Research Task

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Use the globalEDGE Resource Desk (http://globalEDGE.msu.edu/resourcedesk/) to complete the following exercises:

1. The Organization for Economic Cooperation and Development (OECD) *Guidelines for Multinational Enterprises* is a set of voluntary principles and standards for responsible business conduct addressed by governments for multinational enterprises. The guidelines provide recommendations in a number of areas including labor relations, the environment, bribery, competition, and taxation. Find the text of the guidelines and prepare an outline of the guidelines in the area of employment and industrial relations.
2. The *Corruption Perceptions Index* (CPI) is a comparative assessment of integrity performance in a variety of countries. Provide a description of this index and its ranking. Identify the five countries with the lowest and the highest CPI scores. Do you notice any trends or similarities among the countries listed?

closing case

Siemens Bribery Scandal

In December 2008 Siemens, the large German electronics firm, agreed to pay $1.6 billion in fines to settle legal suits brought by the American and German governments. The governments asserted that Siemens had used bribes to win business in countries around the world. These were the largest fines ever levied against a company for bribes, reflecting the scale of the problem at Siemens. Since 1999, the company had apparently paid some $1.4 billion in bribes. In Bangladesh, Siemens paid $5 million to the son of the prime minister to win a mobile phone contract. In Nigeria, it paid $12.7 million to various officials to win government telecommunications contracts. In Argentina, Siemens paid at least $40 million in bribes to win a $1 billion contract to produce national identity cards. In Israel, the company "provided" $20 million to senior government officials in order to win a contract to build power plants. In China, it paid $14 million to government officials to win a contract to supply medical equipment. And so on.

Corruption at Siemens was apparently deeply embedded in the business culture. Before 1999, bribery of foreign officials was not illegal in Germany; bribes could be deducted as a business expense under the German tax code. In this permissive environment, Siemens subscribed to the straightforward rule of adhering to local practices. If bribery was common in a country, Siemens would routinely use bribes to win business. Inside Siemens, bribes were referred to as "useful money."

When the German law changed in 1999, Siemens carried on as before, but put in place elaborate mechanisms to hide what it was doing. Money was transferred into hard-to-trace bank accounts in Switzerland. These funds were then used to hire an outside "consultant" to help win a contract. The consultant would deliver the cash to the ultimate recipient, typically a government official. Siemens apparently had more than 2,700 such consultants worldwide. Bribes, which were viewed as a cost of doing business, typically ranged between 5 and 6 percent of a contract's value, although in corrupt countries bribes could be as much as 40 percent of the value of a contract. In justifying this behavior, one former Siemens employee stated "It was about keeping the business alive and not jeopardizing thousands of jobs overnight." But the practice left behind angry competitors who were shut out of contracts and local residents in poor countries who paid too much for government services because of rigged deals. Moreover, by engaging in bribery, Siemens helped to foster a culture of corruption in those countries where it made illegal payouts.

During this period, Siemens put in place a formal process for monitoring payments to make sure no illegal payments were made. Senior executives even made some of the individuals responsible for managing the bribery funds sign compliance forms stating they had not engaged in any such activity, while knowing this was not the case.

This scheme began to collapse at Siemens when investigators in several countries started to examine suspicious transactions. Prosecutors in Italy, Liechtenstein, and Switzerland sent requests for help to counterparts in Germany, providing a list of Siemens employees who were implicated in making illegal payments. In late 2006 the German police raided the company, seizing data and arresting several executives. Soon afterward, the United States started to look into these charges. Since Siemens had a listing on the New York Stock Exchange, the company had to adhere to the Foreign Corrupt Practices Act, which outlaws payments to government officials to win contracts. In total, Siemens had to pay not only $1.6 billion in fines, but also commit to spending another $1 billion to improve its internal compliance process, while several executives went to jail.

Sources: S. Schubert and C. Miller, "Where Bribery Was Just a Line Item," *The New York Times*, December 21, 2008, p. B1; J. Ewing, "Siemens Braces for a Slap from Uncle Sam," *BusinessWeek*, November 11, 2007, pp. 78–79; and J. Ewing, "Siemens Settlement: Relief, but Is It Over?" *BusinessWeek*, December 12, 2008, p. 8.

Case Discussion Questions

1. What explains the high level of corruption at Siemens? How did managers engaged in corruption rationalize it?
2. What do you think would have happened to a manager at Siemens if he or she had taken a stand against corrupt practices?
3. How does the kind of corruption Siemens engaged in distort competition?
4. What is the impact of corrupt behavior by Siemens on the countries where it does business?
5. If you were a manager at Siemens, and you became aware of these activities, what would you have done?