

## **Is “Profits with Integrity” a Viable International Business Strategy?**

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Thank you Mr. Chairman.

Good morning Ladies and gentlemen. I would like to start by thanking Transparency International for inviting me here today.

Bribery and false accounting in the corporate sector have raised many questions in regard to global corporate governance. As the Vice Chairman of the International Chamber of Commerce, today I will speak about the importance of “profits with integrity” as a viable international business strategy.

The first point of my speech is that companies accused of corruption have difficulty surviving in the global business environment. The Lockheed bribery scandal in Japan in the 1970’s led to the resignation of Japanese Prime Minister Tanaka and major management changes at Lockheed.

Unfortunately, rumors of bribery in the corporate sector continues today.

Recently, U.S. companies, such as Halliburton and Exxon Mobil, have been mentioned in overseas bribery cases.

Bribery causes investors and shareholders to question corporate governance practices in addition to mistrust from the general public. At the government level, I have heard that discussions are under way in the U.S. to regulate corporate crimes through the introduction of a three-strike out system.

However, I believe that it is not desirable for the government or civic groups to regulate the business community against the corruption. Government regulation, tends to restrict and discourage business activities of companies conducting business in a fair and lawful manner.

More important, the corporations themselves suffer directly from corruption by competitors in the same industry. As a result, the companies themselves have proven to be the best regulators of best business practices and have gradually adopted anti-corruption regulations.

But for now, I believe that the public and government should simply monitor corporate self-regulating efforts to uproot corruption and encourage good corporate governance.

The ICC has also taken strong efforts to regulate bribery practices in the business sector. The ICC was one of the world's first international organizations to warn that corruption harms the global economy, free trade and fair competition. The ICC has actively worked to eliminate bribery in the business community.

As early as 1975, the ICC called on the United Nations to hold an anti-corruption convention. In 1977, the ICC published its own code of conduct, the "ICC Rules on Extortion and Bribery in International Business Transactions." The ICC's efforts eventually led to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

As a result, Korea and other members of the OECD have laws combating corruption in international commercial deals.

Lately, the ICC is paying special attention to the corporate-level anti-corruption campaign. The ICC imposes a rigid anti-bribery system on its member companies and the ICC Commission on Anti-Corruption requires its member companies to collect and report instances of bribery.

In addition, the ICC has published a corporate practices manual titled "Fighting Corruption." The manual suggests that companies prepare a code of ethics and build an internal control system because employees could be easily tempted to commit a corruptive act in an increasingly competitive work environment.

Corporations are also asked to encourage whistle-blowing. Employees should be able to report unfair instructions from their bosses and management without fear of retaliation.

Further, the ICC is making efforts to fight corruption on a global scale. Currently, discussions are under way with the OECD to apply its bribery [ban](#) to the private sector. The ICC is also in discussions with the U.N. to hold a global convention against corruption.

I believe that strengthening supervision in the global society and the private sector's strong anti-corruption efforts will gradually discourage further corporate corruption. In this regard, the ICC is at the forefront of this global fight against corruption.

The second point of "profits with integrity" is the importance of businesses conducting transparent corporate governance in all corporate activities, including protection of consumers and investors, and social awareness for their own survival. Many companies have gone bankrupt or corporate restructuring, because of their blind pursuit of profits and failure to obey by the law. The following examples offer lessons to all of us.

Japanese automaker Mitsubishi Motors was ordered to pay \$34 million in damages because of a sexual harassment case at its U.S. plant. A U.S. affiliate of Daiwa Bank of Japan paid \$340 million in fines for failing to properly disclose \$1.1 billion in losses. Japanese milk producer, Yukijirushi, went bankrupt after a cover-up of a massive food poisoning incident was disclosed.

Another important factor for ethical management is to ensure transparency in accounting. Today, the global community and investors still feel the shock from massive accounting scandals at Enron and WorldCom.

At this point, I will briefly speak about Korea's experiences in accounting transparency. Prior to the Asian Crisis in 1997, accounting transparency was of little interest to businesses and the general public in Korea. There was no systematic control of accounting fraud and many companies engaged in "window-dressing". As a result, some companies created false financial statements to borrow large amounts of capital from banks. Domestic banks made loans based on the financial strength of these false financial statements.

Many experts in Korea agree that a lack of accounting transparency was largely responsible for the outbreak of the economic crisis in Korea and bankruptcy of 17 of the nation's 30 largest companies.

Recently, another Korean company has run into serious problems, because of its failure to correct window-dressed accounting that had occurred in the past.

As a result, improvement of accounting transparency is now emerging as a life-or-death task for both business corporations and accounting firms in Korea.

My third point is that "profits with integrity" is an important strategy for growth on an international scale. In other words, corporations must obey the laws to operate and survive in today's global economy. In order to attain growth, corporations must be recognized by society for their social awareness.

Trust is the key driver between profits and integrity and public trust is important for global corporate growth. It has been shown that one half of U.S. consumers tend to link corporate image to their purchasing behaviors. Public trust is a known key factor in creating corporate image.

Companies that do not show strong social awareness, lose trust from its consumers and investors. Low corporate ethics lead to a decline in corporate image and negatively affect corporate earnings. A disgraced company would have to pay dearly to restore its tainted corporate image.

In contrast, strong social awareness tends to generate a good corporate image and trust by consumers and investors. These companies are rewarded with strong financial statements, cost reductions, consumer loyalty and, of course, increased profits.

Royal Dutch Shell Group of the Netherlands seems to stand as a good example of ethical management. The company's motto, "People, planet and profits," shows a new horizon of ethical management. Shell is dedicated to improving the living quality of mankind and corporate growth is attained through such a process.

Shell's ethical management has been rewarded by the affection of the Dutch people and the endowment of the "royal" title in the company name from the Dutch royalty. Such rewards led to the success of the company. Among the world's 500 largest non-U.S. corporations selected by the Forbes magazine last year, Shell recorded the second largest sales revenues, only next to Daimler-Chrysler.

Besides Shell, many global companies, including General Electric and Hewlett Packard, pursue the "profits with integrity" philosophy. Corporations are well aware that they are not isolated from society. As important members of civic society, corporations have the responsibility to adopt strong social awareness policies and ethical standards of behavior.

These practices exhibited by the world's corporate leaders are spreading across the international business community. In Korea, for example, Samsung Electronics, Yuhan Kimberley, Shinsegae Department Store and many other corporations have adopted ethical management practices and are putting them into practice.

About 50 percent of Korea's 300 largest corporations have adopted a code of ethics and about 40 percent have devoted independent departments to enforcing ethical management. The

"best practices" of the world's top companies are rapidly spreading in the Korean business community.

Finally, my last point is that sometimes there is an elusive dilemma between profits and integrity. For example, how can we define the ethical management of a cigarette manufacturer? How would we define the social responsibility of a life-science company?

I do not think that it is appropriate for us to jump to an immediate conclusion today. Instead, I propose we hold more discussions and take a gradual approach to resolve this dilemma.

Today, free trade and free capital movement are taking place rapidly. Civic activism intended to promote social awareness is gaining strength. In keeping with the trend, global companies are rapidly pursuing international standards and adopting ethical management as a survival strategy.

I hope that governments and civic society will continue to encourage the business community to adopt ethical management in the pursuit of "profits with integrity." Better cooperation between companies, civic society and the government will further enhance integrity in corporate management.

Thank you very much for your attention.