

IMPROVING BUSINESS STANDARDS IN RUSSIA

Actions and Results



Acknowledgements

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None of this would have taken place without the encouragement and enthusiasm of Simon Bennett, Executive Vice-President of TNK-BP, for whom the implementation of corporate governance is not just a job, but his passion. Simon also kindly agreed to head up the editorial committee for this publication. We are grateful to TNK-BP’s CEO and CFO, Bob Dudley and Jim Owen, for devoting considerable personal time to this project, and to many of the TNK-BP staff who are involved in the whole spectrum of IBLF’s work in Russia.

We are grateful to the London Stock Exchange for hosting IBLF’s Second Russian Business Summit, which was held on 25th June 2007 and at which this publication was formally presented to the international business community.

Thanks must go to all the contributors whose names are listed on page 4. In addition to them, a number of other people and companies contributed to the exchange of knowledge and information on corporate governance in Russia, by making presentations at the round tables and by participating in the discussions. It is noteworthy that these presentations were of a universally high standard.

At IBLF, a number of people have contributed to this publication behind the scenes. Peter Brew, Director, Responsible Business Solutions, brought his wisdom and expertise to bear on several occasions, and conducted the peer review of this publication. We extend our thanks to Adrian Hodges and Robert Davies for their periodic advice and encouragement, to Joe Phelan for the design, to Susan Wood for proofreading.

And finally, we thank Jan Dauman, Chairman of the Executive Committee of the Russia Partnership for Responsible Business Practices, IBLF’s membership organisation in Russia, for providing the initial inspiration for the series of round tables which has led to this publication.

Brook Horowitz

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The International Business Leaders Forum, Russia.

Front Cover: Cranes are seen around the Kremlin indicating one of the areas where construction and renovation works are under way in central Moscow.
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The opinions expressed in this publication articles are those of their authors and do not necessarily reflect the position of IBLF.



CLARENCE HOUSE

When I founded my International Business Leaders Forum in 1990, terms such as Corporate Governance and Corporate Social Responsibility were less known than they are today. Of course, there was already a body of international law and a broadly understood code of practices, but their integration into the mainstream of corporate management was reserved to a small number of leading companies from the most developed nations.

Since then, Corporate Governance and CSR have become recognized as pillars of good business practice worldwide and form the basis of our increasingly global economy. The problems which some high profile companies have faced over the past few years have helped to refocus attention on the fight against corruption; on the importance of driving corporate governance down to every level of the company; and on the need for companies to link their success to the sustainability of the environment and the communities in which they operate.

New legislation and codes of conduct, an ever more vigilant Press and increasingly effective NGO's have all played their part in ensuring this transformation. I am delighted that my IBLF has also been in the thick of it. With IBLF's help, many of the multinationals which make up the Forum have understood the importance of incorporating good governance and CSR as an integral part of every function within the management structure. Real examples of their implementation abound, through IBLF's projects on improving business standards in China, Vietnam, Columbia, South Africa and many other countries.

I am particularly delighted that IBLF's initiatives are also bearing fruit in Russia. The "Corporate Governance in Practice" round tables which IBLF held in Moscow - and this publication, which is their result - point clearly to the fact that Russian companies are increasingly taking to heart the expectations of the international business community. As these companies integrate into the global economy, they are beginning to adopt, with growing enthusiasm, the very best of international business standards. I applaud their initiative, and wish them every possible success in following a path which will not be easy but, in the long-term, will bring benefits to the companies themselves, to Russia and, indeed, to the global economy.

THE VALUE OF VALUES: why Companies are investing in Business Standards

Robert Davies, CEO and Founder International Business Leaders Forum

Applying sound business standards can contribute directly to improved competitiveness, but reputation has to be earned and won through authentic engagement and demonstrable measured action, not just through PR and communications.

Improvement in business behaviour, on ethics, transparency, health and safety, labour standards and the environment, demands that corporate leaders engage in collective action across a wide range of issues. This is particularly important in business communities where business leadership and corporate behaviour are perceived to be poor, unfair and dishonest. While Russia poses severe and special challenges due to its history and the transition, and while change is clearly taking place, these lessons learned in North America and Europe, as well as in other key emerging markets, apply equally to the Russian market.

If business leaders do not address the issues of business standards they risk the negative impacts of loss of commercial opportunities, exclusion from international markets and indiscriminate and damaging regulation. If business does not lead on standards, others—such as governments, populist politicians, the media, NGOs and activists—will regulate or demand regulation.

IBLF has four key messages that underpin the case for CEOs and Boards engaging in better corporate governance and improved business standards—including health and safety, labour standards, financial integrity, minority shareholder rights and environmental performance.

1. While the best businesses do care about standards and enforce, measure and report progress on standards, the business community as a whole—including the best companies—will be judged by the media and society on the behaviour of the worst—not

by the standards of the best. What is worse—the progress of good companies will be viewed cynically because of the perceptions that are sustained by bad practices.

2. There is no hiding place. The media and activists will attack the reputation of companies whenever they have the opportunity and they will focus on the most visible. International investors and business partners operating in the international capital markets will not accept companies with lower standards if they have a choice of business partners with better standards.
3. Good business behaviour contributes to competitive human resource management. Most people, including the best graduates, do not like working for companies with bad standards insofar as they have a choice. At the point of recruitment, where they are attractive to competitors, and there are skill shortages, they will choose the company demonstrating the best standards (we know this to be true in Russia from our extensive contact with young Russian leaders).
4. Business standards are a basic foundation of business sustainability. Reputation, effective risk management, profitability, licence to operate, effective management and resource use are key to long-term sustainability.

“Reputation, risk management, profitability, licence to operate, effective management and resource use are key to long-term sustainability.”

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So the questions are—what to do? And who should do it?

First, corporate values cannot be delegated—they have to be shaped, communicated and enforced from the top, then executed throughout the business. It is a key dimension of business leadership. Surveys indicate that 60% of reputation comes from perception of the CEO. Secondly, companies cannot tackle business standards just as an internal issue—they have to engage with other businesses, regulators, stakeholders and the media. They have to share and develop good practices, induct employees and share with value chains.

Thirdly, it cannot just be a PR or communications campaign (even though there are communications elements)—the process must be authentic, tangible and result in change.

Fourthly, business leaders must engage their senior executives in collective action to improve the business environment. IBLF's practical formula is challenging CEOs to L.E.A.D:

LEAD—demonstrate clear leadership on values interpreted as expectations of business behaviour and business standards set from that. Make this a Board issue.

EXECUTE in the business—at the workplace, marketplace and in the community where the company's operations impact—ensure that standards are part of the performance contract and that employees have a way of discussing dilemmas and problems they face in daily work life.

ADVOCATE business standards more widely—as a central feature of business life and national culture through collective action—working with other companies, associations and institutions, such as the framework of

IBLF Russia and the Russia Partnership for Responsible Business Practices, to share good practices, experience, and encourage other companies within and beyond the value chain.

DISCLOSE—communicate what you are doing, why you are doing it and what standards you aim for. This implies that target setting is required and measurement of progress.

These are critical leadership challenges for competitiveness, sustainability and national development.

Robert Davies, CEO and Founder of the International Business Leaders Forum, facilitates the First Russian Business Summit in June 2006. Photo: IBLF





BUSINESS STANDARDS IN RUSSIA: the Context and Case for Action

As the Russian business community converged on London in April 2007 for the 10th Russian Economic Forum, there was cause for celebration. In the decade since the first Forum, Russia has been transformed from a “transition economy” receiving support and aid from the West to an emerging energy superpower. At the same time, there is plenty of discussion about the challenges of the next 10 years—especially those faced by Russian multinationals looking to find their place in international business and Russia’s integration into the global economy.

With annual growth at over 7 per cent, Russia’s is one of the fastest rising economies in the world. According to Ernst & Young, mergers and acquisitions have increased from 2005 to 2006 by 41 per cent to a record level of \$71 billion. Russian international IPOs exceeded \$18 billion. Direct investment by foreign companies reached more than \$13.7 billion, almost doubling the figure for the

previous year. More astonishing still, Russian companies have acquired almost as much abroad. Evraz’s acquisition of Oregon Steel Mills, the Rusal, Sual and Glencore aluminium merger and other acquisitions by telecoms, steel and oil companies in Africa and the former Soviet republics reached \$13 billion last year. Russia is now the third largest foreign investor among developing countries.

“The main concerns on the part of Western executives were the lack of corporate governance, transparency and business ethics.”

The country’s business reputation, however, does not match its economic success.

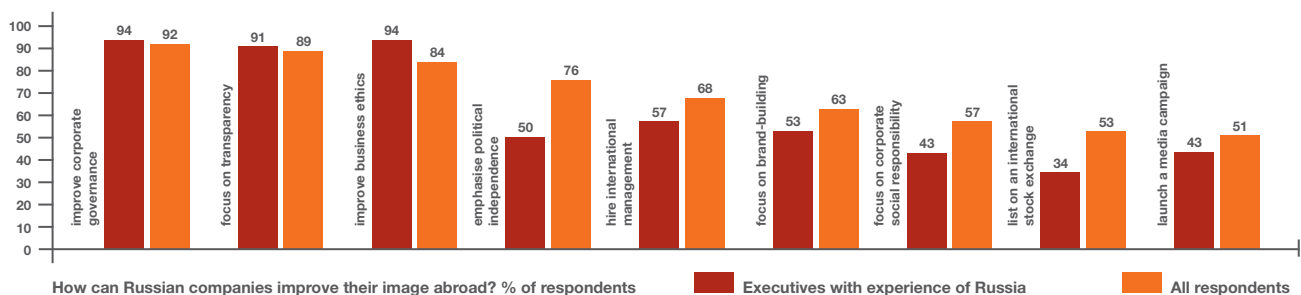


Figure 1: Perceptions of Russia’s Image abroad 2006. Source: “The Russians are coming”, The Economist Intelligence Unit, and Rusal, 2006.

World Bank governance indicators place Russia near the bottom of the pile compared to countries with similar credit ratings. According to the Edelman Trust Barometer 2007, Russian companies were the least trusted in the world. In a survey by the Economist Intelligence Unit commissioned by Rusal, the main concerns on the part of Western executives were the lack of corporate governance, transparency and business ethics. Only 10 per cent of respondents felt that Russian companies were world-class competitors.

Although it is difficult to estimate the precise cost to Russian business of such perceptions, there is evidence that some recent attempts by Russian companies to make international acquisitions have gone awry in part because of this poor reputation. The attempted acquisition of Belgian steel giant Arcelor by Severstal and British energy supply company Centrica by Gazprom raised concerns in Western business and political circles about the impact of a Russian presence and may have contributed to their failure. Furthermore, the blurring of business and government interests, heavy-handed bureaucracy that is often unequally applied, weak legal institutions and accountability, and uncertainty around the presidential election in March 2008, all have a detrimental effect on Russia's country risk profile. This is no help for businesses seeking to compete on international markets.

While the West may welcome Russia's new export of petrodollars, there is distaste for some of the business practices that threaten to accompany them. Whether justified or not, Western perceptions of Russia, combined with the perpetuation of certain stereotypes (well-worn headlines such as "The Russians are Coming" spring to mind), do have a potentially adverse effect on companies' ability to maximise or maintain their value during and after mergers or acquisitions or listing on an international stock exchange. They can also contribute to the blocking or delaying of access to international markets.

Although it is not often reported publicly, some leading companies really do seem to have got the message about the importance of adhering to international standards. Standard & Poor's reports that 76 per cent of the 75 largest companies have an audit committee, 77 per cent are publishing financials under International Financial Reporting Standards rules with independent directors accounting for 20% of their Boards' composition and disclosure of ownership structures becoming more widespread.

“Good business practices have gone further and deeper within companies in Russia than might have been expected.”

During a series of round tables in Moscow entitled "Corporate Governance in Practice" organised by the International Business Leaders Forum and supported by Baker & McKenzie, Ernst & Young and KPMG, there was evidence that good business practices have gone further and deeper within companies than might have been expected. For example, mining giant SUEK has created a comprehensive internal audit management structure. Russia's third largest oil major, TNK-BP—50 per cent of which is owned by BP—is introducing an anti-corruption programme at all levels of the company. Electricity utility United Energy Systems is going after corruption in the supply chain by developing an open and transparent procurement system to manage its 15 billion euros (\$20.4 billion) of annual purchases. Troika Dialog, the largest private investment bank, has developed clear ethics standards, human resources management systems and internal communication networks with the aim of reducing the risk of fraud. Lukoil, another oil major, wanting to expand internationally, has made significant efforts to comply to international legal standards. These companies' experience make up the case studies contained in this publication

“By operating according to the highest standards inside Russia business leaders can use their example, influence and purchasing power to insist that their employees, suppliers and customers adopt similar principles.”



The new generation of young leaders at Troika Dialog has a major impact on how the company performs and is perceived. Photograph courtesy of Troika Dialog.

The approach of multinational companies working in Russia is also instructive. The uncompromising position of Alcoa-Russia’s President, William O’Rourke (who is the corporation’s former head of internal audit and environment, health and safety) on how and why he runs his subsidiaries in Samara and Rostov regions according to international standards and not according to local customs shows clearly that multinationals can work honestly in Russia, even in an environment that is so much at odds with international legislation.

International business standards are beginning to have an impact locally through other channels. Companies are appointing international executives to senior posts. There is also a new generation of young Russian business leaders who are returning from the world’s business schools, and a clear migration of executives from the Big 4 international professional services companies in Moscow to positions of responsibility in domestic

companies, where the new class of executives is beginning to influence the management here. Although still a minority, their numbers in these companies are increasing and, for the first time, they are working on the understanding that the long-term benefits of creating a professionally run company with a clear commitment to corporate governance outweigh the costs.

Of course it will take time—the process of introducing international business standards is still in its infancy. But the leading companies, foreign and Russian, have a vested interest in creating a level playing field for competition. Their leaders can contribute by actively exchanging international experience and best practices through forums like IBLF. By operating according to the highest standards inside Russia they can use their example, influence and purchasing power to insist that their employees, suppliers and customers adopt similar principles.

On the condition that emerging Russian multinationals play by these rules, Western business leaders and opinion makers should encourage them to engage more, not less, in the global economy. Indeed, by listing in London or making foreign acquisitions, companies are far more likely to import international business standards than export Russian corruption abroad. On the assumption that this process will continue and in the hope that future governments will be committed to implementing the rule of law, we can look with cautious optimism to ten years’ time when Russian companies will be celebrated as fully “emerged” and equal competitors in the global economy.

This article was first published in the Moscow Times on 22nd April 2007. We would like to thank the Moscow Times for permission to reproduce it here.

ORGANISATION AND RESPONSIBILITIES: a Model for Managers

Introduction

An effective system of corporate governance clearly defines the way in which the shareholders of a company pass responsibility to executive management, and the company is then managed to deliver results aligned with shareholder expectations. The system should provide shareholders with assurance that the company is being managed properly, not only in recognition and fulfillment of their expectations, but also in compliance with applicable laws and regulations and best practices of business ethics.

Board of Directors and Board Committees

A company's shareholder agreement and other foundation documents should describe the company's strategy and objectives and the organisational principles by which it is managed. They should define which decisions should be made by the shareholders and board of directors and which responsibilities delegated to the executive management of the company. A board of directors provides oversight of company activities and is often supported by one or more sub-committees comprised of directors with relevant experience and expertise. Typically, the subcommittees that a board should form include an audit committee, compensation committee, and strategy and planning committee. Minutes of all meetings of the board and its subcommittees should be kept accurately.

Responsibilities

An effective corporate governance system should clearly and unambiguously articulate the responsibilities delegated by the board of directors to the executive management. This delegation can be made to a single executive body or a group of executives with shared responsibility. Responsibility brings accountability. The means by which executives are held accountable for their actions (and inactions) should be described.

Delegation of Authority

The senior level of executive management cannot be responsible for every single decision within a company. Typically, authority must be delegated to progressively lower levels within a company to enable the business to operate. Delegated authority may be financial (e.g. investment decisions, plans and budgets, etc.) or operational (e.g. changes to the organisation, recruitment, etc.). The amount of authority delegated normally becomes more restricted the lower it is delegated within the company. Delegated authorities should be clearly and unambiguously defined in writing, usually supported by detailed job descriptions.

The purpose and roles of structural units in a company should be defined accurately and unambiguously in written regulations.

“A code should contain unequivocal statements about the company's prohibition and intolerance of fraud and corruption, and describe how conflicts of interest are declared and managed.”

Decision-making

Decisions are made by those in the company who have the requisite authority delegated to them. An effective corporate governance system will clearly describe how decision makers must take counsel from others and act in the interests of the shareholders. Collective bodies such as internal committees may be utilised to facilitate decision making based on accurate input from all responsible parties. Examples of internal committees include operations, human resources, business development, investment, reputation, and compliance. Committees may be collective decision-making bodies or advisory to a single executive. Their role should be clearly defined in written regulations.

An individual's authority to represent the company in external relations should be made explicit in written regulations. If necessary, a company should supplement this authority by providing written powers of attorney.

Codes of Conduct

An effective system of corporate governance requires that shareholder expectations with respect to business conduct are set forth in a written code. (A variety of terms is used to describe such documents, including Code of Practice, Business Policies, Code of Ethics, etc.) A code of conduct should provide a broad template for implementation of the company's policies and core values on a sustainable basis. A code should contain unequivocal statements about the company's prohibition and intolerance of fraud and corruption, and describe how conflicts of interest are declared and managed.

A code should be issued to all employees and relevant external stakeholders. Codes are often supported by more detailed written standards, which, in turn, are supplemented by a wide range of normative, organisational, administrative and advisory documents (typically procedures, instructions, regulations, etc.).

Role of the Chief Executive Officer and Senior Management

Operating a business in compliance with best practices requires senior executives to set the appropriate tone from the top, exemplifying the standards of conduct of the company. The "tone at the top" is set by members of executive management, endorsed and supported by the board of directors, and communicated to employees and external stakeholders. It is an essential feature of an effective system of internal control.

“The purpose and roles of structural units in a company should be defined accurately and unambiguously in written regulations.”

CASE STUDY

TNK-BP's Corruption Risk Mitigation Programme

TNK-BP is a vertically integrated Russian oil company. It is Russia's third largest oil company and a top-ten oil producer globally. TNK-BP is a privately held, unlisted company, owned by BP (50%) and Alfa, Access and Renova (50%). It was formed in 2003, and operates across Russia and Ukraine, currently employing 71,000 staff.

At its inception, TNK-BP identified good corporate governance and a strong organisational culture as prerequisites for sustainability and long-term success. Since 2003, the company has implemented a comprehensive corporate governance system designed to safeguard the interests of all shareholders, promote effective and timely decision-making on corporate strategy and provide transparent and reliable information regarding management and operations. Further, TNK-BP's commitment to corporate governance and organisational culture has led it to develop an Enterprise Wide Risk Management (EWRM) system. The EWRM system includes key elements designed to mitigate the risk of corruption, in particular:

1. A high-level commitment by the Board of Directors:

- The Board Audit Committee seeks to assure that the company complies with applicable international and domestic legislation and best practices of corporate governance. This assurance is sought through company line management, internal and external audit

2. A clear internal regulatory framework comprising a Code of Business Policies and supporting Corporate Performance Standards, including:

- An Ethical Conduct Policy that governs all business activities of TNK-BP and its staff.
 - Supporting Corporate Performance Standards and other documents: including Principles of Business Operations Standard, Business Gifts and Entertainment Standard, Managing Conflicts of Interest Standard, Corporate Contracting Framework, Promoting Open Competition in the Supply Chain Procedure, Social Investment Guidelines, Fraud Prevention and Detection Procedure.
 - A procedure on prevention of money laundering.
3. TNK-BP is the only Russian oil company that has signed the World Economic Forum's "Partnering Against Corruption Initiative" (PACI). PACI was created by WEF with support from Transparency International and the Basel Institute on Governance in 2004. This global initiative is designed to help leading international companies in all sectors and industries adopt zero tolerance of corruption and implement practical programmes to support this policy. PACI principles have been incorporated into the TNK-BP Code of Business Policies and Corporate Performance Standards. As a signatory to this global integrity pact, the CEO of TNK-BP provides a report each year enumerating the practical steps that the company has taken to implement the PACI principles.
4. TNK-BP has made relevant changes to its organisational structure to ensure that the corruption risk mitigation programme is implemented effectively:

- A Policies and Compliance Committee (PCC) has been established and is chaired by the CEO. The role of the Committee is to ensure that the Code of Business Policies is successfully implemented across the company. An Ethics Committee, of which all senior executives are members, supports the PCC.
- A new position of Corruption Risk Manager has been established and was filled in early 2007. Reporting to the Vice President for Financial Control, the CFO and the CEO, this manager will act as a single point of accountability for implementing the EWRM system's anti-corruption measures.

“The programme requires intensive “change management” focused upon enterprise-wide implementation of standards and procedures, clear lines of authority and accountability, communications, auditing, advice and reporting, due diligence in hiring, appropriate responses to violations, and continuous monitoring to improve performance.”



TNK-BP's Chief Operating Officer Tim Summers consults with the local team at one of the company's facilities

5. Human Resources practices have been aligned with the agenda for ethics compliance. In particular:
 - Recruitment entails specific screening for potential compliance issues for new hires.
 - Employment contracts and initial company training for new hires contain items on ethics compliance expectations.
6. A company-wide communication and training campaign was initiated to ensure that all employees are aware of the Ethical Conduct Policy and pertinent Corporate Performance Standards:
 - More than 20 half-day workshops have been held for senior managers and general directors. The workshops are interactive in style and use a case study approach to debate ethical dilemmas.

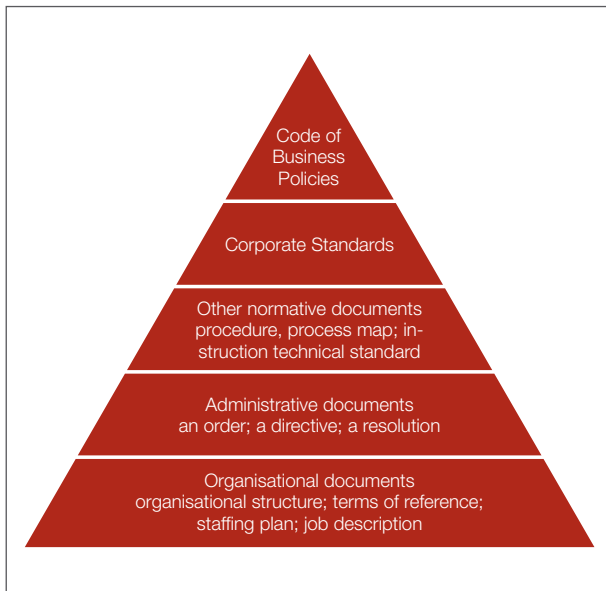


Figure 2: TNK-BP's Corporate Standards structure.
Source: TNK-BP

- A user-friendly Policies and Corporate Standards booklet has been published and circulated.
- The company's internal communications programme "Direct Dialogue" has been used by line management to cascade the company's commitment to ethical conduct across the company. The "Direct Dialogue" communicated the company's business ethics values and mandatory compliance requirements to all 71,000 staff.

7. Compliance monitoring and enforcement:

- Stream and functional leaders are now required to deliver ethical certification on an annual basis.
- Mandatory anti-corruption clauses are now included in third-party contracts. They prohibit TNK-BP contractors from engaging in corrupt activities in connection with work undertaken for TNK-BP.
- Gift and Entertainment registers have been introduced.
- Disciplinary action has been taken against violators, including well-publicised cases of dismissal.
- A whistle-blowing/hotline system has been established for both employees and third parties. A communications strategy to create awareness of this system has been implemented.

As described above, TNK-BP's commitment to long-term success has led it to adopt a corporate governance system and organisational culture founded upon honest and open dialogue with both internal and external stakeholders. Further, this commitment has led the company to implement an EWRM programme that facilitates zero tolerance of corruption. The programme requires intensive "change management" focused upon enterprise-wide implementation of standards and procedures, clear lines of authority and accountability, communications, auditing, advice and reporting, due diligence in hiring, appropriate responses to violations, and continuous monitoring to improve performance.

BUSINESS RELATIONSHIPS: Managing Risk in the Supply Chain

Many corporations spend countless hours trying to define who they are, what they represent and how they want to be seen in their respective market places. These concepts of values and vision—more commonly understood as branding or reputation building—are not new to companies who are embracing the principles of corporate governance. However, to be truly successful, a company has to step back and face the stark reality that in order to answer the question of what defines a company, it requires looking beyond the scope of its physical operations.

In fact, its own operations are the easiest to define as there are certain inherent mechanisms of control over its operations which greatly reduce the risk of anything adverse transpiring. Perhaps the most overlooked, yet hardest to manage stakeholders are a company's business partners. The suppliers or contractors, lawyers or auditors, or any of the multitude of relationships that every company relies on to be successful, to a large extent define how a company is viewed by the outside world.

“There are many highly public examples of ‘uncontrolled’ or ‘unchecked’ business relationships, where top companies are assaulted with news reports and photos of their unscrupulous suppliers doing what is considered ‘unethical’ or sometimes outrightly illegal”

There are many highly public examples of what one would best call ‘uncontrolled’ or ‘unchecked’ business relationships, where top companies are assaulted with news reports and photos of their unscrupulous suppliers doing what is considered ‘unethical’ or sometimes outrightly illegal. Nike is perhaps the most widely known example, however the list continues with many well-known companies. What needs to be focused on here is not the past misfortunes of many companies, but instead the preventative measures that can be put in place now in order to identify, reduce and manage the risks.

1) Identifying and Assessing the risks—A growing number of companies have established minimum ethical standards for their business relationships, and have developed mechanisms for verifying compliance with their company-imposed standards. The issues covered within these standards are typically wide-ranging, from labour standards and salary payments to employees through to health and safety and environmental compliance. In the late 1990s and early 2000s, focus was placed on the apparel sector with Nike's and Gap's supply chains generating significant media interest. How a company can influence its suppliers, contractors and business partners is still debatable; however many large organisations are making a noticeable impact by focusing on what they are best able to control, namely the financial and contractual terms of their relationships. Examples of such controls can be seen in fines and penalties in the contract terms for non-financial issues such as the use of child labour, poor air quality, heating and/or

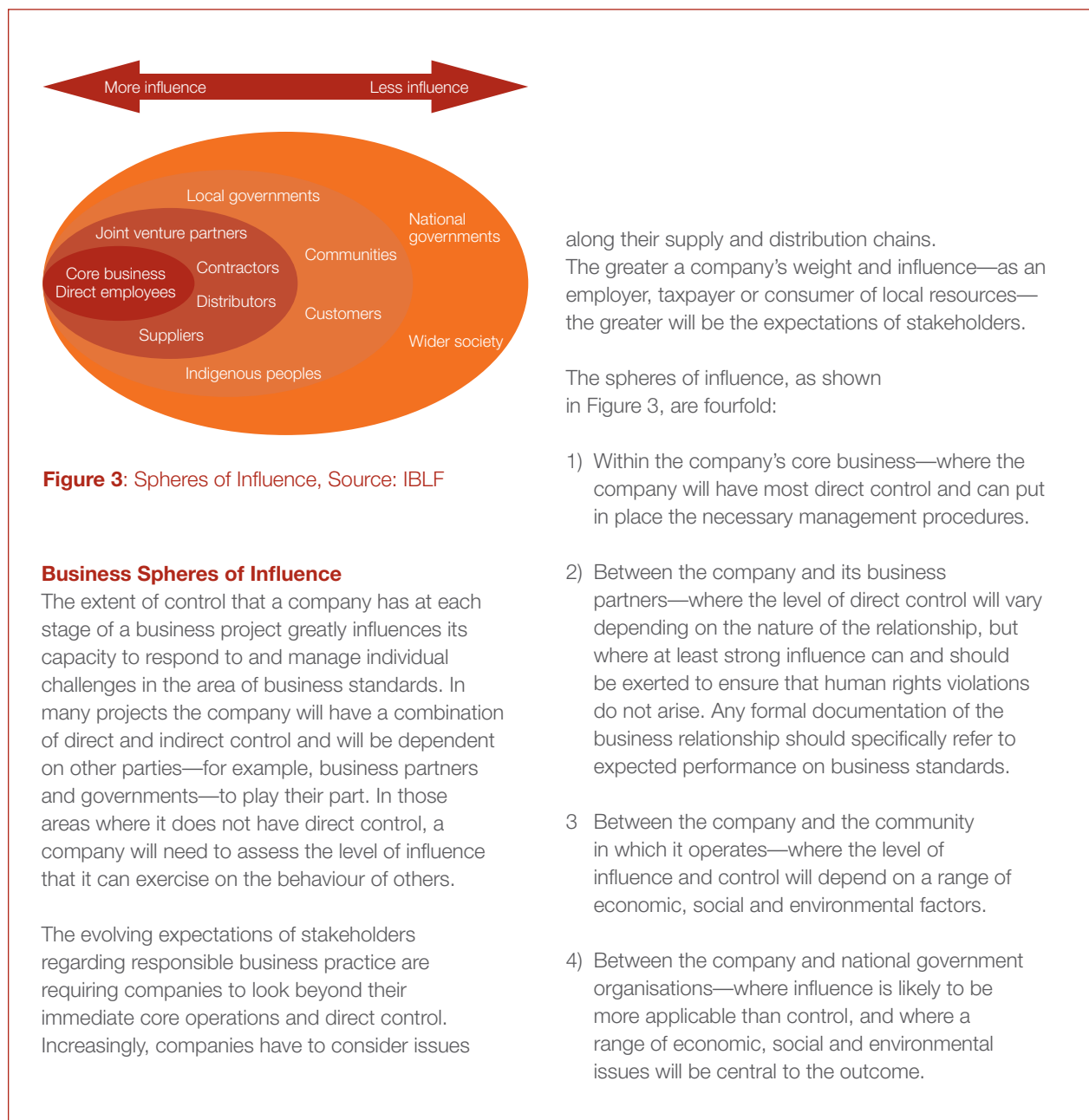
“The hardest task is to mitigate negative consequences before they occur. Without the proper policies, structures and controls in place this is nearly impossible.”

cooling of working areas, and exposure to occupational disease. Suppliers, contractors and business partners who do not meet such qualifications may or may not be willing to do business with a company, knowing that non-financial risks have been highlighted and transferred to them. Outlining a company's expectations in all of its financial contracts is the first step towards detection of potentially risky relationships in its operations.

2) Reducing the risks—Relying solely on contractual terms to protect reputation is not enough. Contractual obligations are only a tool to weed out high-risk relationships where counterparts understand the consequences that may arise. In order to manage and minimise negative consequences, a company must begin proactively to manage its suppliers, contractors and business partners. Many companies do this by requiring that their suppliers, contractors and business partners not only agree to their contractual terms, but also sign a declaration stating that they meet all requisite terms and will immediately report any deviations. This also sets the stage for verification audits, where a company can physically inspect the operations of its suppliers, contractors and business partners to ensure that they are upholding all the terms they claim are being met. It may be hard to believe that such verification audits actually occur, however this type of a system lies at the heart of IKEA's approach to working with its suppliers, contractors and business partners. IKEA, one of the largest retailers in the world, does not manufacture any of its retail products itself, but instead relies on literally thousands of manufacturers throughout the world which must agree to meet IKEA's contractual terms, self-declare that they meet IKEA's IWAY standard (IKEA's corporate

standard for verifying key workplace issues such as environmental conditions, work safety, and labour issues related to working age, hours, and minimum wage, etc...). Furthermore, they have to agree to verification audits performed by IKEA or a third-party auditing firm working on behalf of IKEA. Although this may seem to entail a significant amount of extra cost to IKEA and its multitude of partners, most suppliers appreciate the attention and assistance that IKEA gives them in helping them meet the IWAY standard. The process helps them become better places for their employees to work and enhances their reputation and competitiveness amongst other potential customers.

3) Managing the risks—By far the hardest task is to mitigate negative consequences before they occur. Without the proper policies, structures and controls in place this is nearly impossible. The ideas described in “Identifying the risks” and “Reducing the risks” above set the scene for a company to inform itself properly about any risks associated with its suppliers, contractors and business partners. Acting on this information is the most difficult decision to be taken, but, as experience has shown, public companies that do not react quickly to negative media regarding their suppliers, contractors and business partners are quickly and severely punished by shareholders and even governmental regulatory bodies. To use IKEA as an example again, when IKEA encounters the situation where one of its suppliers does not meet its contractual obligations and is failing verification audits, the company initiates a process which puts the supplier ‘on notice’ that no additional orders will be procured until all violations are corrected. This may seem harsh, but the damage to IKEA's reputation and brand name from just one questionable supplier can ricochet throughout all of its suppliers if customers were to boycott its stores.



CASE STUDY

Reducing Risks and increasing Profitability in the Supply Chain of United Energy Systems

As the largest utility company of Russia with a share of over 75% of the energy market and 32% of the heating market, United Energy Systems of Russia (RAO UES) is also Russia's largest purchaser. Annual purchases exceed 15 billion euros (\$20.4 billion), which account for 50% of total expenditure.

An investment programme that envisions commissioning more than 20 million KW of generating power and building more than 50,000 km of power transmission lines within a 5-year period greatly increases the volume of supplies needed by the power industry.

At RAO UES, all procurement is decentralised. Each individual joint stock company within the holding company determines its needs in products and services and procures them independently. However, all companies in the holding conduct procurement activities according to common rules that are determined by corporate standards.

According to these standards, the preferred way of purchasing is by open competition. Procurement is controlled by the management, but also supervised by the Board of Directors of each joint stock company. This guarantees correctness and fairness in awarding the contracts. The scale and importance of the challenge have made it essential to modernise the market of goods, services and technologies for the power industry. This market should be based on the latest technologies and on the principles of transparency, non-discriminative access, and equal competitive opportunities for its participants.

B2B-Energo, a data, analytical and trading system, was created precisely for this purpose.

B2B-Energo has become an effective instrument for forming a common information and trading environment for both suppliers and purchasers. Currently, there are more than 8,200 companies from 33 countries who operate within it.

Within B2B-Energo there is an active exchange of information amongst the participants, including information on advanced technologies and new machinery for the power industry. The analytical and marketing functions of the system allow monitoring of the supplies market and effectively control the procurement activities.

As a database, the system is based on an electronic version of the All-Russia goods and services classifier. It enables procurement activities for virtually any goods and services. Searches for products and potential suppliers or buyers are automated. The operating history for each participant is in the process of being created within B2B-Energo.

The trading function of the B2B-Energo system allows electronic trading of any level of complexity, ranging from basic bids and quotations to online tenders and auctions. Most importantly, all trading procedures are conducted transparently and without discrimination against any of the participants.

The settlement system of B2B-Energo allows online payment, which improves control over the conclusion and the fulfillment of contracts, thereby minimising financial risks for the participants.

To date, more than 7,400 tenders and auctions have been conducted within B2B-Energo, with 99.6% of them being open tenders. The use of e-commerce for procurement is the key factor responsible for doubling the share of open tenders in total procurement activities of RAO UES to 77% of total purchases in 2006.

The positive experience of the B2B-Energo system has allowed the management and the Board of RAO UES to decide that in 2007 no less than 60% of all procurement will be conducted through e-commerce systems. The work to achieve this goal is already under way. More than half of RAO UES's suppliers have already joined the system. Even the tenders that are conducted in "paper" form are required to be announced on the B2B-Energo website.

The B2B-Energo system is broadly recognised by experts as the most developed e-commerce system in Russia. However, RAO UES is interested in the further development of the system and the market upon which it is based.

The B2B-Energo system is broadly recognised by experts as the most developed e-commerce system in Russia... It has helped to build healthy competition instead of "kickback competition" and motivated the producers to introduce modern technologies and offer higher-quality goods and services.

Future plans include extending the system to enable foreign participation, and to develop a network of compatible purchasing systems from other industries.



Traffic streams past the electrical power station beside Moscow's ring road. © PANOS/ Martin Roemers

With a greater number of participants, the liquidity of the market can be increased. Other plans include using e-commerce as an instrument for improving the quality of procurement management and developing the market in line with the growing liberalisation of legislation.

In conclusion, RAO UES's experience of e-commerce in procurement has been overwhelmingly positive. B2B-Energo has put a stop to the possibility of price collusion; eliminated intermediaries that do not add value, thereby closing the gap between the end-buyer's price and the producer's price; helped to build healthy competition instead of "kickback competition"; and motivated the producers to introduce modern technologies and offer higher-quality goods and services.

THE PEOPLE DIMENSION: Building a new Corporate Culture

As more and more companies in Russia move towards embracing corporate social responsibility and raising business standards, inevitably questions are raised as to the role of the “People Dimension” in this process, and what form it takes. Indeed, striking the right balance between regarding such initiatives as the prerogative only of the Board and not something to be widely discussed on the one hand, and the full disclosure and buy-in of all the employees on the other hand, can be viewed as paving the way from a corporate governance starting position through to the creation of a fully integrated corporate culture which has a meaningful impact on both people and the business. In short, the People Dimension can only be overlooked at a company’s peril.

Raising business standards in companies is, arguably, one of the areas where discussion and actions need to be brought out of the Boardroom and cascaded through the company, by both management and Human Resources (HR) alike, in order to achieve maximum impact and buy-in, and to ensure a greater likelihood of successful implementation. Although all too often viewed as something only discussed at the Board level, in fact, by opening up the discussion on the approach to key issues such as governance and codes of ethics, conduct and practice, organisations have the opportunity to build a stronger foundation both for the business and the people who work in it.

At the same time, however, setting the tone and driving change in the area of corporate culture and ethical practices is not something that can or should be delegated to the HR function alone, since these are issues which should be “owned” by the business leadership. HR therefore plays a supportive, not a lead role. Even

if the business decision-makers might want HR to take greater responsibility, HR cannot be expected to ‘launch’ a corporate culture: business standards are not on tap, they evolve over time and are confirmed by management, rather than being rolled out on any given day. The best role for HR to play here is to advise, promote and encourage the change, rather than be the sole agent of change.

So what can HR do to support and to encourage people to become more engaged and involved in what the firm is doing, in particular in the area of standards, ethics and good business practice? Clearly understanding and managing expectations is essential; all the more so since the so-called “Generation Y” of new employees has arguably undergone a shift in attitude. These people are much less likely to commit to linking their future to a single large corporation. The transition from the ‘cradle to grave’ mentality to the ‘what’s in it for me?’ approach has meant that trying to ensure that all employees see things, if not in the same, then at least in a similar way, has become even more of a challenge. Since each employee will have his or her own individual psychological contract with their employer, and be motivated and engaged to differing degrees, adopting a ‘one size fits all’ approach is not necessarily practicable. Organisations inevitably find that a sounder approach is to identify those beliefs and principles which can be considered at least more or less common, and build a cohesive approach around them from which to engender discussion on business standards and what makes their company unique.

Once HR has established the expectations to be managed, generally via attitude surveys or focus groups, it can work with management in tailoring the message and approaches around business standards so as to better align with what the workforce is more likely to relate to.

“By opening up the discussion on the approach to key issues such as governance and codes of ethics, conduct and practice, organisations have the opportunity to build a stronger foundation both for the business and the people who work in it”

To have credibility, a code of conduct must be context-specific and must tackle the significant issues confronting the organisation and its environment. But at the same time it must also strike a chord with the members of that organisation. Discussion and debate between stakeholders involving content, implementation of policies and processes that address ethical behaviour can help develop a code of ethical conduct that is understood and owned by everyone in the organisation—thus fostering commitment, engagement and dedication. Commitment is also more likely if the employees participate in the development of the new practice and if they know that their contributions have been welcomed and acted upon.

“The mere existence of a code is not a significant factor in influencing behaviour—rather it is the way the code is communicated, upheld and owned that has the greater impact”

However, there is a risk that corporate governance could follow the example of strategic planning by becoming part of a ‘tick the box’ culture: that could happen if the focus is too much on the formal aspects of compliance rather than on embracing the concept and engaging the people. The existence of a code of ethical conduct does not necessarily ensure ethical behaviour—managers and employees may see the code as something that needs to be done, not something that needs to be lived.

Furthermore there may be a degree of resistance if compliance is viewed as something that requires additional work without bringing tangible value. So the mere existence of a code is not a significant factor in influencing behaviour—rather it is the way the code is communicated, upheld and owned that has the greater impact.

The concept of ownership extends to encouraging participation in decisions on new developments and changes in working practices, as well as to promoting a sense of responsibility for the future development of the organisation. Organisations which have successfully taken steps to engage their staff are more likely to have a more pronounced sense of ownership, with employees developing a ‘conscience’ with regard to the rights and wrongs of what happens in the company. Using whatever channels are available to them within the organisation, they are more likely to speak out against any wrong-doing which they perceive. In the current business climate, there is a general recognition that there is a need to see that whistle-blowing procedures are in place and supported by the management culture. A clear procedure for raising issues will help to reduce the risk of serious concerns being mishandled; and appropriate internal procedures will help forestall any serious damage to an employer’s business or reputation that can occur as a result of public disclosures. As a result, business ethics are increasingly seen as an issue that can build or destroy a company’s reputation and something that merits close attention from all stakeholders.

CASE STUDY

Troika Dialog: Leveraging Corporate Governance for Competitive Advantage

It is safe to say that business ethics is not the first thing that comes to mind when one thinks of Russia. Since the collapse of the USSR, the country has been holding steady positions towards the bottom of the international corruption rankings, and its questionable business practices continue to fill the pages of the press worldwide. Would it be possible for one company to even consider turning this gloomy picture around?

Troika Dialog, Russia's largest and oldest investment bank, has become the face of the country's business ethics and corporate governance movement not by accident. At its inception in 1991, the company took on the world's most powerful financial houses, and reputation was the name of the game. Today, the bank accounts for 14% of all Russian equities that change hands on the RTS and MICEX, and has a 25% share of the rouble bond market. Through IPOs, private equity placements, and bond issues, Troika raises funds for the major Russian companies, and manages more than \$2 billion on behalf of investors through international offices in Moscow, New York, London, Kyiv and Nicosia.

Troika Dialog has taken proactive steps towards creating an entirely different organisational culture, building "a normal company for a normal country." To this end, the company devised a formal values statement, called "Our Identity", introduced in 1994 and guiding the company to this day. The five-principle statement put fairness, trust, and integrity at the foundation of Troika's operation, while the clause of "Commitment to Russia" defined a mindset of long-term value creation and servant leadership. All new employees were required to memorise the statement, which was often used as a guide in company discussions and ethical situations. The Identity manifesto was also backed up by the "Rules for Everyone", an extensive list

of clear and explicit guidelines, such as "We win or lose together so don't ever say 'That's not my problem' ". Together, "Our Identity" and "Rules for Everyone" moulded the culture of Troika Dialog, carrying the "common good" philosophy beyond its corporate boundaries into its relationship with the market and society as a whole.

Internally, Troika Dialog has developed a team of competent, trustworthy, loyal, and inspired professionals dedicated to the creation of a healthy economy via the creation of a healthy company. The culture of this team was best tested during the economic crisis of 1998 that shook the young Russian market to its core. Troika was forced to take multiple measures to protect its existence, including major salary cuts throughout the company. However, with the advice of international executives, the company leadership decided to maintain the salaries of the traders—the key revenue-generators of the company. As the traders learned of the decision, they demanded a full and fair salary cut—marking the true transformation of corporate culture.

Armed with the CEO and Founder Ruben Vardanian's unorthodox business ethics philosophy, the company became a catalyst for many national business ethics and financial discipline initiatives. As such, Troika managed to mould its business environment, decreasing potential investment risks, improving the efficiency and effectiveness of the financial industry, and improving the company's ability to compete and prosper.

In 2001 Troika took its business ethics efforts to a new level, partnering with the World Economic Forum to release a 65-page report on corporate governance investment risk profiles of Russia's largest companies. Now a 174-page publication, the Corporate Governance Risks Report offers individual companies ratings, along with in-depth trend analysis and future forecasts, to Troika Dialog customers and partners annually.

“Troika managed to mould its business environment, decreasing potential investment risks, improving the efficiency and effectiveness of the financial industry, and the company’s ability to compete and prosper.”

The Corporate Governance Risks Report has in turn had an impact on Troika’s client relations. It has become the standard required part of all client presentations and meetings, and customers regularly request corporate governance information on a specific company prior to making an investment decision.

The Bank’s leadership is convinced that its corporate governance efforts and commitment to honourable business practices are also at the core of its financial success. As of 2006, Troika attracts 35 cents of every new dollar that enters the Russian investment market, and has over \$3.0 billion in total managed assets. Troika’s status as a leader in the establishment of transparent, functional, and stable capital markets for Russia has been recognised by numerous prestigious international awards.

In conclusion, the following factors appear to be the most important for Troika’s success in the domain of corporate governance:

Executive Commitment and Hands-On Engagement

Troika Dialog’s engagement in the area of corporate governance came as an extension of the personal philosophies of its executive leadership, starting with the company co-founder and chairman, Ruben Vardanian. Hands-on engagement of its original and acquired leaders solidified Troika’s success in the domain of corporate governance.

Servant Leadership

The company was built on the philosophy of the “benefit of the whole”, whereby Troika’s leadership inspired the entire company to take on a proactive role in re-building Russia’s crushed economy and dismantled society and to participate in the creation of new systems and infrastructures for an emerging nation.

History of Competence

To blend the best of existing models and Russian experience, the company regularly participates in conferences, forums and seminars, acquiring new knowledge and sharing its own research in the domain of governance and business ethics. Such a consistent and long-term approach to this generally overlooked domain assures solid grounds for specific company initiatives, building expertise and reputation in Russia and beyond.

Business-oriented Solutions

The business-oriented approach assured integration of the company’s exceptional analysis and metrics expertise into a seemingly non-quantitative arena, maximised usefulness of the corporate governance concept for the capital market users and practitioners, and strengthened the pressure for improved conduct among Russian companies.

Multiplier Partnerships

Skillful partnership has always been at the core of Troika’s governance efforts, and its signature product—the Corporate Governance Investment Risks Report—grew out of the collaboration with the World Economic Forum. Partnerships are established to multiply or elevate efforts to a new level or scope by leveraging unique abilities to make the most significant impact possible.

With the sixth edition of the Corporate Governance Risks Report and countless efforts in education and whole-system change, Troika Dialog has created a unique business model that allows for creation of mutual benefit for the company and the rest of society. As Troika’s corporate identity statement, developed in 1994, puts it: “We are committed to developing properly the infrastructure, mechanics, and rules governing Russia’s capital markets. For us at Troika Dialog, Russia is not a hedge, weighting, or a fly-by-night venture; it is our home, and we are dedicated to building a bright future for it.”

INTERNAL AUDIT: Controlling Corporate Behaviour

Russian companies, especially those that strive to be leaders in their markets, are learning well from the lessons in North America and Europe. Every day businesses around the world lose money because of poor internal controls. Russian business has not been immune from such problems. While looking for practical solutions, Russian businesses often identify that a sound internal control system is the most practical way to support a good corporate governance system.

The Russian securities market regulator, Federal Service for Financial Markets (FSFR), also encourages companies to invest in internal control and audit systems, and promotes the Code of Corporate Governance. The Order of FSFR 06-68 of 22/06/2006 specifically requires (for A- and B-level listed companies) that "...the Board of Directors of the issuer should approve a document that determines internal control procedures over financial reporting and business operations. Control over compliance with the internal control procedures should be performed by a separate department that reports to the Audit Committee or equivalent of the issuer".

Investment in internal control systems is difficult, especially at a time when the pressures created by a fast growing Russian economy, combined with demand for greater efficiency and empowerment, can often lead to a situation where a need for internal control may seem a low priority. However, many managers understand well that you cannot build a sound internal controls system without strong leadership from the top and very thorough execution and support by all line managers. Implementation and maintenance of an internal controls system that functions regularly and is auditable are expensive and difficult to build. Russian companies that are investing in such systems show the maturity of their leadership. They design systems where internal control avoids having a negative influence on managers, preventing them from achieving their

business objectives. Good internal control is about good management—it helps ensure that business objectives are delivered, improves business performance, and supports the overall sustainability of the business.

When embarking on such projects Russian companies widely accept a COSO framework (Committee of Sponsoring Organisations of the Treadway Commission). However, the way the COSO framework is implemented often reflects the tendency of the Russian business culture to seek practical solutions. The most emphasis is usually given to identification and evaluation of risks, design and implementation of control procedures and monitoring of controls by independent internal and external audit functions. In almost all cases, internal audit independently reports to the Audit Committee of the Board of Directors and administratively to the CEO.

Historically, Russian companies maintained a slightly different system. In many Russian companies there existed a function usually called Control and Revision Group (KRU). KRU reported to the top management of the company with no communication with the Boards. KRU worked as the instrument used by management to control the execution of internal policies, procedures and other regulations. KRU was usually involved in investigation of fraud or other irregularities. In its practices it was usually focused on past events and was used as part of the management control function. In many modern Russian companies KRU continues to exist alongside the Internal Audit, which is the instrument used by the Board of Directors to independently assess how management is performing—a function delegated to them by the Board. Specifically, Internal Audit independently assesses whether management effectively performs the functions of "risk management" and "business process controls".

The objectives of internal controls in Russian companies are common to all businesses and are not different from the ones accepted internationally. These objectives are to:

“Good internal control is about good management – it helps ensure that business objectives are delivered, improves business performance, and supports the overall sustainability of the business.”

- Promote efficiency and effectiveness. This objective is aimed at protecting company assets and optimising their use including the minimising of waste, loss or misuse. Very often this is seen in Russian companies through specific control procedures over effective use of capital expenditure and investment programmes.
- Preserve the integrity of financial reporting and other financial information. This objective is concerned with the reliability of financial information for external as well as internal users.
- Ensure compliance with legislation and internal policies. This objective relates to the need for the business to conduct its activities within the boundaries of the law, regulation and management policies.

As seen in the case study presented by SUEK, on the next pages, companies realise that it is the responsibility of management to establish, maintain and operate internal controls. The primary accountability for application of internal controls is delegated to line managers in each department.

However, in many Russian companies there is a tendency to establish special internal controls groups that help and consult management during the process of implementation of internal controls. Such groups usually exist in large Russian companies in order to facilitate central processes, monitor implementation and ensure consistency and standardisation of control procedures across a large enterprise.

The responsibilities and various participants of internal control systems that are currently under construction across many of Russia’s leading companies may be presented as in the diagram below:

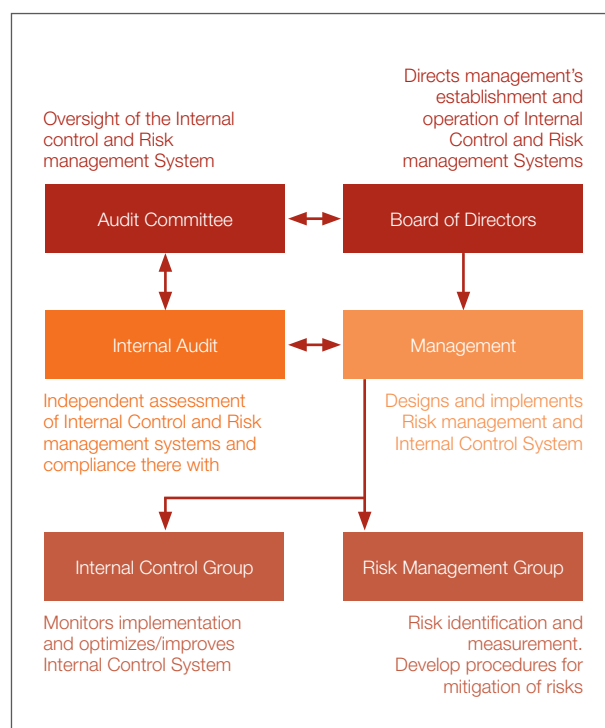


Figure 4: Internal control systems. Source: KPMG

In summary, there is a clear tendency by leading Russian companies to implement sound governance practices. This can be seen in the case study presented by SUEK. Implementation is not easy, since it requires a change in behaviour and management focus. There is also a skills shortage. However, as the drive to list on foreign exchanges and the growth in cross-border transactions continue, Russian business is moving fast to adopt best governance practices from both North America and Europe.



A trader at Troika Dialog signals the conclusion of a transaction. Photo courtesy of Troika Dialog.

CASE STUDY

Internal Audit at SUEK

The Siberian Coal Energy Company (SUEK) is Russia's largest coal-mining corporation. It accounts for nearly 30% of shipments of thermal coal to the domestic market, and approximately 25% of Russian coal exports. SUEK has branches and subsidiaries in the Krasnoyarsk, Primorsky and Khabarovsk regions, the Irkutsk, Chita and Kemerovo regions, Buryatia and Khakasia. In 2006 SUEK companies together produced 90 million tonnes of coal. Exports in 2006 accounted for 23 million tonnes. The company employs over 43,000 people. SUEK is the largest private shareholder in a number of energy companies in Siberia and the Far East.

The system of corporate governance in place at SUEK companies has all the required components to ensure control: an internal audit function (the Internal Audit and Controls Service), a risk management division, and an internal controls group that is responsible for developing and improving control procedures. SUEK is making every effort to organise the work of these divisions in accordance with international standards and best practice. This case study will focus on the structure and management of the internal audit function at SUEK.

Accountability of internal audit

The Internal Audit and Controls Service (IACS) at SUEK functionally reports to the Audit Committee of the Board of Directors, and administratively to the General Director; this means that the work plan and budget of the IACS are approved by the Audit Committee. The latter is also responsible for evaluating its work (with account taken of the opinion of management), approving incentive payments to internal audit employees, and taking decisions on the staffing of the Service. The administrative reporting to the General Director ensures the execution of the approved budget and the creation of the necessary working conditions for the internal auditors. The functional reporting to the Board of Directors and the Audit Committee provides the

basis for the IACS's objectivity and independence from management, and makes it possible to give the Board of Directors more sound and objective assessments.

Organisational structure

A total of 56 employees work in internal audit, 24 of whom are based at the head office, the rest in the company's enterprises in Siberia and the Russian Far East. The head office division consists of two sections—the methodology section and the audit project management section.

The former is made up of experts who provide methodological support to audit projects and the gathering of consolidated information on all aspects of internal control. Unlike external audit, internal audit at SUEK assesses more than just the preparation of financial statements: attention and resources are also devoted to other areas of activity that pose risks for the company—specifically, investment and capital expenditure, corporate and social relations, valuation of assets and reserves, information technology, information security, and others.

The audit project management section ensures the organisation and coordination of audits and control and review procedures, and provides expert analysis of the main lines of business (production, transportation, servicing, sales, power generation). It also manages interregional audit projects.

Functions

The functions of the IACS are established by the Audit Charter, approved by the Board of Directors and put into force by order of the General Director. Pursuant to these functions, the IACS expresses an opinion on the system of internal controls, risk management, information security, the safeguarding of assets and the efficiency of operations. This information is mainly used by the Board of Directors and its committees, as well as the senior management of the company.

The independence and objectivity of internal audit are also ensured by the fact that the compensation of internal auditors does not depend on company management, but rather is established by the Audit Committee based on special regulations governing on the compensation of employees of the Internal Audit Service.

Experience has shown that the Audit Committee and other committees of the Board of Directors and the General Director are often interested in a performance analysis of certain operations and projects, and not only in an assessment of control procedures. For example, the IACS often analyses and assesses the risks of draft decisions proposed by management to the Board of Directors, and assesses the performance of certain company divisions when requested by management.

Another area of work is in-house consulting services. These are provided in such a way that no risk arises from the internal audit function losing its objectivity and independence during the subsequent audit.

Improving the effectiveness of internal audit

The IACS's staff includes many former Big Four employees, since this makes it possible to develop and improve its audit methodology. The company hires external consultants to handle methodological issues that cannot be handled internally due to time pressure from everyday work. A number of guidelines were developed in 2006 with the help of consultants from Ernst & Young, and the company traditionally works closely with KPMG.

SUEK has set up contacts and information exchange in the area of internal audit methodology with foreign coal companies. This exchange of experience, and

the widespread use of specialised software have been critical in increasing work efficiency. A 10% reduction of costs on internal audit despite an increase in the amount and quality of work is the target for 2007-8. A rigorous system of management accounting monitors the performance of each auditor.

Team building

Internal audit is a profession which requires certain personal traits, for example a tolerance for stress, the ability to work in confrontational and ambiguous situations, to take reasoned, carefully weighted decisions, and exchange knowledge with colleagues. This profession arguably demands more trust and honesty in relation to colleagues than any other. For this reason, special attention is paid to team-building.

A 360-degree survey is held among employees on a quarterly basis, which gives them the chance to see how they are viewed by others. Each employee receives comments from colleagues on his or her professional growth, teamwork, project management, etc. This "public opinion" does not always objectively reflect the value-added of an employee to the company, but it does allow the Director of the IACS to identify potential conflicts and to map out ways of developing the personal skill-sets of each employee. It also gives the employee the chance to reflect on what adjustments he or she needs to make in relationship to colleagues.

Biannual training sessions are held for all staff of the IACS, at which staff exchange work experience, learn new methods, and meet with management and the members of the Board of Directors and Audit Committee. This is also an effective team-building method.

“Internal audit arguably demands more trust and honesty in relation to colleagues than any other. For this reason, special attention is paid to team-building.”

At SUEK, training of the auditors is considered to be crucial. A schedule for training and professional development is drawn up for each employee individually and for IACS as a whole. It includes the staff obtaining professional qualifications such as Russian accounting and audit certificates, and internationally recognised certificates such as Certified Internal Auditor (CIA), Certified Information System Auditor (CISA), and Certified Fraud Examiner (CFE). In addition, auditors seek to obtain the more specialised qualifications needed for their work. This constant attention to the professional development of employees creates an additional incentive for them to remain at SUEK, and according to internal estimates, lowers staff costs by 20–30%.

Anti-fraud programme

An attitude of intolerance towards fraud is created by an on-going integrity campaign—conducted by senior management and directed at all levels of the company. Monthly announcements in the corporate newsletter focus on identified cases of fraud and misuse of assets, the punishment of guilty parties, training in corporate ethics and how to identify fraud. Pocket calendars are issued with a hotline number to report cases of fraud. Many cases of fraud are committed in the full view of colleagues, and for this reason the constant flow of information on fighting fraud creates an internal dilemma for potential fraudsters, and in many cases forces the potential criminal to consider the consequences of his other actions.

Another important element of the programme is the creation of a hotline and other means of communication to allow employees to report cases of fraud. It is important to ensure that notifications can be made anonymously and that they are not accessible

to the subject of the notification. For this reason, information through all channels (hotline, mailbox, e-mail) is received by the IACS. Since the IACS does not report to management, premature disclosure of information is rendered impossible. For the first four months of operation of the hotline employees did not initially display a great deal of trust in it. However, this attitude has gradually changed, and the IACS now receives notifications that make it possible to prevent significant material damage to the company. Funds expended on fighting theft have already been more than fully recouped by the amount of theft identified.

Making internal audit more effective

Looking to the future, SUEK is increasingly employing “continuous audit” methods. The IACS’s staff frequently attend committees and significant management meetings, naturally without voting or decision-making rights. This allows auditors to observe the processes of decision-making. Later, when conducting their audit, they do not need to spend significant amounts of their time and management on “getting inside” the problem. This improves the relations of the auditor with management, and makes the auditor’s assessment more professional and well-founded.

Controlled self-assessment by managers is a second area which the company is introducing. The managers of the audited enterprise receive a checklist, the answers to which allow the auditor to form an opinion on the internal control system. The self-assessment process requires a more sophisticated management culture, and is being introduced only at those companies where the IACS has conducted an audit and can count on receiving reliable information.



IMPROVING COMPLIANCE IN RUSSIAN COMPANIES: Leveraging Global legal Drivers

The Challenge

As mentioned in Chapter 1, business in Russia still has a bad reputation, with studies and polls indicating that Russian companies generally have the lowest level of trust among those in virtually any industrialised country.

Clearly both business and government, and the way they interact, contribute to the problem, and so they must work together in the right way to remedy it. In light of the concrete benefits that would accrue to Russian companies and the economy as a whole if business practices were to become more legally compliant and socially responsible, the case for doing so is especially strong and is a matter of urgency. This article discusses two interrelated elements that should be part of the solution and argues that they should be used in combination as an effective means to combat poor business practices and improve public confidence in Russian business.

Standards for corporate governance, management systems, and ethical conduct have emerged and become law in most industrialised countries. While the particulars may vary from country to country, these rules are coming to represent a universal norm that is undeniably beneficial to both the companies and the societies within which they operate. These norms are applicable in Russia when Western companies do business and invest there, which forces Russian business partners and the employees of companies controlled by foreign investors to comply with them; the same dynamic of compliance occurs when Russian companies seek to raise capital through stock offerings abroad. This article argues that this dynamic affords the Russian business community and its governmental regulators an important opportunity to achieve corporate compliance in Russia that meets international standards, leading to an improved “culture of compliance” and rule of law.

Since this article cannot cover the legal requirements of all foreign jurisdictions that influence this process, particular emphasis is placed on the USA since it is generally at the forefront of these trends. Most of the same considerations also apply in the case of companies from other industrialised countries.

The Legal Background: Mandatory Requirements

Russian companies are increasingly faced with demands from their foreign business partners and other foreign stakeholders to comply with applicable Russian and foreign legal requirements and engage in responsible business practices. These demands and expectations arise both from legal requirements as well in the form of best practices which, though not yet legally required, nevertheless take on a quasi-normative character as they increasingly become the state of the art in light of stakeholder demands for ethical and sustainable business practices. In the United States a wide variety of legal corporate compliance requirements have an impact on the activities of U.S. companies abroad and their foreign business partners. These include the following:

- The Sarbanes-Oxley Act imposes strict accounting and control requirements on public companies that require periodic certification of the integrity of a company’s finances. These requirements extend to a company’s Russian operations, meaning, for example, that these requirements must be implemented in a company’s Russian subsidiaries and periodically certified as compliant. The Act also requires companies to have codes of business ethics and to establish whistle-blower hotlines in order to enable employees or third parties, including in Russia, to report misconduct on an anonymous basis.

- Securities laws and regulations also require strict accounting controls as well as disclosure of any facts that would materially affect a person's decision to invest in the company or a shareholder's decision to keep or sell its shares in the company. These controls and disclosure requirements extend to instances of bribery. The disclosure requirements necessitate knowing material details about one's Russian operations and business partners.
- U.S. accounting and auditing standards have also become stricter in the wake of recent corporate scandals. They also apply to a company's foreign operations.
- The U.S. Foreign Corrupt Practices Act ("FCPA"), a criminal statute, imposes on all U.S. companies and individuals strict prohibitions on the bribery of foreign public officials, including through the use of intermediaries. For public companies the FCPA also imposes accounting standards designed to detect instances of bribery. The U.S. Department of Justice expects companies to have an effective FCPA compliance programme. Having such a programme can reduce the penalties in the event of a violation. As a result, U.S. companies must implement FCPA compliance measures in dealing with Russian business partners and investing in Russian companies. In fact, the duty imposed on U.S. companies to do so is greater in a country such as Russia where corruption is widespread.
- United States money laundering, wire fraud, and similar laws prohibit dealing with the proceeds of illegal activity and engaging in fraudulent practices, including defrauding foreign governments of tax and customs revenues. This means that U.S. companies cannot be involved in such activities and may not be able to do business with Russian business partners or invest in companies engaging in such practices. These requirements lead U.S. companies to investigate their Russian business partners and any suspicious transactions that are proposed.
- The stock exchanges on which U.S. public companies are listed impose strict requirements on listed companies. The New York Stock Exchange, for example, requires, among other things, that companies have audit, corporate governance and compensation committees, that the majority of directors be independent, that companies annually certify compliance with the FCPA, that companies adopt a code of ethics, and that they certify annually their compliance with the Exchange's requirements.
- United States companies are subject to a wide variety of other laws and regulations that impact their business activities in Russia, including environmental laws, export control legislation, anti-boycott legislation, customs laws, and other import-export control laws.
- When acquiring all or part of a business in Russia, in order to avoid legal liabilities and make prudent business decisions, U.S. purchasers need to conduct an extensive "due diligence" investigation of the target business, which entails detailed, complete and accurate disclosure of the financial and other aspects of the target business. If the target business is found to be operating in violation of legal requirements, such violations must be eliminated, and in some cases the existence of the violations may prevent the transaction from being consummated.

“Russian companies are increasingly faced with demands from their foreign business partners and other foreign stakeholders to comply with applicable Russian and foreign legal requirements”

- Many of the above-mentioned requirements are directly applicable to Russian companies that desire to list their securities on foreign stock exchanges, thus forcing them to comply if they desire to access foreign capital in this manner.

The above-mentioned legal requirements show up in practical ways when U.S. companies deal with Russian business partners or make investments into Russia. Common examples include:

- FCPA requirements necessitate investigating potential Russian sales representatives, sales agents, consultants, and distributors, even employees. Such background investigations commonly involve the Russian business partners completing questionnaires, and conducting background checks on them, including through the use of a private investigator. Contract provisions requiring compliance with the FCPA and Russian anti-corruption legislation are the norm, and periodic certifications of compliance with such requirements are common.
- Russian importers often engage in fraudulent practices to reduce customs duties and import VAT, and also commit currency law violations by funneling payments through offshore bank accounts. When faced with such a proposed scenario, U.S. sellers must investigate the details in order to determine whether becoming involved in a potentially illegal scheme of transactions would constitute a criminal violation under U.S. legislation.
- When U.S. companies acquire a controlling interest in a Russian company or establish a Russian subsidiary, their codes of ethics that are required

by U.S. law must be implemented at such Russian companies, which necessitates the establishment of compliance processes and programmes, training, monitoring, and enforcement. This process often necessitates a difficult transformation of the business culture at an enterprise. At the same time, the codes of ethics need to be reviewed from the perspective of their legality and enforceability under Russian law, and must be modified and adapted to Russian law and conditions where appropriate.

Russian businesses and governmental authorities can take a number of steps to improve the situation, including the following:

- Russia should become a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and subject itself to review of its legislation and enforcement procedures, as have most other industrialised nations.
- Russia should enact, implement and enforce comprehensive anti-corruption legislation consistent with international standards. Drafts of such legislation have languished for many years, which signals a lack of concern for the problem at the highest levels.
- Russian public companies should adopt, and should be required to adopt, codes of ethics, though legislation should stop short of prescribing their content.
- The practice of appointing high government officials to positions in Russian companies should be eliminated, as it creates unacceptable conflicts of interest and creates at least the appearance of impropriety and an unhealthy symbiotic relationship between businesses and government authorities.



Workers on the Lukoil refinery near the town of Kagalym in western Siberia. © REUTERS/Viktor Korotayev

- Government authorities at all levels need to adopt and convincingly implement a policy of non-tolerance of corruption, as well as other high-profile illegal business practices such as piracy of intellectual property rights. Lax enforcement or selective enforcement does little to discourage corrupt behavior by officials or businesses or to generate public trust.
- International experience shows that a free press is important in exposing instances of corruption at companies and in the government. The press needs to operate without undue influence or hindrance from government authorities and business, and without fear of reprisals.
- Continued efforts to foster and achieve broader rule of law in Russia will contribute to an improved culture of compliance at Russian businesses.

Conclusion

In the world's industrialised countries and even in many emerging markets, corporate legal compliance has become fashionable, and multinational companies have already brought the art to a high level of best practices and of compliance with legal and stakeholder demands. Compliance with legal norms are necessary in order to achieve a true culture of compliance in Russia. These facts are global and universal and will not go away; rather, the demands on companies will only increase over time. Russian companies need to adapt to these realities in order to become or remain players in world markets, attract the capital they need to operate, and maintain profitability. The steps outlined in this article, focusing on international practices in this area already being implemented in Russia, are among several that will be useful in achieving those goals.

CASE STUDY

Lukoil and its Implementation of Legal Compliance and international Business Standards

Lukoil affords a good illustration of a company being confronted with the legal and other business practice requirements of the global investment community when it sought to attract foreign capital, and responding by complying with the applicable legal requirements and by demonstrating its commitment to world class principles of environmental management and corporate social responsibility.

Lukoil was privatised in 1993 and its shares are now publicly traded in Russia. Lukoil then desired to access foreign capital by offering securities on foreign stock markets. It placed American Depositary Receipts (ADRs) on the over-the-counter market in the USA in 1997. In 2002 Lukoil was the first Russian company to obtain a full (secondary) listing on the London Stock Exchange. In 2000 it acquired Getty Petroleum Marketing in the USA, and in 2001 it acquired the assets of Bitech Petroleum Corporation of Canada. In 2004 ConocoPhillips purchased 7.59% of Lukoil (later increased to 20%) while Lukoil purchased approximately 800 gasoline stations from ConocoPhillips in the USA, and the companies formed a strategic alliance; the two companies then formed a joint venture in Russia. Lukoil has also made investments in other countries all around the world.

“As a result of efforts to raise capital abroad and attract foreign direct investment, Lukoil has needed to achieve and maintain discipline and international standards in its financial practices, and transparency in its financial reporting.”

As a result of the above initiatives, and other efforts to raise capital abroad and attract foreign direct investment to Lukoil (or its joint ventures) in Russia, which entail scrutiny by the international investment community, Lukoil has needed to achieve and maintain discipline and international standards in its financial practices, and transparency in its financial reporting. The company also follows international best practices in its corporate governance, adhering to the Corporate Governance Code of the Federal Financial Markets Service. In 2004 the American magazine Global Finance named Lukoil the best oil and gas company in Russia, and Standard & Poor's rated the company number one among Russian oil companies for transparency of information. The company is also ISO 9001 certified.

In the environmental sphere, Lukoil and most of its Russian subsidiaries have been certified for compliance with the ISO 14001 international standard for environmental management systems and the OHSAS 18001 standard. It has issued and implemented a comprehensive Environmental Safety Programme and a Policy of Industrial, Occupational and Environmental Safety.

Regarding the social sphere, Lukoil was the first Russian company to develop and issue (in 2002) a Social Code according to which the company conducts its business. The Code provides a variety of social rights and guarantees to employees over and above what applicable law requires, and also outlines the company's commitments for its participation in, and impact on, society at large, including environmental practices, support of science and education, preservation of national cultures, support for culture and sports, assistance to NGOs, and charitable activities. Lukoil is also a signatory to the Social Charter of Russian Business of the Russian Union of Industrialists and Entrepreneurs. Lukoil publishes every other year a comprehensive sustainability report for its Russian operations, which utilizes the GRI indicators/guidelines and is audited by Bureau Veritas.



THE BOTTOM LINE: The Costs and Benefits of Corporate Governance

Although the cost of corporate governance and compliance procedures can be captured by modern financial systems, the benefits of corporate governance are harder to assess in monetary terms. As Albert Einstein has said, “Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted”.

In order to succeed in business, good governance is necessary but not sufficient. Nobody buys a company’s products or services because its board structure is correct. However, there is a broad consensus in the international business community that there is added value both for management and stakeholders alike, value which provides long-term benefits for the business, especially during down-turns in the business cycle.

Research conducted by KPMG International and CREATE among 192 investment managers showed interesting trends and can serve as an example of changes in organisations caused by implementing good governance principles. The report looked at a wide range of issues in the investment industry related to corporate governance, and evaluated the impact of governance practices on business performance and operational efficiency.

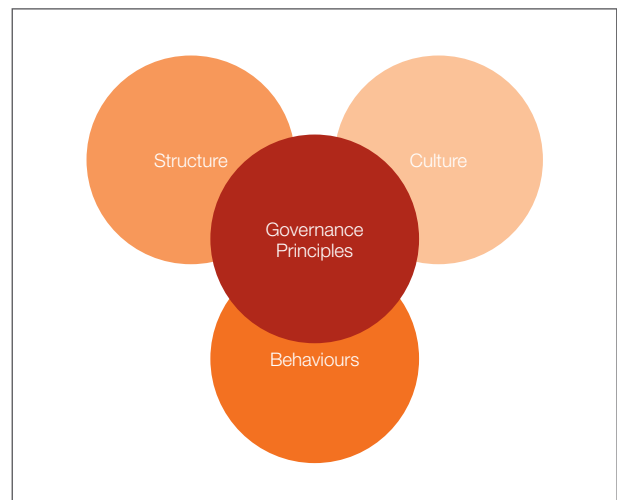


Figure 5: Organisation of governance principles. Source: KPMG

The survey showed how governance is implemented in practice. Governance structures are created with three mutually reinforcing layers (see Figure 5). This architecture influences the day-to-day activities of the business.

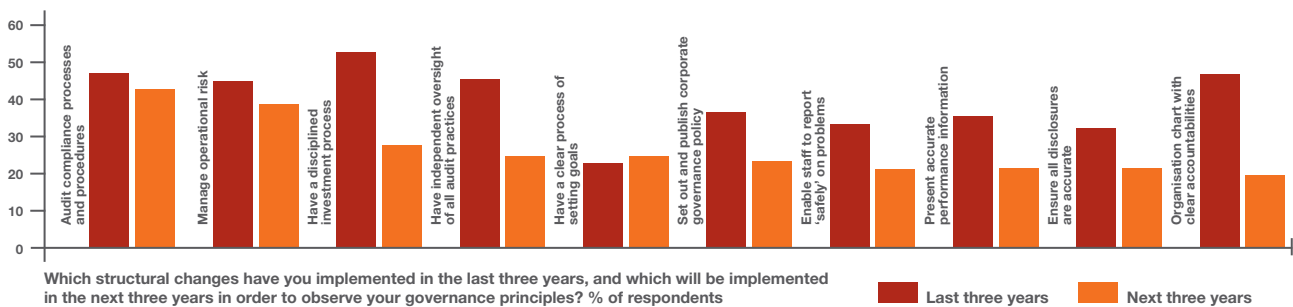


Figure 6: Which structural changes have you implemented in the last three years, and which will be implemented in the next three years in order to observe your governance principles? Source: KPMG

The first layer constitutes structures that incorporate a range of systems and controls. These embody governance principles as well as the relevant regulations. These systems and controls aim to provide a more visible proof of compliance. Most of the surveyed companies reported ten areas that were affected by improved corporate governance practices (see Figure 6):

- Audit compliance processes and procedures
- Management of operational risk
- Disciplined investment process
- Independent oversight of all audit practices
- A clear process of setting goals
- Setting out and publishing of corporate governance policy
- Enabling staff to report 'safely' on problems
- Presenting accurate performance information
- Ensuring accuracy of all disclosures
- Organisation chart with clear accountabilities

The second layer constitutes staff behaviour. Staff is motivated to incorporate the rules and principles of corporate governance into their day-to-day dealings with all stakeholders. This behaviour and the systems and controls mutually reinforce each other.

The third layer covers the business culture that builds on the previous two layers to create an ethos of compliance: 'the way we do things around here'. Such a culture is designed to provide essential mental checks-and-balances through self-regulation and self-accountability, reinforced by systems and controls, as and when necessary.

As the study showed, when it comes to business performance, operational efficiency and product development, there is usually "pain before the gain" in many corporate initiatives. Of course, a cost-benefit analysis on governance cannot fully isolate the whole range of factors that influence business results. But a number of clear benefits and costs can be identified:

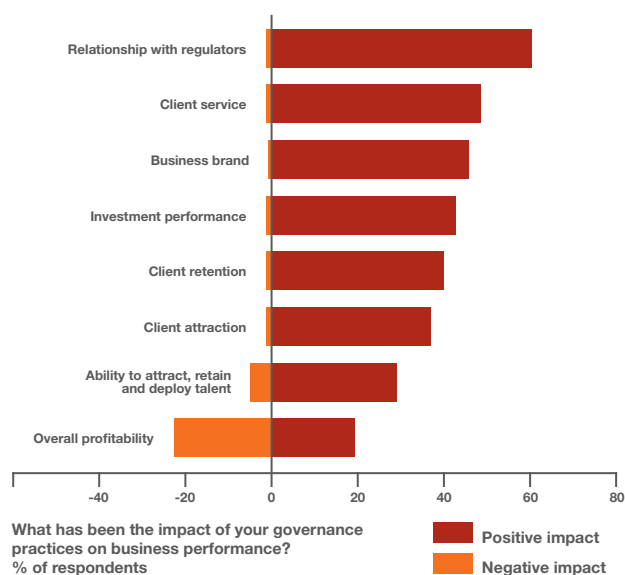


Figure 7: What has been the impact of your governance practices on business performance?

1. At the business level, the relationship with regulators has improved, as has customer service, and brand (See Figure 7). But costs have gone up in the process, which has affected overall profitability.
2. At the operational level, decision-making has improved, as has the ability to do cross-border business. However, this has come at the expense of senior management time and has created more bureaucracy (See Figure 8).
3. At the product development level, transparency has improved, as has sales and marketing material. Use of lawyers has gone up, as has the number of disclaimers. In a minority of organisations, speed-to-market has slowed down.

“Russian companies which meet international expectations of business standards will find it easier to form international alliances and engage in cross-border transactions, including acquisitions abroad. In this way, Russian companies that understand that the benefits of corporate governance outweigh its costs are best placed to become tomorrow’s global players”

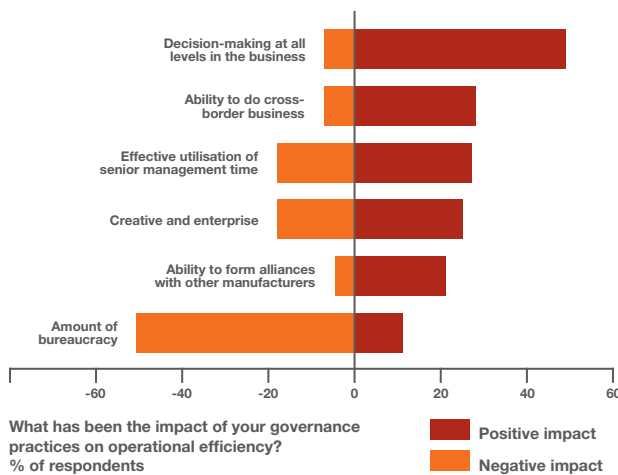


Figure 8: What has been the impact of your governance practices on operational efficiency?

In order to improve the balance between cost and benefit, the regulators may in future need to consult far more intensively when designing new rules. New legislation, increased bureaucracy and the introduction of new internal governance initiatives within North American companies, have required a significant increase in the amount of senior management time devoted to them. Over time, however, the balance is expected to improve, especially with the updates and clarification to the current Sarbanes-Oxley regulations.

Another comprehensive analysis of the costs and benefits of corporate governance was undertaken in the USA as part of the overall analysis of the effects of the Sarbanes-Oxley legislation. The research paper “Do the Benefits of 404 exceed the Cost?” was produced by Lord & Benoit, LLC.

The research involved assembling three distinct data sets of share prices for all of the 2,481 December year-end publicly held Accelerated Filers that had filed at least two years of Section 404 assessments. An average share price was calculated for each company on each of three dates: March 31, 2004, 2005 and

2006. These dates represented pre-Section 404 compliance, post-first year Section 404 compliance and post-second year Section 404 compliance periods.

The research showed that over the two year period there was a:

- 27.67 % increase in the average share prices for companies that had effective controls in both years (8.92 % increase in year one and 18.72 % increase in year two).
- 25.74 % increase in average stock prices for companies that had ineffective 404 controls in year one but effective 404 controls in year two (0.6 % increase in year one and 25.14 % increase in year two).
- 5.75 % decrease in average stock prices of companies that reported ineffective 404 controls in both years (9.85 % decrease in year one partially offset by a 4.11 % increase in year two).

The experience of U.S. companies as analysed in these two surveys suggests that the introduction of corporate governance practices is especially important for Russian business. While the profitability of many Russian companies is impressive, some distinguish themselves by choosing to reinvest significantly into their governance structures. By extension, they are enhancing the integrity of their workforce, improving the business culture and the reputation of Russian business both at home and abroad.

As the surveys demonstrate, an over-riding commitment to implementing corporate governance in practice is likely to lead to very important long-term benefits. It will improve a company’s reputation, reposition the brand, enhance the efficiency of capital investments, make a step change in the quality of customer service. Russian companies which meet international expectations of business standards will find it easier to form international alliances and engage in cross-border transactions, including acquisitions abroad. In this way, Russian companies that understand that the benefits of corporate governance outweigh its costs are best placed to become tomorrow’s global players.

APPENDIX 1

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APPENDIX 2

Laws and By-laws Regulating Corporate Governance in Russia

International Documents

- Paris Convention on Organization for Economic Co-operation and Development, dated December 14, 1960 (came into force on 30th September 1961) ;
- Principles of Corporate Governance (endorsed by OECD Ministers on May26-27, 1999, as amended) .
- OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions;

Federal Laws:

- The Civil Code of RF, (No 51-FZ, dated October 21, 1994, Part 1, as amended);
- The Criminal Code of RF (N63-FZ, dated June 13, 1996, as amended);
- The Code of Administrative Violations of RF (No 195-FZ, dated December 30, 2001, as amended);
- On Joint Stock Companies (No 208-FZ, dated November 24, 1995, as amended);
- On Limited Liability Companies (No14-FZ, dated February 08, 1998, as amended);
- On Banks and Banking Activities (No 395-1, dated December 02, 1990, as amended);
- On Financial-Industrial groups (No 190-FZ, date November 30, 1995);
- On Investment Funds (No 156-FZ, dated November 29, 2001, as amended);
- On Specific Legal Status of Employees' Joint-Stock Companies (people's enterprises) (No 115-FZ, dated July 19, 1998, as amended)
- On Securities Market (No 39-FZ, dated March 20, 1996, as amended);
- On Protection of Rights and Legitimate Interests of Investors on the Securities Market (No 46-FZ, dated February 12, 1999, as amended);
- On Privatization of State and Municipal Property (No 178-FZ, dated November 30, 2001, as amended);
- On Insolvency (Bankruptcy) (No 6-FZ, dated December 10, 1997, as amended);
- On Insolvency (Bankruptcy) of Credit Organization (No 127-FZ, dated October 27, 2002, as amended);
- On Specific Aspects of Insolvency (Bankruptcy) on Natural Monopolies in Energy and Fuel Complex (No 122-FZ, dated June 24, 1999, as amended);
- On Protection of Competition (No135-FZ, dated July 26, 2006);
- On Natural Monopolies (No 147-FZ, dated August 17, 1995, as amended);

Decrees of the President of Russia

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- On Measures on Implementation of Industrial Policies at Privatization of State Enterprises (No 1392, dated November 16, 1992, as amended).

Normative Acts Issued by the Government of Russia

- On the Procedure and Volume of Information Disclosure by Open Joint Stock Companies During Placement of Shares and Securities, Convertible into Shares, through the Subscription Process (approved by the FCSM Resolution N 9 from April 20, 1998)

Regulations of the Federal Service for Financial Markets/ Federal Committee for Securities Market

- On Additional Requirements to Preparing, Calling and Holding General Shareholders Meetings (approved by the FCSM Resolution N 17/ps, dated May 31, 2002);
- On Recommendations for Introduction of the Corporate Governance Code (approved by Resolution of the FCSM No 421/p, dated 04.04.2002);
- On Approving the Guideline on Conducting by Trade Instructors at the Securities Market of Control on Compliance of Joint Stock Companies with Provisions of the Corporate Governance Code (approved by Resolution of the FCSM No 03-1169/p, dated June 18, 2003);
- On Guideline Recommendations on the Contents and Form of the Data on Compliance with the Corporate Governance Code to be Presented in Annual Reports of Joint Stock Companies (approved by Resolution of the FCSM No 03-849/p, dated April 30, 2003);
- On the Procedures of Holding Absentee Shareholders Meeting (approved by the FCSM Resolution N8 from April 20, 1998);
- Standards of Securities Issues and Registration of Securities Prospectuses (approved by Resolution of FSFM No 07-4/pz-n, dated January 25, 2007);
- Regulations on Disclosing of Information by Securities Issuers (approved by Resolution No 06-117pz-n, dated October 10, 2006).

In addition, the following document includes clarifications of the above laws and regulations: On Modern Approaches to Corporate Governance In Credit Organization (Letter of the Central Bank of Russia No119-T, dated September 13, 2005).

APPENDIX 3

Some useful Sources of Advice and Information on Corporate Governance and Responsible Business Practices in Russia and abroad

Agency for Social Information
www.soc-otvet.ru

Anti-corruption network for transition economies
www.anticorruptionnet.org

Center for Business Ethics and Corporate Governance
www.cfbe.ru

Center for International Private Enterprise
www.cipe.org

Committee of Sponsoring Organisations of the Treadway Commission
www.coso.org

Ethical Trading Initiative
www.ethicaltrade.org

Equator Principles
<http://www.equator-principles.com/>

Extractive Industry Transparency Initiative
www.eitransparency.org

Global Reporting Initiative
www.globalreporting.org

Independent Directors Association
www.nand.ru

The Institute of Corporate Governance
www.inkup.ru

The Institute of Corporate Law and Corporate Governance
www.iclg.ru

International Academy of Corporate Governance and Business
www.cmbc.ru

International Business Leaders Forum
www.iblf.ru
www.iblf.org

International Chamber of Commerce (ICC)
<http://www.iccwbo.org/corporate-governance/>

International Council on Mining and Metals
www.icmm.com/corporate_governance.php

International Finance Corporation (IFC)
www.ifc.org

The Investor Protection Association
www.corp-gov.ru

National Council on Corporate Governance
www.nccg.ru

Organisation for Economic Cooperation and Development (OECD)
www.oecd.org

Russian Institute of Directors
www.rid.ru

Technologies of Corporate Governance
www.tku.ru

Transparency International Russia
www.transparency.org.ru

UN Global Compact
www.unglobalcompact.org

UN Office for Drug Control and Crime Prevention
www.unodc.org

U.S.-Russia Business Council
www.usrbc.org

The U.S. Russia Centre for Entrepreneurship
www.cfe.ru

World Bank
www.worldbank.org

World Economic Forum, Partnering Against Corruption Initiative (PACI)
www.weforum.org/en/initiatives/paci/index.htm

The International Business Leaders Forum

The Prince of Wales International Business Leaders Forum (IBLF) is an international not-for-profit organisation set up in 1990 by His Royal Highness the Prince of Wales and operating in roughly 50 countries throughout the world, particularly in new and emerging markets. The IBLF's mission is to encourage socially responsible business practices and multi-stakeholder partnerships which benefit both business and society and enable sustainable development without harming the environment.

Supported by over 70 of the world's leading international companies, IBLF carries out projects to promote leadership and business engagement so as to develop effective solutions to the challenges of local and global development. IBLF believes that the support and engagement of business is the key to achieving the Millennium Development Goals, reducing global poverty and promoting sustainable economic development.

The International Business Leaders Forum in Russia

IBLF has been operating in Russia since 1993 and was registered as a branch of an international NGO in 2007. Its mission is to enable the responsible conduct of business with the aim of ensuring the stable and sustainable social and economic development of Russia. Seminars, round table discussions, training programmes and study tours organised by IBLF make it possible for companies, government and NGOs to join forces in addressing some of the key challenges facing Russian business and society today. IBLF in Russia has set up a membership organisation called the Russia Partnership for Responsible Business Practices and focuses on four main themes— health in the workplace and the community, development of young people for the new economy, improving business standards, and managing the environment.

For more information about membership opportunities and participation in IBLF's programmes in Russia, please visit www.iblf.ru.

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“If business leaders do not address the issues of business standards they risk the negative impacts of **loss** of commercial opportunities, **exclusion** from international markets and **indiscriminate** and **damaging** regulation.”

Robert Davies
CEO and Founder
International Business Leaders Forum

