMC are frequently promoted for their engagement in social issues, because their view on CSR and stakeholder relationships from a long-term perspective as something they want to engage in, because it brings so much good to the company in terms of making business transactions easier and getting recognized as a preferred business partner in other parts of the world.

A good example of a company without massive resources is the Norwegian clothing line Stormberg, focusing or putting CSR measures into action through their own initiatives rather than just making empty promises for the future.<sup>18</sup>

#### *3.5.4.2 Corporate Codes of Conduct:*

According to Payne (1996), there is a need for ethics in business, and the need is undeniably increasing. A lot has happened since 1996, especially regarding corporate codes of conduct. The NMC corporate codes of conduct are presented as mostly based on domestic and international legislation (NMFA, FCPA and UKBA), including some standard principles suggested by ethical initiatives (TI, UN and OECD). The codes of conduct vary in how detailed and well implemented they are. Some of the companies face the threat of corruption more frequently than the other companies, and thus they have more advanced procedures, policies and operational guidelines.

As Jenkins (2001) suggests, many companies have codes of conduct without having sufficient procedures and policies implemented to actually benefit from the codes if ever necessary. One of the companies interviewed was referred to by three of the other interviewed companies as the class-leader when it comes to having sufficient systems, knowledge and codes of conduct on anti-corruption and CSR issues in general. The respondents generally refer to factors such as financial capacity, industry, countries where they operate and number of previous relevant events as determinants on how many resources they devote into development, implementation and practice of codes of conduct.

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<sup>18</sup> See the book “Stormberger”, about the company Stormberg and its founder, Steniar J. Olsen for inspiration and insights.

Some corporate codes of conduct are basic, some are holistic and advanced, while others are more specific towards one or a few aspects of a company's most exposed and vulnerable business processes. When what can be described as "global problems" erupt, such as corruption, companies tend to implement policies, as an internal measure of corporate social responsibility, showing that they do care and that they do take responsibility for their own actions regarding these problems. One can discuss to what extent this is just a strategy of "window-dressing" or if they are really implemented and fully practiced, but lets us leave that out for now. Most companies have an upstream and downstream value-chain; in which some companies are better able to properly monitor their value chains while others are not. One can argue that the scope of a company's proclaimed social responsibility, or codes of conduct are limited to the company's ability to monitor its business processes and to the extent the codes are powerful enough as a management tool to do what they are designed to do, such as avoiding corruption.

To what extent codes of conduct are sufficient, implemented and operational depends on the attention devoted to them. It requires extensive internal efforts in designing, and especially informing and educating all employees on how to do their job according to the codes of conduct. Depending on current practices, some things might have to be done differently and thus the company might have to change certain procedures.

When resources are devoted toward ethical challenges, policy making and education, it must be initiated from someone that realizes the need for it, and a person who has the power to make decisions in favor of developing and implementing such measures, preferably in the form of corporate codes of conduct (Rainborn and Payne, 1990 and Kaptein, 2004). According to Somers, 2001, the ideal corporate codes of conduct should be a product of the organization, not a standardized code, but rather a code that reflects the values of the organization and the people working in it, so that high ethical standards are easier to achieve.

NMC suggests that companies should "*introduce ethical guidelines, regular internal audits and routines for detecting irregularities*". The other ethical initiatives, principles and guidelines also recognize a need for ethical guidelines.

The respondents argue that a top down approach is necessary to initiate relevant processes, but a bottom up approach is necessary to identify relevant problems and challenges that might be of significance and highly relevant when developing or reviewing corporate codes of conduct.

Through corporate codes of conduct and related practices, such as CSR measures, ethical standards and policies one can create a corporate identity among employees and other relevant stakeholders. Creating a corporate identity will also create a reputation. Such an identity or reputation might be that company A is a difficult business partner from the viewpoint of companies from one culture X, while company A is the perfect, trustworthy and ethically correct business partner for companies from culture Y. As R3.1 argues, there is only room for *one* corporate identity and that it should be created on a strong ethical foundation.

Whereas C1 and C3 have a strong focus on creating an identity and at the same time documenting their efforts, C4 answers to a question about the importance of having an identity and if it is missing, that an identity is something you build up over time, and that C4 has such an identity within its industry. Similar to other Norwegian companies (such as C1 and C3), there is a strong management focus on having an identity even though it is not documented.

Creating an identity is not something you can do by only publishing your ethical guidelines. You have to stand behind them and show that you are serious about what you do, and that it is important for the company to have a zero tolerance on operating outside established guidelines. By doing so, other companies will respect you for who you are and international initiatives and national rankings will reward the company for being an ethically outstanding corporate citizen. More importantly, when employees and stakeholders can identify themselves with a brand and an organization that clearly expresses their values, it is assumingly easier to build trustworthy and long-term relationships, removing incentives for unethical behavior and principal-agent related issues.

In addition to corporate codes of conduct, companies tend have a set of tools for support. These tools can be a part of the codes of conduct, in which the codes state that e.g. suppliers coming from country A must be screened with tool X, and suppliers coming from country B must be screened with tool Y, or both. As mentioned, company's financial resources and

exposure to corruption assumingly determines efforts devoted at developing internal tools and procedures. According to R1, operating in relatively corrupt countries is not impossible, as long as the company knows how to deal with it and as long as it is capable of developing sufficient tools and procedures that are tailored to meet the demands of any, or at least the most likely and obvious scenarios.

#### **3.5.4.3 Employees:**

Employees are often the most valued asset of a company, and the asset that is most likely to face corruption. This is why employees should be educated and trained to avoid corruption from happening.

Based on what has been presented to this point, the principal (employer)-agent (employee) problem is relevant to address. The companies are either in the progress of establishing, or have established operational codes of conduct. Even though the general perception is that codes of conduct will reduce the level of self-interest among employees, it is necessary to monitor them, i.e. identifying principal-agent related problems, herein moral hazard and adverse selection. Companies with Corporate codes of conduct that fail to live up to the most important criteria's discussed above are obviously more exposed to the principal agent problem.

OECD suggests that multinational companies should *“promote employee awareness of and compliance with company policies against bribery and extortion through appropriate dissemination of these policies and through training programs and disciplinary procedures”*. NMFA states that ensuring *“all employees are familiar with the Norwegian and relevant foreign legal provisions of corruption”* and that companies must ensure that *“employees, intermediaries and agents are involved on a regular basis in measures to reduce the risk of corruption”*. NMFA also states that employees, agents and partners who represent the company should be kept under supervision.

Training of employees within NMC is recognized as important and is used to remove any doubt that might exist or develop over time. Sessions are kept repeatedly, depending on the position of employers. The main incentives for using training and education of employees relevant to anti-corruption, is that the employees must understand and be able to identify themselves with corporate codes of conduct and business processes in general. NMC has

developed relatively well-functioning corporate codes of conduct. Training and educating employees in real-life scenarios can help reduce the potential negative effects of a principal agent relationship.

#### **3.5.4.4 Third Parties:**

Most company value chains stretch over different jurisdictions. Acknowledging that national and cultural practices are necessary to pay attention to, dealing with different jurisdictions can be difficult. Some countries, as pointed out by Benvenisti and Downs (2007), are either unable or unwilling to follow international standards. According to OECD, multinational companies should “*ensure that remuneration of agents is appropriate and for legitimate services only*”.

From a general viewpoint and what has been a visible trend in the international business arena; some countries wish to develop and grow their domestic industry, and thus they have legitimate incentives for keeping as many domestic companies as possible within their country active, but still are attractive to foreign companies. China is widely known for being relatively corrupt, scoring 3,5 on 2010 TI CPI. Business is still booming, and companies from all over the world wish to establish themselves there. It is, assumingly, many companies that are not taking the necessary precautions and that have had a difficult time in countries such as China. Dealing with unfamiliar suppliers they have no control over is dangerous. It is a third party risk if we speak about corruption, but also regarding poverty, working conditions and CSR related issues in general.

OECD suggests that multinational companies should “*ensure that remuneration of agents is appropriate and for legitimate services only. Where relevant, a list of agents employed in connection with transactions with public bodies and state- owned enterprises should be kept and made available to competent authorities*”, “*check the references of (...) agents and partners who represent the company and insofar as possible keep a close eye on their activities*” and require that “*intermediaries and agents agree to comply with the company’s rules for combating corruption.*” These suggestions also cover the suggestions by other ethical initiatives used in the comparison.

The respondents’ point out agents as more or less necessary when doing business in a foreign territory. Either if such use is the only option to get access, or such use can provide useful

information. However, there is always a trust-issue related to the use of agents, especially among agents with the ability to influence. It is also difficult to closely monitor some agents because they operate within countries or business areas that the company is allowed little or no insight.

R3.2 argues that there often are regulatory authorities within countries that seek to build up influence, such as deciding whom you as an external company are allowed to do business with in their country. According to R3.2 this also goes for i.e. a public oil company, in which C3 is the supplier, that the oil company might not be free to choose their own subcontractors because the regulatory authorities interfere. R3.1 further argues that it is quite common, such things happening, without it being something wrong, e.g. as in China, where Chinese government demands you as an external company work with local Chinese partners. But, one has to be very aware of who to work with, and the actual legislation on using specific partners.

For many companies, running a full IDD as practiced by NMC is impossible to many, due to financial and internal capacity restrictions. It is however, as earlier mentioned, important to do what you have the capacity to do, in case of corruption-related issues might occur. Doing what you are capable of is no insurance, but the best measure against corruption when dealing with third parties.

#### *3.5.4.5 How to Develop Sufficient Internal Measures:*

Firstly, any internal anti-corruption measure must, or should, be, as argued by the respondents, initiated from a top management level. This can only imply that the success of internal measures is strictly dependent on the views of the management and their willingness to devote resources to such measures. It also requires extensive knowledge about relevant aspects, as discussed above, and the best approach to gain such knowledge is through a compliance group. Second, any internal measure must be developed and designed so that employees, and stakeholders to the extent possible, can affiliate with them and use them actively in their work.

Employee involvement is the core of any business, meaning that employees are the core assets of any business. When multinational companies are doing business abroad and employees are stationed or work abroad, their knowledge is crucial for the success of the

company. Thus, extensive training programs that provide real life scenarios for the employees to exercise on gives the company and its employees the opportunity to fail in the classroom and less likely in real business.

Internal measures, stretching from CSR programs to corporate codes of conduct give all stakeholders an opportunity to identify themselves with the company and its values. Creating a positive and strong corporate identity is only possible through ethically correct behavior. It also reduces the incentives of stakeholders to work against the company, such as stakeholders committing to corruption, as they easier can identify themselves with the company's values, or at least perceive them as positive and beneficial, and in turn put their efforts into becoming a valued business partner for the future.

Third parties and agents are external, meaning that they are more difficult to control than employees. Nevertheless, third parties as agents can be a highly valued resource if they comply with the requirements of the company they are representing. Having a contract relationship with a third party is one thing, but the contract can hardly make up for any potential damage that can be done by the agent or any third party. Thus, agents and third parties should be treated with respect, and the best precaution a company can take is to check the background of these, including references. In many cases, third parties are not visible to the company, such as the supplier of your supplier. IDD processes are often necessary under such circumstances to reveal any potential dangers.

## 4. Conclusions:

For Norwegian multinational companies without sufficient internal *preventive* measures, the second part of the conclusion provides suggestions to best practice and recommendations.

### 4.1 Conclusion:

It is shown that corruption is a threat to international business, and that the efforts of ethical initiatives, individual companies and governments have brought along several positive effects in the battle against corruption. Norway is among the best ranking countries on anti-corruption scales, and NMC conduct their business way beyond what is suggested and required of ethical initiatives and domestic, international and foreign legislation. Even though NMC are among the best in the world anti-corruption measures, failure strikes from time to time. This can only imply that corruption is a giant obstacle in international business, and that one can never guarantee that it is possible to avoid corruption until it is totally exterminated.

Large fines and prosecutions will make companies more aware of their business conduct.

On the other hand, punishing companies acting on basis of all possible precautions, will in the long run have negative effects on international business as only the most financially capable companies will survive.

Based on the experience of the respondents, NMC codes of conduct and ethical initiatives, the best measure against corruption is to develop internal measures. Such measures can only be good enough when they are *above the law*, meaning that *reactive* measures will not do any good. *Preventive* measures are the safest and most ethically correct approach to deal with corruption, and more importantly, to defeat it.

## **4.2 Best Practice and Recommendations:**

### **4.2.1 Culture:**

1. Identify important cultural differences and practices.
2. Address differences and practices by running IDD and using external consultants with relevant expertise.
3. Systematically develop a plan on how to deal with differences and practices that are in accordance with international anti-corruption standards.
4. Enter the foreign country and culture with an open mind, but with clear and defined anti-corruption requirements.
5. As time goes by, factors of relevance might be more visible and actions should be taken to avoid any incident of corruption happening.
6. If you fail to comply with established requirements, take measures or withdraw.

### **4.2.2 Laws and Regulations:**

1. Company standards should be in accordance with leading international standards before entering a foreign country and culture.
2. Always pay attention to changes in leading legislation, because changes can severely affect your business.
3. Comply with the requirements of local law, but never do business on premises that goes against international law.
4. Failing to comply with enforced legislation of any kind is not an option, but not always possible avoid. If the company fails to comply, taking measures or withdrawal should be the only alternatives.

### **4.2.3 Competitors:**

1. In most industries, there are significant differences on how companies pursue profits. One must expect to face competitors operating with ethical standards below international standards
2. A company should always respect its competitors, but not necessarily their way of doing business. Competitors that fail to comply with international standards will be less competitive in the long run.
3. For a company to lower its ethical standards when they are facing competition to bargain on deals should not be an alternative.

4. If a company faces competition and competitors with unethical behavior, all necessary measures should be taken to avoid being involved.

## **4.2.4 Internal Anti-Corruption Measures:**

### **4.2.3.1 CSR:**

1. A company's CSR program should include anti-corruption measures.
2. Efforts should be devoted towards developing and implementing sufficient internal routines and procedures relevant to anti-corruption.
3. Stakeholder management is crucial in today's business, and will be more important in the future. Companies should always respect stakeholders and closely cooperate with them to find the best solution to every potential problem.

### **4.2.3.2 Corporate Codes of Conduct:**

1. Any company with the intention of being successful internationally should have corporate codes of conduct.
2. Codes of conduct should include anti-corruption measures, provide guidelines and generally function as a supporting tool for all employees.
3. Developing adequate corporate codes of conduct is crucial to be able to identify, address and take measures against corruption. Management involvement is important, as the aim of using codes should be to create a strong identity among employees and stakeholders.
4. Creating an identity through CSR programs and codes of conduct will make business easier over time, as stakeholders and any potential business partner knows who you are, what you do, and how you do it.

### **4.2.3.3 Employees:**

1. Employees are a potential source of corruption, due to the wants, needs and knowledge of each individual.
2. Education of employees goes hand in hand with CSR and corporate codes conduct, to create a positive identity and sustainable business.
3. Education of employees, at every level, is necessary to remove any doubt and a critical measure to face challenges related to corruption and should therefore be top priority. The scope of employee education can, and should be, performed in a manner that matches the potential employee-specific exposure to the threat of corruption.

#### 4.2.3.4 Third Parties:

1. Agents and 3<sup>rd</sup> parties are always a risk, and a risk that is difficult to eliminate. The chance of “back-fire” is huge, especially if an agent or a 3<sup>rd</sup> party is found to be corrupt. Thus, know your agents and all relevant third parties.
2. Using agents and 3<sup>rd</sup> parties might be the only alternative in some countries. Doing your best to prevent corruption from happening is simply what you can do.
3. Building trustworthy relationships with agents and third parties, and getting access to their knowledge is most likely beneficial in the long run, even when entering new and unknown markets.

### 4.3 Critics:

The general perception among the respondents is that corruption is not a big problem. The reason for this is partly that the international business arena is perceived as better regulated and more mature than previously and that the companies have developed better anti-corruption systems as a response to the increasing legal requirements. These are systems that assumingly are too big to go in detail with, given the limited time and resources of both the project and the respondents.

During the interviews, the respondents only expressed their company’s general procedures without going into detail. Much of the details are confidential and although the author has been given access to confidential documents, specific details from these are *not* included in the thesis due to the confidentiality agreement between the author, the respondents and their respective companies. Permission to publish more details would have contributed to a more in-depth analysis and more detailed recommendations.

### 4.4 Suggestions to further research:

Søreide (2004) covers a large and highly relevant field. Various researches by private initiatives also show the general orientation among Norwegian multinational companies towards ethical issues such as corruption. NMC are devoting efforts towards anti-corruption because they recognize the need for it in order to stay competitive in the future. This thesis provides suggestions on best practice, and it would be interesting to look deeper into mechanisms and more specific tools that are utilized by Norwegian multinational companies to avoid corruption.

# 5. Appendixes:

## 5.1 Theory part:

### 5.1.1 Government Characteristics:

On the basis of the different “ways of how people pursue, use, and exchange wealth and power, and in the strength or weakness of the state, political, and social institutions that sustain and restrain those processes”, Johnston (2005) suggests four syndromes of corruption. The level of participation in political and economic opportunities and the level of adequate institutions are four indicators for syndromes of corruption.

Syndrome	Participation		Institutions	
	Political opportunities	Economic opportunities	State/society capacity	Economic institutions
<b>Influence Markets</b>	<b>Mature democracies</b> Liberalized; steady competition and participation	<b>Mature markets</b> Liberalized, open: steady competition; affluent	<b>Extensive</b>	<b>Strong</b>
<b>Elite Cartels</b>	<b>Consolidating/reforming democracies</b> Liberalized; growing competition and participation	<b>Reforming markets</b> Largely liberalized and open; growing competition; moderately affluent	<b>Moderate</b>	<b>Medium</b>
<b>Oligarchs and Clans</b>	<b>Transitional regimes</b> Recent major liberalization; Significant but poorly structured competition	<b>New Markets</b> Recent major liberalization; extensive inequality and poverty	<b>Weak</b>	<b>Weak</b>
<b>Official Moguls</b>	<b>Undemocratic</b> Little liberalization or openness	<b>New markets</b> Recent major liberalization; extensive inequality and poverty	<b>Weak</b>	<b>Weak</b>

Source: Johnston, 2005

*Influence Markets* have a high level of political and economical participation, extensive institution capacity and strong economic institutions. Within influence markets, wealth is used to seek influence. Either by people in possession of wealth or people with power putting their access out for rent. Johnston points out USA, Japan and Germany as three of the strongest and wealthiest democracies and their typical ways of influence. In USA it is widely common to finance election campaigns, while in Japan it is common to link political figures with private interests, often those of private companies. The overall effect on corruption of the ability to influence markets is difficult to specify because of the distinctions of every isolated case, but their ability to adapt to the new world economy is highly influenced by their domestic practices.

*Elite Cartels* exist in countries such as Italy, Korea and Botswana, where there are people with influence and wealth having extensive power. But still, their interests are relatively adequately guided towards participation and moderate/medium towards institution building. Elite Cartels are in many ways similar to Influence Markets with extensive exchange of money and interests between high-ranking people to enhance their position of control. The existence of Elite Cartels can somewhat compensate for missing institutions, but primarily in favor the members and their interests. They tend to involve both political figures and business people carrying out corrupt activities, such as extortion of business and payments to political elites, within their complex networks

*Oligarchs and Clans* are often referred to as small groups of people with relatively much power and wealth in countries going in a early or late stage of transition where there are weak institutions. They are especially common in Russia, Philippines and Mexico where they use wealth, political power and often violence as a personal agenda to enhance their position within the society or country and to reward and protect their fellows, families and their personal interests. In terms of corruption, Oligarchs and Clans are perceived as potential risky business partners because of their ignoring attitude towards the legal framework and thus corruption is more likely to occur. The behavior Oligarchs and Clans exercise is in most cases harmful to the respective countries because they have the power to set back or override any stage of democratic, institutional and economic development.

*Official Moguls* are powerful political figures, either officials or politicians with the power and political leverage to increase their wealth within a country that is undemocratic and high levels of poverty and inequality. Often with resources and assets that are neither state -nor privately owned or controlled they build up monopolies. Because of the inadequacy of institutions and the weakness of the political opposition in countries such as China, Kenya and Indonesia, the Official Moguls have the power to enhance their position of control. By doing so, they gain the power to destroy the political and economic foundation, in which they often do by creating huge corruption networks. Some countries, however, have experienced sustainable growth through a political system entirely based on corruption, but in the previous and following years it is becoming more and more difficult to do so because of their relatively low level of adaptiveness to the current global market situation.

What is extractable from this model and short description of the different syndromes is that individual power and freedom to pursue their own interests in light of inadequate institutions, the more likely symptoms of corruption will occur.

Democracy is the most common form for governance. In general, most high-ranking governmental officials are elected either by citizens or internally while lower ranking officials are applied on a normal basis. These officials are in a position to perform actions that should serve the society in the best way possible (Warren 2004). As the general definition of corruption states, many of these officials seek to exploit their position for private gain, ranking from high-ranking public officials to lower ranking ones. Because there exists a relative bargaining power between state and private sector, someone being the dominant actor, corruption describes the relationship between these (Rose-Ackerman, 1999).

Democracy can be viewed as an anti-corruption strategy, or at least as a step towards anti-corruption, because the greed of politicians can be put out of play with reelections. If politicians wish to maintain their position there must be, besides their political values, a high level of transparency in their actions and in the government in general. If politicians hide information from the society, it is likely to backfire whenever it is revealed and severely damage the position of the politician. Some, though, are able keep information hidden over longer periods of time. Illegal electoral campaign contributions can be seen as an indirect bribery strategy of politicians that can severely undermine democratic systems (Rose-Ackerman, 1999, p. 142). In weak democracies, politicians can sustain or even enhance their

position by their power or the power of the money (Rose-Ackerman, 1999, p. 113.) and as shown above by Johnston’s syndromes.

Rose-Ackerman (1999, p. 115) presents a table over types of corrupt governments and their bribery characteristics:

	Multiple bribers	Few bribers
Bribe recipients concentrated at top of government	Kleptocracy; (a) extortionary state or (b) weak state	Bilateral Monopoly
Multiple bribe recipients at low levels of government	Competitive bribery with a possibility of spirals	Mafia-dominated state

*Kleptocracies* are known for having powerful individuals and politicians often designing the entire political system to include rent-extraction possibilities to increase their own wealth over time. And at some time, they become so powerful that they are difficult to challenge. The *Bilateral Monopolies* and *Mafia-dominated states* are, as Johnston described them, governments where powerful private interests have extensive power. *Competitive bribery* exists in governments where a large number of low-level public officials, are set to deal with the citizens. The citizen’s requests are often above the capacity of the institutions, which often are institutions with weak legal controls, and thus competitive bribery occurs.

Countries with high levels of corruption are often recognized as countries with poor and middle-income countries (Paldam, 2001). Many countries are in a grand transition and with it come better corruption practices. Especially the eastern European post-communist countries have gone through a grand transition from e.g. communism to capitalism. With the deregulation of the communist structure, and the high inflation rates as a result of intensive value creation, corruption started to become a problem and thus a source of attention (Paldam 2001). Paldam further argues that in successful economies there is a high level of government regulations, that allows efficiency but demands transparency, and thus, getting rid of the element of corruption is easier.

### 5.1.2 Basic Conditions for Corruption:

There are some basic conditions in which corruption is more likely to occur under compared to others. Explaining all possible factors would be a too far reach, but there are authors who suggest simplified theories. In lack of a better theory to show the basic conditions for corruption in the private and public sector combined, the theory of Klitgaard is used to describe most of the conditions that are relevant in both sectors.

Klitgaard suggests a formula to express the level of corruption:  $C=M+D-A$ , in which (C) corruption equals to (M) monopoly power, plus (D) discretion by officials, minus (A) accountability.

#### *Accountability:*

Accountability is defined as having “*responsibility to someone or for some activity*” (Princeton, 2011). By having a responsibility, as most people do, their level of honesty, in which being honest is “*worthy of depending on*” and “*not disposed to cheat or defraud; not deceptive or fraudulent*” (Princeton, 2011). Thus, accountable employees are those you can depend on doing their job as they are instructed to without any level of self-interest in which a principal-agent problem might occur. Accountability is in many cases referred to as institutional accountability, in which the government institutions guides and protects the society adequately as they were assigned to do. According to Johnston (2005) if there is a lack of accountability, it is difficult to prevent someone from exploiting this, which in turn could lead to corrupt activities.

The reason for accountability being a mechanism difficult to interpret is that there are many factors affecting it, such as openness, wage levels, legal tradition (Lederman, Loayza & Soares, 2004). The impact of government decentralization is significant on the level of accountability because decentralization will in theory reduce corruption and thus increases the level of accountability (Bardhan & Mookherjee, 2005). In addition they add factors such as malfunctioning in local democracy, asymmetry in literacy, wealth, social status and patterns of political participation that are important to help explain the level accountability.

#### *Rents and market competition:*

Rent is defined as: “*let for money*” or “*a payment or series of payments made by the lessee to an owner for use of some property, facility, equipment, or service*” (Princeton, 2011). In

markets where there are larger economic rents available, public officials tend to become more corrupt, *because they can*. To eliminate corruption, an institutional framework that enhance competition and intensify monitoring will minimize the expected benefits of rent seeking (Tanzi, 1998).

Rent seeking opportunities occur when interacting with third parties and when the public official violates the original principal-agent contract. The rent-seeking efforts of public officials will have a higher potential utility when dealing directly and personally with other individuals opposite to dealing with a competitive market and impersonal market where transactions are systematic (Colombatto, 2001).

Colombatto further suggests that there is a distinction in rent seeking between undeveloped countries, transition countries and developed countries because of the individual understanding of what is the role of the government and differences in to what extent rents and corruption is desirable. Shelifer & Wishny's (1993) research on rent seeking in the provision of public services is closely linking rent seeking with discretionary power.

#### *Discretionary power:*

Discretionary power is defined as: *"having or using the ability to act or decide according to your own discretion or judgment"* (Princeton, 2011). Public officers that are not adequately guided by their government and existing institutions have the ability to exploit their discretionary power. According to Jones (1958), the exercise of discretionary power undermines the fundamentals of any government and in most cases act harmful.

Talking about discretionary power, Colombatto (2001) refers to the term "corruption" which generally *"identifies a transaction whereby an individual bound by a principal-agent contract takes advantage of his discretionary power in order to sell to a third party property rights that do not belong to him"*. Thus, the discretionary power of a public officer is relevant to the likelihood of corruption.

If there is room for discretion, public officials have the freedom to act with guile and with no benign intentions other than to benefit themselves and their interests. In countries where the institutional adequacy is relatively low, public officials might only have blurred limits they

have to follow. Their work will then be more or less based on discretion, and the following actions will be based on the moral of individuals.

### *Monopolies:*

Monopoly is defined as: “a market in which there are many buyers but only one seller” and someone has “exclusive control or possession of something” (Princeton, 2011). Even though much of what we know as today’s society is built upon monopoly rights, tax farms and privileged access to public resources (Bardhan, 1997), the existence of monopolies has proved to have negative effects when in the hands of the wrong people. Monopolies are also a source of corruption, in which organizations are more likely to experience corruption if they find themselves in a monopoly situation over a good or service. Monopolies increase the level of discretion to decide who will receive and who will not receive those goods or services (Campos & Pradham 2007, p. 66).

In particular situations of monopoly, such as education and health services (medicines and vaccinations against HIV and Malaria) and government services in general, where public officers have the discretionary power to distribute the services unequally, monopolies tend to do more harm than good. In addition, Aidt (2003) introduces one condition that is necessary for corruption to arise and sustain: Weak institutions: “*the incentives embodied in political, administrative and legal institutions must be such that officials are left with an incentive to exploit their discretionary power to extract or create rents*”.

### 5.1.3 The Effects of Corruption:

Corruption might do *some* damage intentionally, but there is a viscous circle that tends to go through the whole society and in the end affect those who cannot protect themselves from it. Thus, the effects of corruption may stretch further than what we can imagine, and may be the root of problems that we did not even know existed.

Although this is not how we generally see corruption today, some authors have previously pointed out the effect of corruption on efficiency. In developing countries and in the “*second-best world*”, Barhdan (1997) points out with reference to both economists and non-economists that corruption can boost efficiency and growth as it is “*the much needed grease for the squeaking wheels of a rigid administration*”. Corruption in terms of bribes and “speed money” are such contributors. Even though corruption might speed up processes and make some individuals happy, it is not an overstatement to say that corruption does more harm than good, and thus corruption should be eliminated.

#### *Government expenditure:*

The strength of the central government influences the corrupt activities between governmental agencies and private agents seeking complementary permits from the governmental agencies Shleifer & Vishny (1993). If agencies are not adequately controlled by a central authority a country’s investments will move away from high value projects, such as health and education, into potentially useless or at least of relatively less utility, projects such as defense and infrastructure. Mauro (1995) found that a high level of bureaucratic efficiency causes high investment and growth in which the corruption index has a significant negative association with the investment rate and thus the growth rate. Mauro (1998), without presenting a formal model, supported the evidence that corruption changes government expenditure. There are two main reasons for this: First, the rents that motivates rent-seeking behavior, which is especially common in the field of military equipment. Second, corruption leads government officials to choose goods that have a value that is difficult to monitor, such as high-tech and highly specialized goods that have no standard price tags. Along with changes in government expenditure, bribes will take a larger portion of the total expenditure. This will in turn lower expenditure on salaries, education, health services, as a ratio to GDP that reduces or negatively affects economic growth. Derived from these findings, it was concluded, “*corruption causes a less-than-optimal composition of government expenditure*”.

### *Economic growth:*

Mauro (1995) presents the ideas of Leff (1964) and Huntington (1968) that suggested corruption might raise economic growth through two types of mechanisms. The first being “speed money”: a corrupt practice that would enable individuals to avoid bureaucratic delay. Second, government employees who can levy bribes would work harder, especially in cases where bribes act as a piece of rate. In an isolated case, corruption might contribute to the factors described by Leff and Huntington, but in the broader picture, governments cannot be built upon such activities because it will deprive the economical development and their potential position in an increasingly globalized world.

All of the factors above together contribute to a reduced level of growth, as corruption in general is shown to do (Bardhan, 1997). Barro (1991) implies that poor countries are more likely to catch up with richer countries is if the poor countries have a relatively high level of human capital, but not otherwise. Thus, all factors that reduce human capital decrease the level of economic growth.

Many countries are depending on international trade to have the chance to prosper economically. Randall (1999) goes the distance by saying that corruption can severely limit international trade arena and function as a barrier for future international trade and international market places. As show by the CPI, many of the countries with the lowest perceived level of corruption are the most developed ones. Lower levels of perceived corruption correlates likely with levels of economic development and thus corruption is harmful for growth (Treisman, 2000). According to Treisman (2006) this correlation is so robust that it withstands changes in variables such as region, religion, culture, democracy, trade, inequality and inflation.

### *Poverty & income inequality:*

The common belief is that income inequality has a negative effect on growth and that a growth in per capita income will reduce poverty. Poverty might be the most powerful indicator of global corruption concerns (Theobald 2002). Iradian (2005) suggests that in short-to-medium term, an increase in a country’s level of income inequality may have a positive relationship with subsequent growth, and that a higher growth in per capita income is associated with higher rates of poverty reduction in which the variation in poverty with similar economic growth rates will reflect the degree of income inequality of countries. Thus,

poverty will increase if an increase in inequality offsets the reduction in poverty associated with growth.

Gupta, Davoodi, Alonso-Terme (1998) showed that corruption has significant distributional implications on both growth and poverty, and stated that with the reduction of corruption comes a reduction in poverty and income inequality. Further, they suggest that the distributional consequences of corruption can be mitigated by sound management of natural resources, broad-based labor-intensive growth, efficient spending on education and health, effective targeting of social programs and a low level of inequality in the access to education.

The work of Mauro and Shleifer & Vishney showed that corruption creates a change in the government expenditure *away* from the factors suggested by Gupta, Davoodi and Alonso-Terme, in which a change in government expenditure due to corruption is *not* in favor of the society.

#### ***Foreign Direct Investments (FDI):***

A country based on corruption is a country with an inadequate level of government control where no one controls the flow of money or how people earn them. They run the risk of being rejected as a potential partner for companies seeking to invest or trade outside their domestic borders. Foreign investments location is driven by the search for markets, resources, efficiency, and strategic assets, but political and economical factor are relevant for the choice of geographical entry (Dunning 1998).

If a country possesses valuable resources and investments take place, foreign investors are generally more inclined to form joint ventures to ensure equal that the stakes involved and the actions taken are in best interest of both parts (Smarzynska & Wei, 2000). Borensztein, De Gregorio & Lee (1997) found that the effect of FDI on economic growth is dependent on the level of human capital available in the host economy. This highlights the problem of allocation of government expenditure, because if there is a low level of human capital, which is indirectly created by corruption through government expenditure devoted to e.g. education and health services, this will function as a barrier to FDI.

#### **5.1.4 Norwegian Penal Code:**

##### **§ 276a. Corruption:**

Any person who a) for himself or other persons requests or receives an improper advantage or accepts an offer thereof in connection with a position, office or assignment, or b) gives or offers any person an improper advantage in connection with a position, office or assignment shall be liable to a penalty for corruption. Position, office or assignment in the first paragraph also means a position, office or assignment in a foreign country. The penalty for corruption shall be fines or imprisonment for a term not exceeding three years. Any person who aids and abets such an offence shall be liable to the same penalty.

##### **§ 276b. Gross corruption:**

Gross corruption shall be punishable by imprisonment for a term not exceeding 10 years. Any person who aids and abets such an offence shall be liable to the same penalty.

In deciding whether the corruption is gross, importance shall be attached to, inter alia, whether the act has been committed by or in relation to a public official or any other person in breach of the special confidence placed in him by virtue of his position, office or assignment, whether it has resulted in a considerable economic advantage, whether there was any risk of considerable damage of an economic or other nature, or whether false accounting information has been recorded, or false accounting documents or false annual accounts have been prepared.

##### **§ 276c. Trading in influence:**

Any person who a) for himself or other persons requests or receives an improper advantage or accepts an offer thereof in return for influencing the conduct of any position, office or assignment, or b) gives or offers any person an improper advantage in return for influencing the conduct of a position, office or assignment shall be liable to a penalty for trading in influence. Position, office or assignment in the first paragraph also means a position, office or assignment in a foreign country. Trading in influence shall be punishable by fines or imprisonment for a term not exceeding three years. Any person who aids and abets such an offence shall be liable to the same penalty.

## **5.1.5 Caux Round Table – Principles and Guidelines for Responsible Business:**

### **PRINCIPLE 1 - RESPECT STAKEHOLDERS BEYOND SHAREHOLDERS**

- A responsible business acknowledges its duty to contribute value to society through the wealth and employment it creates and the products and services it provides to consumers.
- A responsible business maintains its economic health and viability not just for shareholders, but also for other stakeholders.
- A responsible business respects the interests of, and acts with honesty and fairness towards, its customers, employees, suppliers, competitors, and the broader community.

### **PRINCIPLE 2 – CONTRIBUTE TO ECONOMIC, SOCIAL AND ENVIRONMENTAL DEVELOPMENT**

- A responsible business recognizes that business cannot sustainably prosper in societies that are failing or lacking in economic development.
- A responsible business therefore contributes to the economic, social and environmental development of the communities in which it operates, in order to sustain its essential ‘operating’ capital – financial, social, environmental, and all forms of goodwill.
- A responsible business enhances society through effective and prudent use of resources, free and fair competition, and innovation in technology and business practices.

### **PRINCIPLE 3 – BUILD TRUST BY GOING BEYOND THE LETTER OF THE LAW**

- A responsible business recognizes that some business behaviors, although legal, can nevertheless have adverse consequences for stakeholders.
- A responsible business therefore adheres to the spirit and intent behind the law, as well as the letter of the law, which requires conduct that goes beyond minimum legal obligations.
- A responsible business always operates with candor, truthfulness, and transparency, and keeps its promises.

#### **PRINCIPLE 4 – RESPECT RULES AND CONVENTIONS**

- A responsible business respects the local cultures and traditions in the communities in which it operates, consistent with fundamental principles of fairness and equality.
- A responsible business, everywhere it operates, respects all applicable national and international laws, regulations and conventions, while trading fairly and competitively.

#### **PRINCIPLE 5 – SUPPORT RESPONSIBLE GLOBALIZATION**

- A responsible business, as a participant in the global marketplace, supports open and fair multilateral trade.
- A responsible business supports reform of domestic rules and regulations where they unreasonably hinder global commerce.

#### **PRINCIPLE 6 – RESPECT THE ENVIRONMENT**

- A responsible business protects and, where possible, improves the environment, and avoids wasteful use of resources.
- A responsible business ensures that its operations comply with best environmental management practices consistent with meeting the needs of today without compromising the needs of future generations.

#### **PRINCIPLE 7 – AVOID ILLICIT ACTIVITIES**

- A responsible business does not participate in, or condone, corrupt practices, bribery, money laundering, or other illicit activities.
- A responsible business does not participate in or facilitate transactions linked to or supporting terrorist activities, drug trafficking or any other illicit activity.
- A responsible business actively supports the reduction and prevention of all such illegal and illicit activities.

## **STAKEHOLDER MANAGEMENT GUIDELINES:**

### **1. CUSTOMERS**

A responsible business treats its customers with respect and dignity. Business therefore has a responsibility to:

- Provide customers with the highest quality products and services consistent with their requirements.
- Treat customers fairly in all aspects of business transactions, including providing a high level of service and remedies for product or service problems or dissatisfaction.
- Ensure that the health and safety of customers is protected.
- Protect customers from harmful environmental impacts of products and services.
- Respect the human rights, dignity and the culture of customers in the way products and services are offered, marketed, and advertised

### **2. EMPLOYEES**

A responsible business treats every employee with dignity and respects their interests. Business therefore has a responsibility to:

- Provide jobs and compensation that contribute to improved living standards
- Provide working conditions that protect each employee's health and safety.
- Provide working conditions that enhance each employee's well-being as citizens, family members, and capable and caring individuals
- Be open and honest with employees in sharing information, limited only by legal and competitive constraints.
- Listen to employees and act in good faith on employee complaints and issues.
- Avoid discriminatory practices and provide equal treatment, opportunity and pay in areas such as gender, age, race, and religion.
- Support the employment of differently-abled people in places of work where they can be productive.
- Encourage and assist all employees in developing relevant skills and knowledge.
- Be sensitive to the impacts of unemployment and work with governments, employee groups and other agencies in addressing any employee dislocations.
- Ensure that all executive compensation and incentives further the achievement of

long- term wealth creation, reward prudent risk management, and discourage excessive risk taking.

- Avoid illicit or abusive child labor practices.

### **3. SHAREHOLDERS**

A responsible business acts with care and loyalty towards its shareholders and in good faith for the best interests of the corporation. Business therefore has a responsibility to:

- Apply professional and diligent management in order to secure fair, sustainable and competitive returns on shareholder investments.
- Disclose relevant information to shareholders, subject only to legal requirements and competitive constraints.
- Conserve, protect, and increase shareholder wealth.
- Respect shareholder views, complaints, and formal resolutions.

### **4. SUPPLIERS**

A responsible business treats its suppliers and subcontractors with fairness, truthfulness and mutual respect. Business therefore has a responsibility to:

- Pursue fairness and truthfulness in supplier and subcontractor relationships, including pricing, licensing, and payment in accordance with agreed terms of trade.
- Ensure that business supplier and subcontractor activities are free from coercion and threats.
- Foster long-term stability in the supplier relationships in return for value, quality, competitiveness and reliability.
- Share information with suppliers and integrate them into business planning.
- Seek, encourage and prefer suppliers and subcontractors whose employment practices respect human rights and dignity.
- Seek, encourage and prefer suppliers and subcontractors whose environmental practices meet best practice standards.

## **5. COMPETITORS**

A responsible business engages in fair competition which is a basic requirement for increasing the wealth of nations and ultimately for making possible the just distribution of goods and services. Business therefore has a responsibility to:

- Foster open markets for trade and investment.
- Promote competitive behavior that is socially and environmentally responsible and demonstrates mutual respect among competitors.
- Not participate in anti-competitive or collusive arrangements or tolerate questionable payments or favors to secure competitive advantage.
- Respect both tangible and intellectual property rights.
- Refuse to acquire commercial information through dishonest or unethical means, such as industrial espionage.

## **6. COMMUNITIES**

As a global corporate citizen, a responsible business actively contributes to good public policy and to human rights in the communities in which it operates. Business therefore has a responsibility to:

- Respect human rights and democratic institutions, and promote them wherever practicable.
- Recognize government's legitimate obligation to society at large and support public policies and practices that promote social capital.
- Promote harmonious relations between business and other segments of society.
- Collaborate with community initiatives seeking to raise standards of health, education, workplace safety and economic well-being.
- Promote sustainable development in order to preserve and enhance the physical environment while conserving the earth's resources.
- Support peace, security and the rule of law.
- Respect social diversity including local cultures and minority communities.
- Be a good corporate citizen through ongoing community investment and support for employee participation in community and civic affairs.

## 5.1.6 OECD Guidelines for Multinational Enterprises:

### OECD Guidelines for Multinational Enterprises

Enterprises should take fully into account established policies in the countries in which they operate, and consider the views of other stakeholders. In this regard, enterprises should:

1. Contribute to economic, social and environmental progress with a view to achieving sustainable development.
2. Respect the human rights of those affected by their activities consistent with the host government's international obligations and commitments.
3. Encourage local capacity building through close cooperation with the local community, including business interest, as well as developing the enterprises activities in domestic and foreign markets, consistent with the need for sound commercial practice.
4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees.
5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to environmental, health, safety, labor, taxation, financial incentives, or other issues.
6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices.
7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate.
8. Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including training programmes.
9. Refrain from discriminatory or disciplinary action against employees who make bona fide reports to management, or as appropriate, to the competent public authorities, on practices that contravene the law, the guidelines or the enterprises policies.
10. Encourage, where practicable, business partners, including suppliers and subcontractors, to apply principles of corporate conduct compatible with the guidelines.
11. Abstain from any improper involvement in local political activities.

### 5.1.7 PACI - The Business Rationale for Fighting Corruption:

**The Business Rationale for Fighting Corruption (PACI)**

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

## 5.2 Methods part:

### 5.2.1 The inquiry:

#### **Request for participation in a Master Thesis interview:**

My name is Marius Wold and I am addressing myself to you about the thesis I'm writing at the University of Agder. My aim is to look at how Norwegian companies with activities abroad, approaches/handle/retreat from problems related to corruption. It is important for me to emphasize that I only want to examine the measures taken to prevent corruption in countries where this is a widespread problem and that it is not relevant for me to collect details on actual cases of corruption.

The ideal, and what matches best with the subject, would be information about the measures taken before and during negotiations/investments/trading in relatively corrupt countries. The focus will be on relevant ethical issues concerning corruption. The questions I ask will primarily deal with your specific, subjective experience in the field, but hopefully also some general experiences related to corruption, cultural differences, ethics, and corporate social responsibility. Based on the information the respondents provide, I will try to establish general guidelines for other Norwegian companies looking to go on the international arena, or for those who already have foreign operations, but at a higher degree would like to be involved in countries where corruption is a relatively large problem. The information from the interview will be used to compare patterns, general perceptions, similarities and differences between the respondents.

During the interview, I would like to use a voice recorder to ensure that the statements are presented in a correct manner and that it subsequently will not be any doubt about what the respondent actually said. Voice recording is therefore a safer way to conduct the interview, versus the use of notes where details might be lost. If the respondent does not want the use of tape recorder, notes will be taken during the interview. All information, including company name and name of the informant, will be kept confidential. Respondents will always have the opportunity to withdraw from participating, before, during and after the interview. In that case, any information the respondent has provided will be deleted. During the interview the respondent in its full right to refrain from answering questions without giving any reason for this. A contract will be written between the parties to ensure anonymity and copyright.

The thesis will be completed by the end of May 2011 and will be published electronically and on paper at the university library according to university guidelines. I will happy to distribute a copy to all the companies and respondents who have contributed.

### **Interview Topics:**

#### *Introduction:*

1. Definition of corruption
2. Experience with corruption.

#### *Cultural differences:*

3. How complicates cultural differences the way you do business, in terms of corruption?
4. Can you describe the most important aspects?
5. To what extent is it coming from Norway a competitive disadvantage with respect to our laws, our position and other nations' practices in relation to corruption.

#### *Ethical challenges:*

6. What is your experience with an operational code of conduct and how is it actively being used to avoid corruption?
7. To what extent, and if so why, is corruption a big problem in relative terms for your business or industry?
8. To what extent and how, do you experience other cultures selfishness in regard corruption, to their usual business practices and their culture?

#### *Corporate Social Responsibility:*

9. If you operate in a country where corruption is widespread, how do you engages to establish a safe environment for the parties involved?
10. How actively the company to international ethical initiative (OECD, UNGC, TI, etc.) and the guidelines provide this?
11. To what extent is it in relation to corruption, the necessity to involve the unethical issues and how?
12. In the planning stages and strategy development, do you take account of corruption, to the extent possible and how?

#### *Support Devices:*

13. The importance of direct support and early warning systems ("hotline") and how these are actively used to prevent/warn corruption.
14. The difference between team and individual performance in pressure situations and the effect of training and awareness among employees.

**Agreement between the parties:**

Company / business / employee:

\_\_\_\_\_

Student:

\_\_\_\_\_

In the following student projects:

\_\_\_\_\_

Duration of agreement:

\_\_\_\_\_

**Implementation**

The student will complete a master thesis in cooperation with this company, including interviewing employees at the company. University of Agder, Faculty of Social Sciences and Economics supervises the work professionally.

**Disclaimer**

The student is not responsible for the project leading to a specific conclusion or a particular result or that the thesis can be exploited in certain ways.

**Privacy**

The student should ensure that corporate and informants' names be kept confidential during and after project completion. Information that appears during the interview will under no circumstances be traceable back to the informant.

**Accessibility and copyrights**

Company/informant will receive a copy of the thesis when it is final. Company/Informant is entitled to use it internally in its operations, including distributing copies to employees, consultants or others considered as relevant. However, there is no right to further copy, publish distribute the thesis without further agreement with the student.

This agreement is signed in two (2) copies, one to each party.

.....  
(Date, place)

.....  
Company / Student activities

## 5.2.2 Transcriptions:

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**The interviews were conducted in Norwegian. The interviews were first transcribed in Norwegian, and then translated to English.**

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### **Transcription No. 1.**

**Respondent: R1**

**Company: C1**

#### *Definition of corruption:*

A simple definition of corruption is that you pay for services that society already pays for through the tax system. So, you pay several times for a service that you pay for anyway. -Plus there's a bunch of other stuff. In the company I work, we have a whole lot of definitions on various types of corruption and ethical issues. In the Norwegian and Russian legislation and not least in U.S. law it is defined many categories of corruption and definitions of corruption itself, ranging from paid middlemen to "bribery" / bribes.

#### *Experience with corruption:*

You meet business people who sit on all sides of the table, where they protect their positions in politics or administration and their business. This is structural corruption. In addition, the "legal", i.e. the legal system, which is also corrupt, as we have seen in several times, which means that the legal system is used for specific purposes in terms of providing income to the politicians. This mixture of roles, like we in Norway and many countries in the west with relatively low corruption and we are very concerned about, is what you are struggling fundamentally in Russia and as of now it has happened since the Soviet Union collapsed in 1991. And now 2011 population has dropped from 241 to 141 million inhabitants. So, in reality, the bureaucracy has increased dramatically in Russia and bureaucracy are very closely related to corruption. In such terms everything points down for Russia. We interviewed 5,000 Russians and 75% of them say that during the past year they have personally been involved in / likely to have to pay money in a corrupt context.  $\frac{3}{4}$  of all Russians are experiencing this almost as a part of daily life. In such terms, Russia is almost on par with Angola. This is a very serious issue for Russia and is something they officially are trying to change, but it is a system that you can not change just one bit of, you have to change fundamentally the overall

system. Most Russians who I talk to says that the best way for us to fight corruption in Norway is that we have an opposition. You always have the alternative to the existing party, or the existing power elite, so that when you got two options you can choose between, in which you have an alternative. That's the problem in Russia. -You do not have any alternative to the established order. They did not have it during the Tzar-time, or when "Ivan the Terrible" introduced corruption in 1550's and then it goes on with the Soviet era and the Communists, and so it continues in Russia that we currently do not have more than one option. In Russia, there is, let's call it the "Putin-party" where both Putin and Medejev are members, as at the county level only loyal employees. -So, the Russians can speak themselves blue in the face, but nothing happens. As the Russians say, what's the alternative? It is then, Jeltzin and his tenure from 1991 to 1999 the Russians remember and what we call democracy, but like most in Russia would call anarchy where, as the Russians called "Muta", in which the country was in a resolution, where everyone grabs for himself what he can, because, in a way, no one would thank them for not doing so. So, it is, in a historical perspective, much that is important to be aware of how this is a scourge of Russia, and how difficult it is to do something about it. I interviewed three students on their last year in high school, 16 and 17 years, I asked what do you see as the biggest challenge and what do you think about the future of Russia. They basically replied that the biggest problem is corruption and we do not believe that it is possible to do something with, and following we do not see any future for ourselves in Russia. All of them will try to get a job in the West (kunnskapsflukt!) and move from Russia. The population in Russia is declining with approx. 1 million per year, then in 2015 there are 115 million in Russia, mostly old people. So demographically, this is a very serious problem for Russia and is contiguous with corruption. In time, Russia does not have any alternative to trying to do something with this. But, because you do not want to give up the privileges that have made you a rich man and have lots and lots of stuff, why would you fight it (measures against corruption) and you will not do it (after adding up) before someone forces you to it.

*The importance of direct parent support and early warning systems ("hotline"):*

The first step is that you usually go to your manager, talk with them, tell what this is about, and then hear how he sees it. So, if there is doubt you stop the operation or take it higher up in the system. If you are not comfortable talking with your supervisor, you can call a "help line" and explain the problem and then get anonymous help in such a case. It is important that you can have several options if you do not feel comfortable talking with the boss.

*The difference between team and individual performance in pressure situations:*

We run training programs for all employees once a year with different cases, or in our office we run cases once a month where we make a case and then take a discussion among the staff. It is very interesting. We are a 5-6 people from Norway who are like "expatriates" and the rest around, 30 people, are Russians. To have a discussion between us about it (the cases) is very interesting because it is clear that there are many who will not call anything for corruption, so when you get a dialogue on it, it is an important way to increase vigilance on corruption and the general understanding of it in a business. So these are the training programs.

*You are, in other words, at the preventive stage?*

Yes, that is, it starts with the law as reflected in our Code of Conduct. So we run training programs with employees to increase their consciousness on corruption, and when they (the staff) are aware of it, we create systems that allow employees to easily alert in various ways. We have open lines, which are confidential, so you can call a particular number from anywhere in the world. You are always answered in your native language, you can tell them your story and it will be taken up further within the system and followed up there. So it's kind of established procedure.

We have an office in Russia and we have now established a company in Russia that will govern the planning and development of our local operations and for several other companies, what we call an operating company, who does things their way and then we have sent people into this company, from the organization I represent and the total we are about 50 people from our company in the operating company. This company will then practice procurement and purchasing in an acceptable way in terms of what we as the parent company demands. And in Russia it's all about what comes from you, in a way, that this is established as guidelines to be implemented. But the challenge is very much in Russia to get this implemented and that it is implemented in operations. It requires a lot of work, it requires that, in our case, all who are employees in the operating company, about 500 today, will have to review interactive training, with a special program, which works very well, where you can sit on your PC. These training programs have many cases, 8-10 cases, where you get lots of questions to answer about this is this or that, what do you do now, etc. Much of this goes on to practice in vigilance when it comes the so-called flags, or is this a red flag, it is something that triggers

your skepticism, or unsure, you should think that this should not I do, here it is something that happens and when it's all about not do it.

*Cultural differences:*

Cultural differences complicate a lot. Corruption occurs most often in connection with procurement procedures and selection of suppliers. When you put out a contract, as in my business can often be many billions worth, to a vendor and that person then has a huge network of subcontractors, then it quickly becomes a third-party risk for us. That is, if one of the players who come into the picture is corrupt, and this becomes public knowledge, this is the sort of reputation risk for us, where we can risk being drawn to the court when it applies to us as individuals and the company.

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*Can you describe the main differences?*

It is the law that we are following. The Norwegian law is among the strictest in the world. Russia also has the law on corruption, but there are very few who practice it. There is no monitoring of the law and there is also no sanction on it of importance, at least not for those who should be punished for it.

In Russia it is a completely different standard when it comes to gifts. The company I work for here has very clear guidelines that anything over 100 NOK (according to Norwegian law) goes straight to the company, which in turn are prices in a lottery or the like. This is difficult to understand for Russians because they have a culture where they are much more generous on this and they think our practices are completely hopeless, not only that, but also rude to not receive these types of gifts. So we just say, fine just take it, but do not tell the giver what you do with it. You should not say that you go to work and give it away the next day, but thank warmly for the gift.

*To what extent is it to come from Norway a competitive disadvantage with respect to our laws and practices of other nations?*

We're in Russia because we think we can handle it, because we can deal with corruption, and by having good systems and vigilance on corruption we can avoid going into obvious blunders. So, the principle is to do your best, and that is what you can do. You cannot guarantee that you will not go into a situation where some suppliers, or whatever, where in retrospect you have to admit that this was not particularly smart. But, as long as we have done

what we are expected to do, in relation to, for example, the selection of suppliers, and it turns out in later that this was a corrupt company, according to legislation you have shown reasonable efforts avoiding corruption in what you did it, and thus you will most likely not be accused of having acted negligently by having selected a company you should not. So to do what is necessary to avoid getting into what is a legal process, it is important for the company and is also very preventive in relation to combating corruption. A concept that is important for us is "willful blindness," which means that you close your eyes for a company or a situation and say that this is not suitable for me, and you know well that this should not occur. Willful blindness is a major challenge, and it is easy to pretend you do not know of, if it is something comes up. We're working with this in our company, in order to prevent people who should speak up to actually speak up. We would prefer that people should speak out, actually speak up and make a threshold as low as possible for it to be done.

*Then do you also to lower the level of individual self-interest?*

Precisely, there is no downside to speak up, there is no downside by coming up with rumors. That's what often is a problem, there is much hearsay, without in any way is evidence of the warning, that this actually could be corruption. When you experience something that feels good and when you've heard rumors that relate to this, it is always better to try to document all these rumors, without having them floating around in the corridors. I'm all about making the 50 employees in our unit to alert if something comes up, and I get quite a few inquiries from them about matters they do not feel comfortable with. So they ask, should I sign this and that document. So it is important for me to know as much as possible about the actual circumstances surrounding it, and not only superfluous details.

There will always be competition for jobs and contracts; it means that there will never be one supplier, but a minimum of three. There is are a lot of stuff like that we work with, it is a way to deal with corruption because if you go on single sourcing/supplier, and this one is brought in by one of those you are a little questioning about (a person / employee interests with unethical / safeguard their own interests at the expense of the company / corrupt employee), it is a red flag.

*Ethical challenges:*

Can you tell us about your experience with the operational code of conduct? We have a book, a “corporate book”, which mostly contains our main policies on corruption and ethical issues, such Ethical guidelines, and it's like one of those "Mao's little red", or the 10 Commandments, which all employees are expected to have a personal relationship to. Every time we have these training sessions, you always go back to this book to check the main category in which this belongs.

It is terribly important, terribly important, if we are to deal with corruption is to have a high banner bearing and a high corruption readiness that must come from the top-management. This something that the management must care about and show in practice, as we call it "a license to operate". Failing on doing that, then you are really out of business. For now, as with Siemens, the fines you can get are high enough to break a company, especially in the United States. Now we talk about the billions. There are enormous fines associated with corruption, and therefore it is essential that there is a management focus that comes from the very top for the company to have a chance to succeed, especially when the company operates in a corrupt country. Like us, the top commander saying is that we can participate in projects, but there is one thing that makes us leave the whole project and that is if we go into a corruption case. So it's not really something that is more important than that and it will be communicated and followed up in all parts of the organization.

*To what extent, and if so why, is corruption a big problem in relative terms for your business or industry?*

If you want to succeed in business, whether large or small scale, in the future, I think that by having a high rating, that is to come from a country that scores well on corruption indexes and as a company, is a huge competitive advantage while before it was the opposite, a disadvantage. -Then there were those who were willing to pay and to grease, giving them many business opportunities. Now, not to mention the future, it will be just the opposite. This will therefore be crucial to run a business, to have high ethical standards, both in their own ranks and in relation to the supply industry in the country you operate in.

*If you operate in a country where corruption is widespread, the manner in which engages you, you working to establish safe limits for the parties involved?*

The whole thing is "license to operate" because if our reputation is that we are venal or that

we bribe in order to achieve our interests, it is totally devastating for us, seen in a worldwide competition perspective where there are close links between people's everyday lives, and corruption. If we believe something when we come to a country, then we say that we will contribute more than just protect our own interests. We want to help the lives of people become better through CSR programs and at all the activity that creates jobs and makes sure you get a multiplication effect in relation to the common people by hiring one person, which in turn helps 4 - 5 other individuals (family), to put it easy. If we believe in something like that, then it will help to combat corruption. We cannot think like this while being taken for corruption. It sends out a message that does no good.

*To what extent is it generally considered necessary to have an adaptive strategy when doing business abroad and why?*

Methods for dealing with corruption are interesting. That's what really is the clue to do business in these countries. If companies that have a high ethical standard goes into a corrupt country and believe that one can deal with it by having concrete ways to do it, at all levels, be it in relation to training, following up on procurement procedures, good policies and high management focus, the corruption problem will be manageable. By showing that it is manageable, as we believe it must have a positive effect in the development of a country such as Russia. Like that, showing that there is a point with what we are doing and that there are good results from it and that there will be an inspiration and an example for others to follow. We give high priority to corruption at the preventive stage, and are keen to practice living the high standards we have written on paper by requiring that the organization engage in it.

*To what extent is it in relation to corruption issues, needed to have an adaptive strategy when doing business in other countries and why?*

It is very important then that we have full awareness of the companies and it is especially important to have knowledge of the owners of the companies. -So who really pays you, and it is in Norway and the West generally required to provide a portion of ownership, while in Russia it is not. The owner in Russia is usually relatively small and it could be a challenge in which there might be politicians among the owners and also those you are negotiating with. It may also be true that you are sitting on all sides of the table by that you sit and argue that your company should get a job, so that in principle can work in a company A, sitting on an owner of company B, and argue internally in A company that company B will get the job. It is extremely regrettable and unfortunate for us if this becomes known for the public and in the

press, etc. So, how are we really trying to keep track of is through something called IDD (Intelligent Due Diligence). IDD is something that we do pretty much every time we face a new supplier, we are unsafe at. By running an IDD process on them, which may be that you go into a single database that can be bought relatively cheaply, such as the TI database, which says a lot about all kinds of companies that have been documented have been involved in corruption historically. This is one of those "initial check". If we are still unsafe we go on a full IDD running in a separate internal unit in the company exclusively dedicated to conducting IDD and makes fairly extensive research to attempt to identify whether this (company / supplier) is questionable or not. This is the process we are running in relation to procurement procedures, which also is where we have the greatest risks.

*What do you think about Nations future dominance, typical of China, which is a relatively corrupt country in relation to the statement that it is essential to maintain high ethical standards?*

It is the nature of things, when you have no alternative current power elite that remain seated for a long time so we (not the company) easy to come up in such a situation. We do business in China, not in large scale, but we involve a lot with China at the national level, but on such terms as it is about doing what we can. You do not stop trading with countries that have a lot of corruption, but you have to be extra careful and make sure that those you do business with are checked out as good as possible in relation to the things we talk about now (ref IDD). That is the principle. If you cannot do business with a corrupt country, you really could only trade with Sweden. It's all about making actions. You identify the risk, so do the measures to reduce risk.

*Do you think that vertical integration will become more common to deal with the problem of corruption?*

No, I think not. This is such a specialized industry that we depend on to have an ambulatory supply, then again it's about to do the necessary footwork in relation to your suppliers so that you do your utmost to ensure that they are entering into a partnership with, among those that it is "okay" to work with. -You can do all places, but it is especially difficult in countries where it is difficult to get information about the ownership of companies in some contexts. "It's very demanding. In Russia there are many companies that are partly owned by the state but documents showing who owns the remaining parts, very few who has access to.

*In the planning stages and strategy development, do you take account of corruption, to the extent possible? When you went into Russia you would have definitely a strategy for how you would do things. Have you followed this strategy or have you been forced to change the way?*

You do not have to go many years back in time, when corruption was not an issue, corruption and ethics were somehow (...blurred...) Just look at the Norwegian legislation from 1960 up to 2000's , businesses in Norway was half-way corrupt business, where we greased the politicians and gave large donations to the local community. Today we would say that it is clearly on the edge. It's really the last 5-10 years where corruption has become more and more important, more and more focus on, more and more talked about in the media. What we are most afraid of is if one suddenly appears in the newspapers with a really bad story. If it turns out that you have done business with corrupt companies, and newspapers manage to dig up, it's something that we are very nervous for. Therefore, one cannot talk about how you thought 10-15 years ago, and in relation to how we operate today, not only we, but most are very different, largely driven by changes in legislation. The fact that in society today corruption is less and less accepted, and corruption is an instrument in the business to achieve illegal business benefits. -Before you where bragging about it, you do not today.

Globalization is an important element in relation to corruption, in that you want to do business internationally, and it is important to make sure they have their "path" pure in relation to access to the USA. You are not able to enter the United States today if you have a bad record on corruption.

## **Transcription No. 2.**

**Respondent: R2**

**Company: C1**

### *Definition of corruption:*

The definition was corruption starts with our vision and values and continues down to the policies of sustainable development in our business principles. In our business principles, as a corporate requirement, all employees must read and sign that they have read and understood what they mean. When you are a new employee with us, you have to read through the business principles and deliver your confirmation of acceptance together with the employment contract.

### *Experience with corruption:*

For Norwegians in Norway, in our business, corruption is often about to be aware of what you receive services and in return, in other words to not require anything in terms of the position you have. We usually use the approach "can tolerate being published on the front-page of the local newspaper? -If in doubt, there is no doubt about what you should do. As part of our career ladder, many employees stationed in Norway to get admission abroad and get relevant challenges, such as in countries where corruption is a known problem. There you will encounter a completely different reality than what you are doing here.

Our partners, i.e. stakeholders, requires that we take responsibility. Our clients come to us and audit us and ask us for the same questions. -What do you do to prevent corruption? -Therefore it is important to ask our entire supply chain, downstream and upstream, the same questions. Then I know for example in Congo, and Tanzania, when we are threatened with corruption, it is important that we put things on hold. When we are waiting, we will not push, and at the same time we are so big that we do not need to. At the same time, I also know that there is a balance if you will stay in the corrupt countries and continue running a business, then you need to be a lot more aware of corruption compared to in Norway. -And a slightly broader definition than what we reviewed here at home. It has something to do with consistently doing the right things and be an example for the better. -And we are very concerned, considering how we can make things happen without..., because often, the politicians and bureaucrats expect to get something, but we do not give anything. -And then you just have to take the

time to help. -That is how we do business. At the same time, I understand the companies operating in different countries and that there are different ways of doing things. To be a player in the game, you must be willing to go into the gray zones, but be very, very conscious about corruption.

*The importance of direct parent support and early warning systems ("hotline").*

There are also including an ethics hotline, which you can call if you would come off situations where the employee is in doubt. This is also one thing the employees must agree and sign that they have received information. This is so important that it is translated into Norwegian. "It's not all that has been translated.

*What complicates the cultural distortions in the way you / you do business on.*

Communication, commitment and community are the three things we need to relate to. Then it is up to us to define who are our external stakeholders at every level and that they should be treated respectfully and culturally appropriate through projects prioritized to maintain external stakeholders with regard to the thoughts they do themselves and the expectations they have from us. So it must, it is very important when we go into the projects, analyzing all of this in advance. -So there are no surprises for us. Being selfish, yes, but so what, one must not turn that into something negative.

*To what extent is it to come from Norway a competitive disadvantage with respect to our laws and practices of other nations?*

For this company and for most other international companies, it is not legislation, it is an interest in stakeholders, and not just act with guile, like it was previously. Today, doing so is far too reactive. When one of our customers come to visit us and ask these questions, that's when we really are put to the test. The mobile phone you have, SonyEricsson, are interested in viewing their entire supply chain, all the way to the end customer that there has been no child labor, corruption, or that they have helped to finance the war in Congo, and that's when they are really challenged it. The authorities are not so active. The basis for us too is the American law, for example, that we should not fund the war in Congo, a law was passed last year. So, one thing is legal, but a completely different thing is the pressure from the market and from clients. I do not know if it is because of the internet and stuff, with that, I mean that it takes so insanely little negative publishing to destroy something extremely huge (see Media Awareness, etc). -You're burning up fast. We are not in the same spot as Panasonic and

Toyota, because we are farther away from the end customer. We know that customers today have much power, and there will be a spread in the media can reduce turnover by 10 and 15%. Therefore we must take responsibility for our customers and ensure that the value chain down from us is pure and free from any impurities, including corruption.

*Can you tell us about your experience with the operational code of conduct?*

We follow international standards in terms of that they mean something to us. And we have a fairly rigid standard, where corruption and proper ethics are included, which is constantly monitored in relation to the international standards. When we are audited on this, we can at worst struggle to get the good ratings we want. We believe we are the best in class in our industry, but we do not have systems to deal with corruption here in Norway, because we do not experience it. This is a culture barrier, it's hard to know what to do and how systems should be designed before you are in the middle of it. This is a serious problem in Norway because we document and prioritize it good enough, but cannot adequately make it clear that we have controls and systems for this. Other countries such as Tanzania are much better at this than us, and even more aware of it because in their society and in their culture, corruption accepted and it has a function in society. They are poorly paid (officers), so it's a way to supplement some of the income and thus they get a lot more aware of the system of corruption can be, than what we have in our culture. Therefore, they may find that we are naive. By saying "no way" then the competitor might take our place because the competitor does not have the same ethical guidelines and points of view that you have. Then you go back into the gray zone and say, okay, what is the assessment now, and start over again with blank pages and it is important to be open about what you do.

*To what extent, and if so why, is corruption a big problem in relative terms for your business or industry?*

We are a multinational company, so we have to, and it is a challenge for us too. Today, it is true that our competitors are banned, for example, from the pension fund and the Norwegian oil fund. Our strategy is growth, growth, and growth. If you grow you need capital, you need money. -Extremely large amounts that you can get from the German bank, the French bank and the oil fund. If you are blacklisted due to corruption or unethical behavior, you get no money, so it's a dilemma. We can get the capital, and therefore it is so incredibly important for our company to have a working culture that does not allow corruption under any circumstances. We shall have no social dumping and we shall have no toxic emissions that

destroy the environment. And if we should have stuff like that, we must be open so that we can address it, inform, and improve or remove it. We can decide to buy competitors that are in that situation and it has a not so good portfolio, and that it should be improved when we build this company into our company.

*If you operate in a country where corruption is widespread, the manner in which engages you, you working to establish safe limits for the parties involved?*

One of our success stories in the Dominican Republic where we started to help the natives when we built the factory. Southerners went down to help them, and the staff here with us helped by collecting money through the church's aid to help the community down there. It's not just that it should be "our" business; we are in a completely different world here, so we must take responsibility for their environment. In the beginning we helped people to establish a junkyard, it has been 20 years and we are again asked to build a new junkyard. So the city expects that it is us who shall do it, but what we do must be sustainable and therefore they need to manage the job themselves. It must be the city itself that will take responsibility for it. This is because we want the city to work, as we in the future will leave the area.

We also have projects on coffee, tomatoes and school. -A lot has to do with competence. The most important thing we do is pay taxes and royalties. That means not just take out and take out, but to put a lot back again. This has led us around the world he has been asked to establish ourselves, because our values are so strong. Again, it is not to just give in terms of money, but to build and create schools and education, energy, infrastructure and roads, simply a complete package together with the local population. We find that very much is about skills and know-how.

We can talk about sustainable development as an expanded concept. In ... (the country we are now about to go into) it is the expertise and infrastructure to ensure that the city and surrounding areas will be planned in such a way that all these village chiefs who expect to make things happen in their village, is distributed evenly. We do not want to pre-distribute anything to anyone and we do not want people to settle in this forest that is to be used by us, so that we avoid conflicts. There is no cultural aspect of it and there is no understanding for this, because these people live in the moment and does not look into the future.

*To what extent and how, do you experience other cultures selfishness in regard to their usual business practices and culture?*

It goes on capacity building it. We must learn to understand. In other countries such as Tanzania, corruption is accepted and they have a clear relationship to it. People down there are poorly paid, so it is a natural way to supplement income. Consequently, they have gained a much more conscious about system corruption than we are accustomed to in our culture.

*To what extent is it generally considered necessary to have an adaptive strategy when doing business abroad and why?*

We are working on a 30 years perspective when we go into other countries and we make investments on the same level as other major companies. We have no rush. We are a traditional business and industry is incredibly comfortable for so long. We rush very slowly, as we should have feasibility study in place, we should be very conscious of what we do all the time. Also, to avoid bad investments in such corrupt companies. -Because we have time to plan we have a great ability to adapt.

*To what extent is it in relation to corruption issues, needed to have an adaptive strategy when doing business in other countries and why?*

Yes, of the reasons I have previously mentioned.

### **Transcription No. 3**

#### **Respondent R3.1 & R3.2**

#### **Company C3**

*How do you define corruption?*

R3.2: We base ourselves on laws. The core of these laws is that you offer someone something of value, money or other things, in order to receive a special position in a contract or any situation that you otherwise would not have been given, and that there is a person who is not qualified to accept this money, or should not accept, according to Norwegian law. According to the definition of FCPA, one distinguishes between what is "bribery" and "facilitation payments", where bribery often goes to public officials and is meant to influence the outcome of an assignment, in order to obtain better privileges than a competitor or a service you would not otherwise have gotten. "Facilitation payments" are a kind of lubrication, or bribery of public officials for services that you normally are entitled to, for example to make processes go faster, as with applications or obtaining a license. Bribery is when you get something you would not otherwise have gotten, while facilitation payments facilitate processes, typically a passport control process, to get a visa, or a building-permit to get it faster through the system.

*What is most common (corrupt practices) within the industry you operate?*

R3.2: What we are particularly careful about and what we know it can be much demand for and it makes it difficult for us, is where individuals want to enrich themselves in connection with an reward of e.g. a construction contract, usually at the client or at the state oil companies where there are number of competitors offering the same job, and especially where there is a big difference between quality and price, and not necessarily large contracts, but often technically advanced. It is strange that (corruption/bribery) is an element, because choosing the right competence is so important for the correct delivery anyway. But, it is a very competitive environment and it is conceivable that there may be many who can provide roughly the same deal, and then there will be individuals who decide and who must sit in a position to decide the outcome of the persons who want to enrich themselves. "It will be quite similar if I choose A or B, can I can get some money out of one of the parties by, for example, encourage A to pay something extra so I can secure my pension". -To have a bidding contest to win is typically most dangerous, I think, -being a process with incentives for bribery, etc.,

especially when we talk about private corruption. I'm talking more theoretically here because I do not know of any specific examples.

It is difficult to describe how such situations happen, because there is seldom much information around how a case of corruption or bribery took place.. You can always suspect that it could happen. You can get a sense that someone does it, maybe it happens to people you know within the organization. It is difficult to come up with any specific examples, but that it occurs, that such deals happens, I think you have to expect to a certain extent. In particular, depending on where in the world you are.

Just to make sure you understand, we have a zero tolerance for these things, and we are working actively to uncover situations where it can happen, and be extra observant in vulnerable situations where you know that it typically can happen. Our work is also based on the things I explain to you now, where we know that there may be questions about methods of payment in a shared contract position. It can be private corruption, a private oil company, which typically is our customer, then that person or someone who wants to influence the outcome will find a way to enrich them selves or gain an improper advantage. Often it can be public oil companies or regulatory authorities within the country to build in that influence. Say that we are building for a client, an oil company, then perhaps public insitutions have an influence by saying "oh, you must select them, we prefer that you choose them and not the other ones." So, the oil company might not be completely free to choose their own subcontractors because regulatory authorities have a hand in the game. It is possible that they also want to enrich themselves by allowing them to influence the outcome.

R3.1 This is a complicated issue, because it is also common that such recommendations are put forth without there being anything unethical. Sometimes there may be good reasons for such a cooperation, while other times there may be reasons to suspect the reason why one is asked to work with a specific partner, is that there is a "kick-back" back to the person who gave the message that you had to work with this and that. It is not easy to always know what is legitimate and what's not right.

There is a risk related to the bidding situation, where a company can be asked to pay a person that can help you through his contacts to influence the company's chance to win the competition. But again, there is no guarantee that this would work, so you risk sitting there

after having paid a large sum to a consultant for something to happen and nothing happens. That's another good reason to try not to do things with a unclear outcome, because: one has nothing to fall back on.

*Whistle blowing systems stationed in Norway and abroad. How do they best serve your needs?*

R3.2 We have early warning systems and information about them is available on our website. It is not just on the intranet, but also externally on the internet. There you can report whatever you want, anonymously. If you wish, you can leave an e-mail address. It is not a long time ago that we implemented it (created online whistle blowing system), so we only have limited experience with it. But, time-to-time we get warnings, not necessarily on corruption, but some tips on internal cases, for example what we call fraud, –like employees accused by others to skim the cream when dealing with and selecting suppliers, and when it comes to tendering processes where one might want to help friends. I think it is very important for the company to get information about such things. There is always a risk that the informants are motivated by the wrong reasons. It may be jealousy or that there is a conflict, so one must always be careful to consider how and why it comes up. It can be difficult to investigate such things. A certain proportion of the things that come up, we are very pleased to bring forward.

One can certainly imagine that we could be better at promoting the system, to make employees aware of it. In Norway, for example, there are information posters on the walls. We do not have many cases, only about 10 cases per year. There is always a challenge when you are multi-national to reach out to all departments and to make people aware. We use English as working language and we believe that it is good enough, but there is always the question of whether it is necessary to translate things into local languages and spend time campaigning it to make it known among our employees, etc. But, still we get cases from all over the world.

*Will the cases be treated here in central Oslo, or do you have other instances all the way?*

The cases that are reported to us will be processed and investigated here. We are using either external lawyers or internal audit units, or sometimes we send it back down in the system, for example to the regional HR department or other relevant departments to investigate the case locally.

*When you have people stationed in other countries, where it is, for example, a large power distance between employer and employee, do you have any experience with how they behave. Are they more difficult to keep track of?*

R3.2 That's a bit difficult to answer, but it makes a difference who you have as a local manager, country manager, etc. Some have good experience from the system and in some places we have lawyers and former lawyers who have worked in the corporate administration and who knows these things very well. Some places there are local or national units, as in Brazil, where there are Brazilians only managing our operations. It varies with the skills etc. And there's a bit of your answer, I think: that some have insights and understanding and keep close contact with the HQ management, while others are a bit more distanced, so this is an issue. Again we have in our country offices own separate project managements, and country offices are smaller units that govern the accounting and payroll. We have also a project management that is local and temporary.

R3.1 I believe it can be a challenge when you work internationally, that those who work in the branch offices abroad have not always worked closely with the main office in the past, and does not always have the same perception of organizational culture and values. One must engage in some active work to promote what the company stands for, -so that everyone understands the company values and identity.

*The difference between team and individual performance in pressured situations and the effect of training and awareness among employees.*

R3.2 We are trying to arrange as many courses as possible and it's easy to get good distribution on the e-learning courses providing interactive feature films with fairly common scenarios to get relevant training. Employees must take these tests soon after they have begun to work with us. We also have courses for new leaders where we arrange training modules from 1-4 hours going through our main policies on corruption, our standards and our dilemma training where we discuss different cases. We often emphasise that our employees should address their managers when there is a case.

*How does cultural differences complicate the way you do business?*

R3.1 In general it should not matter. You have to be sensitive to other cultures and understand that people may think differently. We might want to work more explicitly with the anti-

corruption work in some cultures, but I do not think one should have the sort of attitude saying "yes, (corruption) is common over there, so it's ok to buy expensive dinners, etc.". We should establish an organizational culture that is universal anyway. There are some cultural things that force you into a gray zone. For example, in China it is not uncommon to give cash as a gift, for example for Chinese New Year or weddings. This is something we perceive as very wrong, but in China it may be perceived as much worse to give a bottle of alcohol or wine rather than cash. But, I do not think that it is difficult to make people understand what is our minimum requirement, or to get accept for minimum requirement from companies from Norway.

R3.2 I think that the rules applied, and that we impose on ourselves, could have an anti-competitive effect and this is an issue that is difficult. There are conventions on this, but there will always be some who are more willing to do it (be corrupt). In the short term I think this may have an anti-competitive effect, but in the long term companies that have good systems and think ahead with respect to sustainable development will be the strongest. If you see that contracts are disappearing and things like that, then you have to just sit tight and hope that in the long run, being fair is the most sensible way to do business. Another thing is that in Norway, we will easily have access to updated information about companies, audited financial statements and all that sort of things, whereas in many other countries they have not come that far, both in relation to public records, access to accounts, keeping accounts in a reputable manner, etc. These can be innocent things, and it does not have to be something wrong, but it seems very wrong not to have such things in place. Therefore, one must start with other methods of investigation. Our expectations, things we think, can affect what are common practices in other cultures, etc. Not that corruption is common, but this example on giving cash is a good example of something that is very different from what we are used to.

*Do you think there is much to teach other cultures? Teach them what is right and wrong?*

R3.2 It is a bit too ambitious to think we can teach other cultures what is right and wrong, but we can start with ourselves and see what the minimum standard for what one accepts, and thus there will be an identity developing over time. It will be expensive, perhaps for some companies, to say no to things but we use quite a lot of energy when we are negotiating with foreign cultures to make clear what we expect and what our own internal requirements are. They do not always understand why we do due diligence and check documents on who are the shareholders in the company, company history, full financial statements, etc. We have to

explain that it's the way we operate and it is a requirement from our side and something they must accept if they wish to continue working with us. This is also a test on how interested they are in having us as a business partner, it means that there may be a risk to our relationship in the beginning, and that it can be tough to get them (the other part) to go along with what we ask, but it will often strengthen the long-term relationship if you do these things. So yes, it is a form of education, but there will be no proselytizing, but rather something we must have in place before we can do things. It is quite common whether you are an English, American or Norwegian company, to have some minimum standards. I think this actually is an educational aspect for others who want to do business with Western companies.

*Do you think some the competitive aspects of being corrupt vs. not corrupt is about to disappear?*

R3.1 It is more so now in most other countries, corruption being illegal, so they pretty much understand that it is illegal anyway. When it comes to clear examples of corruption I feel that it's not a big problem. Or, there is a problem, but as a foreign corporation saying that we do not tolerate this (corruption), is not difficult. Of course it may happen that a competitor bribe someone anyway, but then it might be a project that we do not want to be a part of. If you make a contract of one billion and 5% is lost to a few individuals, then the contract is usually 5% percent more expensive. It could have been 5% lower if it had not been any one involved with this type of interest. It is damaging to society and development, particularly in countries where corruption can be carried out systematically.

*Ethical and philanthropic work relevant to corruption? Do you do more than is expected of you?*

We have entered into a membership with TRACE, who trains agents and consultants who will help you to give advice in contract negotiations, etc. It's a group of people that might be useful as a professional resource to avoid corruption.. There we have a membership and the membership fee goes to the work they do. We have relatively recently begun, so we want to use them more frequently to train our agents all around the world. If the consulting business around the world could develop to be more transparent, then it will be easier for us to use them. Beyond that, we give our attention to training of employees. Statoil is a member of the EITI, which I think is a very good initiative, but we are not involved with any private external initiatives in this area.

*Do you feel that other cultures can be selfish, standing by their own practices, in relation to corruption?*

R3.2 It is a kind of negotiation issue. If the one you deal with wants to be corrupt, there will be a kind of "how much can I get, who can I get the most from, how can I use my position best". We do not deal with how much a person can get through corruption, because we do not deal with corruption anyway. Thus, such situations are often the reason for why we must withdraw. R3.1 My impression (from previous work situations) is that even if there are cultural differences, one should be careful to over-generalize. Individuals also matter. Some can be quite easy to work with (and have high integrity), while others are not.

R3.2 I think also the cultural dimension is significant to how widespread corruption is. In India it is quite widespread and in many African countries as well. There are plenty of countries where corruption has a kind of a snowball effect. If the neighbor is corrupt, why should not I be able to do the same and get me more money. Some people in government agencies are doing this to supplement their otherwise poor government salary. They probably feel that they have to exploit every opportunity to bring out that little extra. How common it is will also depend on the perceptions of other people. If you are perceived to be a fool not doing it, or not smart enough to do it.. If you expect that your neighbor will always try to cheat on you, you think that you have to take what you can because otherwise you will lose. The confidence that you can live easily and well without engaging in corruption probably has some significance in relation to how common it is.

*You are a member of UNGC, right?*

R3.2 Yes we are, but we have not been good enough to report on progress, but we're working to get better.

*Do you feel that you get something in return for being an active member?*

R3.2 It is possible that we would have more benefits if we had been more active. I would say that one can use the network to meet with similar companies to discuss issues, but it's primarily a way to show that one is concerned with questions related to CSR (such as corruption and global issues in general). In relation to corruption, we would perhaps benefit more from mechanisms and organizations that are more targeted and more specific than UNGC. In our case, we have taken a standpoint against corruption and therefore we have

developed strict internal procedures. The main sources for these procedures are the Norwegian laws and other strict laws, like the U.S. Foreign Corrupt Practices Act , which is strongly enforced, and the UK Bribery Act. National legislation will by definition almost always be more specific and stringent than international treaties. These (the international treaties) have a useful function to try to get everyone on the same track, but it is clear that a specific personnel system will always be stricter and more specific. So we try to stick to strict national regulations, when we do international business. It means that we often impose stricter standards for ourselves than what the OECD, UNGC etc. requires.

*Do these international initiatives work when you go into a country that has no enforcement of laws?*

R3.1 I think it works more as a guideline to internal commitments to how to communicate about things, how to report and the extent to which senior management should be involved in what we do, how it should be integrated and so on. But they are quite general, so I do not know if it makes a big difference when you go into a specific country and a specific case.

R3.2 The most important instrument is our own processes and it is obvious that if one can show that you are a member of the UNGC, and other things that make them have certain expectations of us, which means that we can claim "this and that ", and that of course it has an educational function. However, our internal procedures are often more stringent than the minimum anyway. So, in a practical anti-corruption work, it is our own internal policies, which of course are based on national legal requirements and often other best practices that apply. We take a something from what TI is saying, and what UNGC say and what others recommend, that is, other interest organizations' recommendations, private lawyers and all the time staying updated on what's expected and what's the industry standard.

*When you plan, strategy-wise, do you use a screening method and due diligence to identify all the future processes to the extent it is possible?*

R3.2 We have defined the vulnerable points in such a process and we often use third parties to represent us in such a process, that is, consulting companies that we pay to investigate. Before we start cooperating with for example a consultant or a company representative, we will check that these are people are usable. It means to get a background check and a due diligence, and an internal due diligence on these people and write standard agreements that make it clear what we expect. If we are to establish ourselves in new countries, for such as a joint venture, we will check those we work with. To a certain extent, we also consider

customers who buy from us, how goods are transported, to which countries, etc. and if we are allowed to do so in terms of export controls. So we take time to check customers and partners, our supply chain and potential suppliers. It is a quite extensive and expensive process, but it is necessary.

**Transcription no. 4.**

**Respondent: R4**

**Company: C4**

*Definition of corruption:*

When it comes to industries like the one we are operating within there is always some companies that have come further than others. Statoil will be the one who have come the farthest. They are the biggest and they've been involved in cases that have meant that they have to put much effort into anti-corruption measures. It is something that we have seen, that the companies that have had unfortunate cases, they learn a lot from it and put on a lot of resources to prevent it from happening again. Our biggest challenge is the composition of industries because we are present many different industries. Some are relatively high-risk while others are relatively low risk. They are definitely challenging and quite different business areas.

We have something we call the universal codes that apply to all our business areas. In addition we have something called a code of business conduct and compliance. It is not published externally, but it is a very comprehensive document, which deals with anti-corruption programs in more detail. -Universal codes as we call them are mandatory for all employees. *It is something all employees also are trained in?* Yes, the code of ethics have its own e-learning for all employees regardless of what you are working with or on. It runs continuously for all new employees. We will refresh the program this spring. The one we have is 2 years old. When it comes to code of business conduct and compliance it is much heavier. There has been training rounds for everyone at the management level, sales, HR, and all for all others that this is relevant, in a more complex setting in classrooms and out in real life situations.

*Most of the industries you operate in we are talking about very big deals?*

Both. It depends. Some arrangements can be large in money with large deliveries or small. We have an extensive use of agents which is necessary for us in the industry we operate in and which constitute a third party corruption risk, because there are third party agents acting on our behalf. So that's where we have the heaviest focus. What we are working very intensively with are the procedures for IDD and for selection of agents and monitoring of

these. During this period, the contract period, it is limited what we can gain insight into and what control we can have over the agent. So it is more or less only in the initialization phase and payment phase that we have full control. The rest is up to the agents and our ability to find the best and most trustworthy agents. During the contract phase we always have the opportunity to go into the "books of records" and do research. This is quite touchy for many agents. It is to go into the agent's daily operations.

*Do you see it as the best option? Used by agents?*

It is absolutely impossible to have the internal capacity to get in position to do business in the countries we operate and within the industry we mainly operate. You must have local agents. Depending on which of our divisions, in smaller contracts for example, the strategy is to the extent possible, to take over the role of the agent ourselves, or alternatively buy the agent itself, or at least what gives us maximum control. On the other hand, it is heavily regulated what agents to use etc., so that we have not pointed out some of our special divisions as being the most risky, but it is clear that the major contracts that often go over a very long time-span forces things to sharpen up.

*How do you handle competitive situations where such betting rounds?*

This is no particular risk for us.

*Do you think it could be due to product complexity and customer requirements for product?*

No, I do not think so. In some cases, it might be true, but it's usually real competition. I feel that there is real competition in relation to most things we're into.

*Your ethical guidelines say little about the corruption, can you please elaborate them:*

Our Code of Ethics are the main statutory principles. Code of business conduct and compliance is more operational and adds much more to our daily business operations and our programs. This goes especially for the agents and marketing representatives, and it is quite clear that this is the main risk area in terms of corruption. We have also gone into the descriptions of gifts, sponsorships, etc. We are also forced to work towards e.g. United States and problems of gifts there. We have a policy on facilitation payments even though it is not perceived as a high risk for us and it is not our main concern. Also we have representation and these things. In our code of business conduct and compliance, we have a special chapter on anti-corruption, it must now be updated on UK bribery act and we are in the progress. It's

about the general requirements, use of corporate funds, sponsorship, travel costs, contribution to political and charitable organizations, facilitation payments, agents and marketing representatives, detailed descriptions of due diligence and agreements, principles of compensation and follow-up, teaming agreements (JV) - agreements, due diligence, and participation in projects and tenders.

*FCPA, UKBA, etc., which are significant international laws, it is something you feel you must take into account?*

We have operations in the UK and we have been clear about it all the way and in designing new routines now used by intelligent due diligence, agents and marketing representatives and then all the relevant legislation must be considered. The Norwegian legislation is one of the world's toughest, so it's not that big differences we need to accept. The only thing is an increasing emphasis on procedures and systems.

*You mean to build on the Norwegian legislation is adequate?*

Basically, it is Norwegian and local law, FCPA and UKBA that we must consider and comply with. *What about OECD?* It is also used by us and implemented, but they have been lagging behind in the recent years. However, we certainly regard to it and use it as a basis for our operations.

*Does it give something back to be a member of the GC and TI?*

It is two aspects of this. GC is very normative to CSR in our business and operational environment. They also have anti-corruption as one of its principles, but I must say that we have used them a lot more in our CSR efforts now in connection with our work on Supplier Conduct Principles that are being implemented now. We have a membership in TI, we have their manual and follow the daily news. They are very skilled in many areas, but not more than that we keep an eye on them and their work.

*They cannot provide a complete tool? You must use several ethical institutions as a basis?*

Yes, I certainly feel so, and we have membership in something called the Compliance and Ethics Leadership Council (CELC). They are very good in purely practical matters and compliance programs. This is a very good source that I use a lot more than TI in the daily practical work. In addition, we have an agreement with PwC's anti-corruption department, and they support the method development, regulatory review and stuff like that.

*What measures are you doing in relation to anti-corruption, if you for example go into a country where corruption is a fairly big problem?*

We have not described our anti-corruption program in any particular detail. It's probably an area we should do something more with, you are completely right. I can tell you more about the international business. We have a division in the U.S. who is engaged in production and other operations that must follow US law. We are spread out all over the world, ranging from small local offices to larger regional and national offices. We have set up production in China where it is about 500 employees now where we have a new factory and clearly see that China is known for a very different culture when it comes to business and also known for corruption. We have no specific measures in China right now. What I think, is that we should have been stronger there during the construction and initialization phase. We've had our procedures and rules, but it has not been done anything special from my side, because my position is relatively new. I see now that we have no specifically developed strategies in relation to different countries and cultures. All the compliance officers in our company have gatherings and next on the agenda is regional differences and necessary measures that must be put into action.

*The other companies I've talked to are really into developing and maintaining an identity no matter where they are and no matter who they work for, and with. Do you feel that this is missing in your company?*

No, I rather feel that we have not documented it well enough, which means that we have no written and concrete strategy on it. But, in practice there is no doubt that there is a strong identity associated with our company. Our CEO is quite clear on that we should behave as we do here in Norway everywhere, and it has not resulted in any problems so far.

*Do you feel that there is a problem to deal with other cultures, such as China?*

It is quite obvious that there is a challenge. China is very different from many other countries. In Europe, one might say that one should avoid doing business with people you know to avoid corruption issues, while in China it is the opposite. You only do business if you know the respondent well. They are much more on this with personal relations and much of their business is based on this. Meanwhile, I and the law firm of WiikBorg Rein's division in China have perception that you come far with grabbing the opportunity of presenting your own culture, why it are like that, our legislation and why we must do what we do. I do not think it

is true that even if you are in another part of the world then you have to do things the way it is expected there. One can hold on to anchored values, strategies and policies, and I have the impression that is the attitude we have on our overseas offices. The fact that it is a challenge is clear. You have the example of some U.S public officials, where they are not allowed to accept a cup of coffee. With us, we have from time to time representatives from the United States that are not allowed receive a cup of coffee. Some even bring their own water bottle. Then just deal with it and do it in a polite and sensible manner. Many of our partners and customers are allowed full insight to control production and the contract conditions down to the smallest detail. We have routines pretty well established, to put it that way.

*International laws and higher standards set smaller countries in the shade:*

I think that there are many smaller countries, African and Asian, which are going to have major problems in relation to satisfy these requirements. I do not think there is a big problem for us in that we have such legislation, and that we have taken it upon us and are used to it. However, it can have an anti-competitive effect over time in relation to relatively new country on the world market, I think.

*What kind of support devices does your utilize?*

We have set up a warning system, or further than that, a system that goes down-top and satisfies the Working Environment Act (Ref.: Arbeidsmiljøloven) in relation to warnings, and then whistleblowers can reach the nearest manager, or if one considers that the person is a part of the problem they have the ability to go to an alternative manager. We have set up an ombudsman unit, consisting of 2 employees. It is also possible to go directly to the ethics committee and the board if you have any issues. We also recently created an email address that goes to me for things that go on a low threshold for compliance. In addition, we have also set up a hotline with a remote anonymous supplier in the United States. We have been a bit reluctant to keep this anonymous, but employees have always have had the opportunity here at home to report anonymously by sending a letter or call from a place that cannot be traced. But, we have set up an anonymous notification channel in the U.S. in the first place. There are regional differences and there are different claims regarding warning systems and systems for whistleblowers. We are not sure about what to do in China yet. It is said that one cannot expect that employees use warning systems, as we are used to. The staff there goes directly to the authorities. We are seeking to gain experience from others. What we have gained experience until now is that the threshold for notification cases is much lower for example in

China.

Our main challenges right now are those in challenging industries in many countries in which we have an extensively use of agents. Compliance is a fairly new feature of this company, so I'm not saying it has not been done before but it has not been previously coordinated and structured way it is now.

**Transcription no. 5**

**Respondent R5:**

**Company C5:**

*Experience and definitions:*

Like the company is organized, we have a legal department that has lawyers who are located all over the world. These take care of the legal issues, such as contracts and related issues. We also have a compliance group that gets bigger and bigger because we now see how important this field is. Overall, it is generally so that when we get requests that are either on corruption or any relevant compliance issue, we will use the compliance group. It's quite a distance between the compliance group abroad and us sitting here in Norway, so we take care of a lot by ourselves. It has drawn up a code of conduct for the company. This is an internal document, but you can get it on the basis of the agreement we sign. Here are all our policies, how to act in all types of situations and some of the most relevant rules.

We will always act our according to the laws that apply within the area we operate. In addition, we have a social responsibility that dictates that we should be in accordance with ethical standards and the like. So it's a little hard to say that we have a precise definition of corruption or that we define it in any special way. We say rather that we shall be in accordance with current regulations. Much of our operations are subject to U.S. laws, so this applies to all employees regardless of which country they work in. In the education of personnel we include definitions of American criminal law and the applicable Norwegian rules. These are generally good enough.

As of today we have not had any cases of corruption, but it is obvious that corruption is a bit difficult when talking about the lower bounds and what is actually allowed. Especially in relation to monetary limits and gifts. We have a zero tolerance on this, meaning that if you get something that will give you a benefit, it will always be regarded as corruption in our company and is not allowed. What is permitted under American law is to pay for the work someone should have done anyway, but you get no benefit. This means that you get to a passport control and have to pay 20 dollars for the reviewer at all to bother opening up your passport. Sometimes this is necessary to get a foothold in a country and "everyone" does. What is important is that the one receiving the money should have done this job anyway, but

you get no extraordinary benefit as a result of paying.

*Do you have any personal experiences with corruption?*

I cannot say having been involved in corruption. We operate in normal civilized countries, which also have fairly strict laws themselves is comparable with Western countries. I have no personal experience with corruption, that I should pay something, or someone, or anything like that.

*What kind of support devices does your company utilize?*

We have a separate group operating a hotline, where all compliance issues should be reported. There are systems for anonymity that no one risk losing their jobs, as has happened in Norway and often in the United States. The fact that we have a compliance group says a lot about our priorities. There is a person within the compliance group who reports directly to the Board. This is a strong external signal on that we take the problems seriously and that the Board is constantly kept informed. The compliance group travels and hold lectures for staff, including training in negotiations, contracts, special measures for sales personnel, and compliance and corruption in general. This is a continuous process. All employees at every location must take the course. In addition, we have computer systems in which employees go through compliance applications, training and in the end sign the agreement, that they have read and understood the training program. How actively the hotline is used to notify corruption is not known. When it comes to all compliance issues we primarily send requests to the compliance group to get approval for something. If we are offered gifts of a value greater than 50-100 dollars we report it to ensure if we can receive it or not. The compliance group seeks us to act appropriately according to laws and circumstances. So, from an anti-corruption perspective, the compliance group is used actively to prevent corruption and to check that what we are doing is in accordance with company policy, laws and regulations.

*Do you feel that employees and their self-interest is somewhat a threat?*

You can say that one of the reasons for us to have a compliance group is to remove any doubt in employees. The overarching goal is that all employees should know the rules and the ethical standards our company has. It may be easier to get caught in the trap if you are an individual on your own settling business agreements, but I think the seriousness of the company, the maturity of the business and the size of agreements and what is involved, the primary work of the compliance group is to remove any incentives for employees own self

interest. Our codes of conduct and the training we put our employees through allows everyone to be aware of potential risks and not act in a way that they might put themselves or the company in any kind of risk.

*Do you experience cultural differences as challenging regarding your business?*

Cultural differences are something we are very concerned of internally and externally. Our company consists of many people and small companies from many different countries. E.g. USA and Norway have different ways of thinking and different ways of doing things. We have train our employees on this, but it is more voluntary than what compliance is. In other cultures it would be less problematic to pay for a service that gives you an advantage, but the training and awareness of cultural differences is not of such great importance to us. People that work with us knows that the risk associated with interfering with corruption is large. *It may have something to do with the industry you're in?* This is a something that keeps coming up and many people talk about it. It's a little scary to some, but the rules are becoming stricter and stricter, as the UKBA, which makes it not only government officials who may be subject to corruption, but also private individuals. The industry that manages to be in compliance and be the best in class, even if it costs at the beginning, is the one that survives in the long run. There are many companies that will fail to comply with the strict regime that many states will adopt in the future. *If you come to a country with a set of policies and guidelines, can it be difficult?* West Africa is an attractive area in our industry. There are several countries where we have operations, but our sales department wants to enter WA because its great potential. If we are to establish ourselves in one of these countries, we conduct an extensive due diligence on laws and regulations. We will gladly send a third party, such as a law firm, to consider the conditions in this area and on the basis of our rules and policies, it is a decision the board must take, whether we should establish ourselves or not. As of now I know that there are countries in West Africa that we do not want to establish ourselves in because we cannot ensure that we are in compliance with the American law. To the great frustration for the sales department, but it is something that everyone in the company must understand.

*Are there any competitive disadvantages being ethically correct or strictly following the highest international standards?*

I do not know if there are any competitive disadvantages involved, because we are in so many areas related to American law and its limitations rather than Norwegian law. Norwegian law is the mostly European law so it's probably easier to relate to American law. There is a much

more pragmatic approach of the laws of European law than American law. Here you can go to the authorities and say “we have made a mistake, we have created internal procedures for this to ensure that this does not happen again”. As I have understood Norwegian and European law are much more forgivable and willing to cooperate. This does not seem to apply in the United States. If you report that you are not in compliance, then you get your punishment. If you hide it, you will get punishment when the authorities find out. The penalties can be somewhat lower, but you never know. In Norway and Europe, there are more reasonable incentives to take the bull by the horns, admit your mistake and get rid of the problem in cooperation with the authorities rather than keeping it hidden. It is also true that when discovering something is not in accordance with compliance, there is rarely anything done with intent, and it is reasonable to think that corruption requires intent. You have to pay out money with the intention of gaining something, so it is limited how applicable what I just said is, in relation to corruption.

We do much business with state-owned companies that have very clear limits for what is allowed. We are well trained through our compliance program and in addition it is important that we know what our limits are so we will have approval from our president before we give out at events organized by government agencies. Under U.S. law, it can be difficult to define what is a government official, but the approach is that we would ask for an approval anyway. This is a method that is widely used to prevent corruption. All employees must review and sign that they understand our policies, once a year.

*To what extent is corruption a problem in your industry, relatively speaking?*

For one thing, the industry we operate within has huge large contracts and enormous sums involved. I will say that corruption is not a major problem for either our company or our industry. I'm not saying it has not been, but as for now I will not say corruption is a problem anymore. At least not for us, but relatively speaking, the big money and big contracts, even for countries that have not come so far in development, might bring up some problems. For us, especially as we have become so big and has such strict rules in relation to corruption, we say no to an agreement rather than to compromise our compliance rules.

*CSR and relevant measures:*

I would say that we do a lot to train personnel and make them understand both individual consequences and consequences for the company. The fact that we have a code of conduct

and follow it means that we are comfortable with our procedures and the way we do business. It creates profit and we obey laws and rules, so we can focus more on ethical standards. We shall be in accordance with Norwegian, American and all laws relevant to the areas where we operate. We have no problem with this, so then we are aiming on being as ethically correct as possible, which normally goes beyond the law, and often a result of what we see as necessary ethical measures, but certainly with the influence of international ethical standards. We have not taken a set of norms and implemented them directly, there are many people who have developed our code of conduct to suit us best. There is no copy in any way. When we do business with other companies we get their code of conduct and sign it, and opposite. It's always sent to the compliance group, to see if we can accept their code of conduct in relation to our standards. If someone comes to us and require even higher ethical standards, this can be a challenge for us because we have to go one step further. But, generally we have no trouble accepting other people's code of conduct because we have such a strict regime ourselves.

*The planning phase and strategy development:*

One of the reasons we chose not to go into a country might not only be because of corruption, but in general compliance issues. As in West Africa, we could not ensure that we would be able to comply with U.S. law, and therefore chose not to have operations here. This relevant for the planning phase, for example, to take part in a bidding process on machines to be delivered in West Africa. In such an event, the legal -and compliance department is involved to evaluate what kind of risks and scenarios we might face. So, already at this time, at an early stage, these departments take necessary measures and check that the conditions actually are good enough for us, and are in accordance with our ethical standards, rules and regulations we are subject to. This should be done as early in the process as possible, because at some time, often difficult to determine, you're past the "point of no return". Therefore, it is important that the compliance group is involved as early as possible to see if we actually have something to do there. Corruption is a central part of compliance and will be considered relevant in any context.

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