

APPENDIX **B** **BASIC GUIDELINES FOR CODES OF BUSINESS CONDUCT**

This text, titled “Basic Guidelines for Codes of Business Conduct,” was developed by the U.S. Department of Commerce in cooperation with the Russian Chamber of Commerce and Industry and the U.S.–Russia Business Development Committee. The guidelines are intended to assist organizations in developing their own codes of conduct. Questions may be addressed to Igor_Abramov@ita.doc.gov.

Basic Guidelines for Codes of Business Conduct

INTRODUCTION

In today’s interconnected and interdependent world, where borders between states are becoming increasingly transparent, principles in business conduct are becoming criteria for building a good reputation in the international business community; they are the basis on which first impressions are formed and ongoing relationships maintained.

The purpose of this set of guidelines is to articulate general principles and standards that have been accepted in international business transactions. Although these principles apply generally, they are not intended to be an all-encompassing set of business practices and corporate principles. They must be adopted and implemented on a sector-by-sector and enterprise-by-enterprise¹ basis to take into account applicable laws, regulations, and other specific circumstances (such as the size of the enterprise).

PRINCIPLES IN PERSONAL AND PROFESSIONAL RELATIONS

No laws or contracts can anticipate the possible vicissitudes of life. Very often an entrepreneur must make a decision based on the prompting of common sense and conscience. The key is to embody ethical and moral principles into personal and professional relations, and remember to:

- always do business within one’s means;
- have respect for the partners and participants in a shared business venture;

¹ “Enterprise” as used in this document means both a legal entity such as an “enterprise,” “company,” “firm,” or “organization,” and an individual or small entrepreneur.

- refrain from violence or the threat of violence as methods of achieving business success;
- resist crime and corruption, and do one's part to see that crime and corruption become unprofitable for everyone; and
- live up to the trust placed in you; trust is the foundation of entrepreneurship and a key to success;
- endeavor to earn a reputation for integrity, competency, and excellence.

CORPORATE GOVERNANCE: RELATIONSHIPS WITH SHAREHOLDERS

A trusting relationship between management and shareholders is critical. Investors and lenders must be satisfied with the manner in which shareholders oversee the performance of management and participate in key decisions.

Sound principles of corporate governance include the following:

- delineating in the company charter the respective roles and responsibilities of both management and shareholders;
- transparency of voting rules;
- respect for the rights of minority shareholders;
- open communications with shareholders through the provision of audited accounts, and information about the progress and operations of the company; and
- a well-functioning board of directors who have the skills, the time, and the access to information needed to discharge its responsibilities effectively. The board will act in a fiduciary capacity on behalf of all the shareholders.

RELATIONSHIP WITH EMPLOYEES

Enterprises have an important responsibility towards their employees. A number of basic principles typically guide the attitudes of successful enterprises toward their employees:

- due regard for labor laws;
- commitment to adequate standards of worker health and safety;
- non-discrimination in the recruitment, compensation, and promotion of employees;
- respect for the rights of workers to engage in union activity;
- effective systems for consultation with employees on employment conditions and other issues that affect the employees;
- clearly stated and transparent policies relating to compensation, benefits, promotions, and other employment conditions; and

- commitments by the enterprise for contributions to pension plans; and strict protection of the integrity of company-sponsored pension plans.

These principles do not limit the right of an enterprise to enforce discipline on its labor force or to terminate workers in accordance with applicable law.

RELATIONSHIP WITH OTHER ENTERPRISES

A relationship of mutual trust in which all parties benefit is the most significant aspect of relations between partners in joint ventures, contractual arrangements, or business relations with other enterprises. The reputation of a company is its most valuable asset. Once the reputation of an enterprise is tarnished, it is very difficult to gain trust with the same or other business relations. A number of basic principles that typically promote mutual trust in business relations include:

- commitment to excellence in products and services;
- commitment to gain respect and trust in all business relations;
- respect for the sanctity of contracts and business relations;
- in case of a commercial dispute, a willingness to negotiate and compromise in order to reach an amicable solution; and
- respect for the sanctity of rule of law, including abiding in a timely manner with decisions of any court, arbitral panels, or other administrative bodies.

RELATIONSHIP WITH THE GLOBAL COMMUNITY

As a company is an integral part of the community in which it operates, a sound relationship with the community is essential. Caring for the environment is a responsibility of the enterprise towards the immediate community, but it also extends to all communities and areas whose environment may be affected by the enterprise's activities. Enterprises must:

- be sensitive to concerns of the local population;
- communicate with the local population;
- abide by all applicable environmental laws and regulations; and
- show tolerance for people of other cultures, races, beliefs, and countries.

RELATIONSHIP WITH GOVERNMENT AUTHORITIES

Well-managed enterprises are law abiding enterprises. To maintain a sound relationship with governmental authorities, enterprises must:

- pay all taxes that are owed and due;
- abide by all mandatory government and local regulations;

- obtain all governmental permits, licenses, and approvals required to do business;
- deal with government authorities on an arm's length basis, and make no attempts to improperly influence governmental decisions;
- establish transparent procedures regarding transactions engaged in by enterprises with any government agency or official or in dealings with any enterprise owned or controlled by a government agency or official; and
- in transactions with any government agency or officials or with any enterprise owned or controlled by a government or government official, include appropriate provisions to ensure compliance with international or national codes against extortion and bribery.

PROPER CHECKS AND BALANCES

A proper system of checks and balances is necessary to ensure the ongoing integrity of the enterprise and of its relationship with its constituencies. Such a system must be based on the general principles of full disclosure, management accountability, separation of responsibility, and sound internal controls.

An enterprise should have a full disclosure policy concerning:

- statements of the enterprise's strategic aims and policies, how these have been achieved in the past reporting period, and how the enterprise will act in the future;
- prompt reports to the enterprise's constituencies on events that could have a material effect on the enterprise; and
- prompt disclosure of all important relationships between officials of the enterprise and other parties.

The key element of a system of checks and balances is that the shareholders are able to monitor management's performance and to condemn poor performance, including through the removal of management.

PREVENTION OF EXTORTION AND BRIBERY

Principles concerning prevention of extortion and bribery are intended as a method of self-regulation by businesses. The voluntary acceptance of these principles by enterprises will not only promote high standards of integrity in business transactions, whether between enterprises and public bodies or between enterprises themselves, but will also protect enterprises that are subject to attempts at extortion.

The business community objects to all forms of extortion and bribery. The highest priority should be directed to ending extortion and bribery involving

politicians and senior officials. Bribery and extortion threaten democratic institutions and cause grave economic distortions.

All enterprises should observe both the letter and spirit of the following rules:

- no one may, directly or indirectly, demand or accept a bribe;
- no enterprise may, directly or indirectly, offer or give a bribe, and any demands for such a bribe must be rejected;
- enterprises should take measures reasonably within their power to ensure that any payment made to any agent represents no more than an appropriate remuneration for legitimate services rendered by the agent; that no part of any such payment is passed on by the agent as a bribe or otherwise in contravention of these principles;
- all financial transactions must be properly, accurately, and fairly recorded in appropriate books of account available for inspection by the board of directors as well as by auditors. Enterprises must take all necessary measures to establish independent systems of auditing in order to bring to light any transactions that contravene these principles. The enterprise must then take appropriate corrective action;
- the board of directors of the enterprise should periodically review compliance with these principles, and take appropriate action against any director or employee who acts in a manner inconsistent with these principles; and
- contributions to political parties or to individual politicians may be made only in accordance with applicable law, and in accordance with all applicable requirements for public disclosure of such contributions.

CREATION OF A CULTURE THAT FOSTERS SOUND BUSINESS STANDARDS AND CORPORATE PRACTICES

Ultimately, for an enterprise to live by sound business standards and ethical practices it must develop a culture that fosters such standards of integrity. This effort must be led by management and key shareholders. Steps that management and key shareholders may take to promote this positive attitude throughout the company include:

- the preparation and dissemination within the company of a code of conduct for employees;
- employee training;
- encourage proper conduct and sanctions against misconduct; and
- creation of an ethics office and ethics officers to advise and educate employees, and provide guarantees for confidential counseling.

RECOMMENDATIONS FOR IMPLEMENTATION OF THESE GUIDELINES

All enterprises that wish to become part of the international business community are recommended to:

- draft their own codes of business conduct consistent with these principles and apply them to the particular circumstances in which their business is carried out; and
- develop clear policies, guidelines, and training programs for implementing and enforcing the provisions of their codes.

The extent to which enterprises decide to incorporate the above listed guidelines may depend on the size, specific circumstances, and the business of the company.