

ETHICS UNRESOLVED AT THE WORLD ETHICS FORUM

by SALLY RAMAGE

World ethics

Keble College, University of Oxford was the setting for a low-key World Ethics Forum from 9th to 12th April 2006. This was a forum paid for mainly by four organisations in almost equal shares, namely the United Kingdom's DFID, The World Bank, USAID and AusAid. Most of the funding was used to enable delegates from seventy countries to meet and organise themselves.

This ethics forum is a top-down affair, the next stage being to create regional pockets of Ethics awareness, aimed mainly at removing corruption and fraud from governments.

At the time, the literature in 2005 stated the expected outcome for this ethics conference as follows:

'This conference forays the area of leadership, ethics and integrity which is increasingly seen as an important and currently missing link in governance work but one on which little is known or agreed upon. This event is an

opportunity to bring together leading scholars and practitioners and explore with great rigour the thinking and lessons from experience to guide operational engagements in this area. The impetus for this work and the conference is the increasing demand for support on leadership and on public sector ethics from regional units and countries themselves (including in post-conflict/ fragile countries’.

Pulitzer Prize Winning Journalist attended

The Pulitzer Prize Winning Journalist from Nigeria, Olojede who had been crusading for *good governance* in his country since the 1980’s was at this Ethics Forum. Olojede had won the Pulitzer Prize for writing an article about rape in his country, Rwanda. His article was deemed a distinguished example of reporting on international affairs, including United Nations correspondence, for which he received \$ US ten thousand dollars. His article began thus:

Day 1: Genocide's Child's mother struggles to love her child of rape:

Gervais Tuyishime walks in from school. The 9-year-old boy drops his bag and shakes hands stiffly with his mother. Then he sits quietly on a wooden stool. No words are exchanged. Most days are like that, says the mother, Alphoncina Mutuze. Her relationship with her son is an awkward one, characterized by bouts of anger out of proportion to the boy's perceived infractions, and frequently resulting in hard slaps to his face. On occasion, mother and child unexpectedly allow a hint of affection, and Mutuze embraces her only son, then quickly lets go, as if terrified of crossing a line she has willed herself to faithfully observe...

Attendees of this Ethics Conference at Oxford University

Many of the personnel from the *World Bank* attended this conference.

Corporate responsibility in the world's Northern Hemisphere

One of the speakers was Martin Hancock, BSc, MSc, and Chief operating Officer for *Westpac* in London, who tackled a contemporaneous subject. Martin Hancock represented *Westpac* on matters of corporate responsibility in the Northern hemisphere and

his subject ‘*Ethical banking –an oxymoron?*’ was one of the most interesting.

Ethical banking to promote equity and sustainable development

Martin Hancock said that ethical banking had been described as the provision of financial services that are designed to promote equity and sustainable development. He said that financial institutions had indeed risen to this challenge, both at the individual and sector level, and using *Wespac Banking Corporation*, the global leader for sustainability in the banking sector he examined the following topics:

- *developments and achievements from the perspective of customers, employees and the community;
- * the needs of stakeholders and not just shareholders;
- * best practice; and
- * ethics as a mainstream subject.

He reminded conference attendees that *HSBC Holdings* had won ‘Best Corporate Governance Transparency Awards’ in the year 2002. HSBC had made a roaring profit in 2004, but had been taken to task for high interest rates.

Development of Democracy in post-Soviet Republics

Translating development of democracy into the banking and social sectors in Georgia, was speaker Dr. Londa Esadze, the Co-ordinator of the *TraCCC’s Money Laundering and Economic Crime Programme*,

Georgia. Dr Esadze concluded that the developing of democracy in post-Soviet republics had been a strained and drawn out process and there was no guarantee of success³ because authoritarian traditions remained strong, even among the best educated people in Russia. See also, B. Black, R. Kraakman and A.Tarassova, 'Russian Privatisation and Corporate Governance: What went wrong?'(2000), 52, *Stanford Law Review*, 1731-1808.

Russia's 'kleptocrats'

The academic's table of Russia's 'Kleptocrats' showed them having holdings in 2005 in the following businesses:

LUK Oil;

Subnet ;

LogoVAZ;

AeroFlot and Transaero Airlines;

Gazprom Gas Company;

Alfa Group;

Alfa Bank;

Tyumen Oil;

Most Bank;

Bank Menatep; etc.

See also the paper by La Porta, R. 'The benefits of privatisation – evidence from Mexico', *National Bureau of Economic Research*, (1997), Cambridge, Massachusetts in which La Porta states that privatisation gains can be due to higher product price (10%), laid-off workers (33%) and productivity gains from residual workers (57%): in other words, an exploitation of the work force for huge profits.

Corruption was again rife in Soviet Republics

In Georgia, corruption in the year 2005 was a major problem and soon was apparent after the first flush of anti-corruption efforts by all. The Soviet Republics slipped back into autocratic, vertical (hierarchical) management with weak horizontal links between organisations and an organisational structure based on personal rather than societal interests.

Corporate culture of the Soviet Republics with no ethics policy

The definition of the term *corporate culture* was provided by Schein (1990) as follows:

‘Corporate culture is a pattern of basic assumptions, invented, discovered or developed by a given group, as it learns to cope with its problems of external adoption and internal integration, that has worked well enough to be considered valid, and therefore, is to be taught to new members as the correct way to perceive, think and feel in relation to those problems.’

Thus, the Soviet Republics reverted to their former situation with regard to corporate culture. The conclusion was that without an ethics policy, countries throughout the world reverted to former rotten corporate culture (just as had occurred at *Enron* in the United States of America (‘US’) where, *as the world now knows*, Enron’s auditors, namely Arthur Anderson Chartered Accountants, ignored the dishonesty and manipulations they saw in Enron’s financial statements and remained silent about the matter because the accountants were heavily indebted to the Enron Corporation to which, in a conflict of interest, Enron paid them management consultancy fees of millions of dollars annually. The Enron

Prosecutor in his report Report on the frauds that Enron had committed, stated that Enron's was a culture of self-dealing and self-enrichment).

Ignoring the European Union's Legislation: eating cake & having it

Examining ethics revealed that the Balkan countries' ignored the European Union ('EU') legislation, yet wanted to be part of the EU, as the law article by Brussels *Eurochambres* revealed in 2005. See Editor, 'Companies need stronger EU-Western Balkans economic links', *Eurochambres*, 22 September 2005, Brussels. Research revealed that the Balkan countries suffered from a significant lack of knowledge on relevant EU legislation.

Representatives from Eastern Europe at this Ethics Conference

The delegates from Eastern Europe, apart from Dr Londa Esadze, were:

* Dr. Mikhail Dmitriev, Research Director of the *Russian Centre for Strategic Research*;

*Ms. Aive Pevkur from the *Republic of Estonia*;

*Dr. Dijana Plestina of *Croatia*;

*Bojana Skrobi, a Youth coordinator from *Bosnia/ Herzegovina*;

* Mrs Gunta Veismane of the *Republic of Latvia*; and

* Mimi Zajc of the National Chemicals Bureau of the *Republic of Slovenia*.

OECD corporate governance principles in Eastern Europe

Are they using International Accounting Standards in Eastern Europe?

In Serbia, for instance, they were still using the *local* accounting standards in 2005 instead of international accounting standards.

See Alex. F. da Costa, ‘Benefits from Shareholders’, *Ekonomist Magazin*, pp 16-17, September 05, 2005 in which Dr da Costa was interviewed about Serbia because, he was based in Serbia as Attorney Consultant to the World Bank. In the interview with the *Ekonomist*, Dr Costa said:

‘..No doubt in Serbia a company is acting in a responsible manner in close cooperation with the Serbian Securities Exchange Commission and the Belgrade Stock Exchange Authorities as well as external auditors. However, related to the latter, I have to admit that certain auditor entities in Serbia apply procedures with a kind of an oversized ‘local’ approach rather than in accordance with international standards, namely the well-known IAS - International Accounting Standards’.

Note that Dr. Jose Alexandre F da Costa position in 2005 was as *Legal Consultant* in Business Law, Privatisations, Banking and Project Finance at the World Bank.

One of the IFC, -World Bank's clients was *Tiger* and from *Pirot*. But the World Bank ranked *Serbia* the best business reformer in 2005.

The 2005 World Bank Annual Report provided a global ranking of 155 nations on key business regulations and reforms in every country. See World Bank Report at <http://www.worldbank.org.yu/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/SERBIA...03/10/05>.

The 2005 World Bank report stated that:

**Slovakia* imposed time limits on the issuing of trade licences.

**Poland* was the most active reformer of business licensing in the world.

**Serbia and Montenegro and Macedonia* adopted new labour laws, making regulation more flexible.

**There* were three new private credit bureaus, one each in *Lithuania, Romania and Slovakia*.

(See also, R.T.Stroinski, ‘Takeovers in Poland and the XIII EU Directive’, (2005), *British Institute of International Comparative Law Conference*, 18th March).

***There was a new online credit registry in *Bulgaria*.**

Collateral agreements in 2005 were more easily facilitated in four countries, namely: *Bosnia and Herzegovina; Croatia; Romania and Montenegro*.

****Romania* had introduced a flat tax rate of 16% since 2005.**

****Hungary* had introduced *electronic filing of customs documents*.**

****Serbia and Montenegro* had reduced the time to enforce a simple contract in the courts from over three years to just less than two years.**

***Similarly, the *Czech Republic, Latvia, Poland*¹¹ and *Slovenia* had all reduced delays in the courts.**

See also, a paper by Professor Roberta Romano, ‘Is regulatory competition a problem or irrelevant for corporate governance?’ *European Corporate Governance Institute*, 2005.

Professor Romano concluded in her paper that in the United States of America (‘US’) competitive federalism has been a resilient feature of United States corporate law, and is a benefit, not a threat, to good corporate governance.

See also, M. Patakyove, ‘Review of Corporate Governance Principles in *Slovakia*’, (2005), *Comenius University Publication*, Bratislava, concluding that there were good laws in place, However, in some cases these laws were vague, one example being Slovakia’s Commercial Code, which does not regulate the number of board members.

Ethics policies have a global impact

Ethics and transparency policies affect the ordinary man globally when high-risk investment in one country is made, using a country’s pensions funds, say, and without full knowledge of the poor investors, pensioners, and employees. If countries’ governments do not publicise their countries’ workings, investors remain totally ignorant of the huge risks taken with their money. One example is of a corporate merger involving a German company because this would mean that German rules will apply; a merged entity will have to adopt co-determination if one-third or more of the workers are German.

Poland-no board neutrality

Another flagged issue is that *Poland* has one of the largest stock exchanges in new accession countries. But it has concentrated ownership, consisting of new listings and institutional investors and a small amount of State and individual shareholdings. Poland's new takeover regulation includes increased duties to disclose acquisition and transfer of shares in 7 different thresholds, 5, 12, 20, 25, 33, 50 and 75%. Squeeze-out is applicable at 90% level. Also, there is no express reference to Board neutrality.

Conclusion about ethics (and transparency)

A country's government must make itself transparent not only for its own people but especially because of trade. An ethical government will attract more trade to that country. Macroeconomic models of the effects of trade over time have revealed that trade accounts for a substantial gain in a country's GDP per person over time. (Editor, 'Finance and Economics', *The Economist*, page 86, 4 December 2004).

A closer look at aid by the World Bank

The fact that the World Bank helps emerging markets who are then able to trade, complete buy-outs and mergers and acquisitions with

companies in the developed world can appear that a World Bank-aided-Eastern- European-company which merges with an American or British company, indirectly assists the developed countries of US and UK, for example, to profit even more, when such World-Bank-aid could have helped two companies in two developing countries to better themselves. Another way of saying this is that the *value-added* through World-Bank-aid in Eastern Europe is going the wrong way: to the already rich and developed countries. *These are ethical issues to be addressed.*

Oil and Gas in Eastern Europe

Staying with Eastern Europe and exploitation, we look at the oil and gas situation. A website on Russian Oil and Gas exploration displayed this cry to protect the global environment in 2006.

It is painful to see how few improvements there are in the lives of northern Russian peoples. See A. Wiget and O. Balaeva, 'Black Ice and Crimson Glow: Siberia and the Russian Far East' (2006), *WebPages*.

Environmental, social and health problems of indigenous Russians

The few improvements are more than cancelled out by the damage done by organisations developing these Russian regions. Over many years, day and night, gas-burning flames leave everything in a crimson glow. Oil floats on the tributaries of the *River Ob*, the forest

having been cut down to the shores. Reindeer pastures have perished under the tracks of cross-country vehicles.

The former Soviet Union has a long history of oil and gas exploitation. Much of the operations take place in the north, which produce 78% of Russia's oil and 84% of its natural gas. Indigenous people suffering from environmental, social and health problems populate the same areas. In Khant-Mansy Autonomous District of Western Siberia, as many as 1,000 oil spills occur every year. Many indigenous families have lost their access to adequate pastures for reindeer herding, a cornerstone of their cultural well being.

Token responses by big oil companies

Oil companies' responses have been token at best. For example, in return for leasing its land (purchased by *British Petroleum*), one family's payment consisted of a talkie-talkie, a generator, and 8 sacks of flour, sugar and batteries.

Oil spills and casual pollution issues

Throughout the area, oil spills and casual pollution blacken the wetlands; raised roads trap water and ruin forests. Fires caused by oil workers' carelessness and petroleum soaked debris send columns of smoke out that blight huge territories. Western Siberia, like the America's Appalachian coalfields, is destined to be the sacrificial area for the EU's investors to get fat on.

Ethical issues in the United Kingdom

It is said that even in the United Kingdom ('UK'), alleged mother of democracy, there are corporate ethics issues.

In all, there are huge problems to be faced by all countries – as people talk in dismay of the Nigerian email frauds, worth a global total of hundreds of million of pounds a year, not condoning, but reminding ourselves that fraud in the United Kingdom was some 35 billion pounds in 2004, making that global fraud a drop in the ocean of our country's fraud, insured against so as not to bother us.

The ethical issue in the UK is whether the UK wants to enrichment by investing under unethical conditions. Does the UK want easy wealth due to another people's suffering? The UK has its history of the slave trade; the sugar plantations in the West Indies; the exploitation of the poor by the rich in Africa, Venezuela and Argentina.

Therefore the UK ought to introduce realistic, workable fraud and bribery policies and ethics policies for governments the UK trades with; laws and treaties that are joined up; and transparency for all. *A talking shop* as this *Ethics Forum* was was one step in the right direction.

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