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Keep corporate standards close to home

6 October 2020: Many international companies with operations far away from head office have realised too late that what goes on abroad, in their outpost locations, might come back and haunt senior management, argues corporate ethics expert Lord Gold.

In head offices across the globe, there are still senior executives who believe that a problem occurring in a distant subsidiary will not impact on them or the business and, therefore, the way business might be conducted far away is not their concern.

The Bribery Act 2010 has been a wake-up call to all businesses with a UK connection. Failing to have "adequate procedures" in place designed to prevent bribery is now an offence and neglecting properly to manage what might happen in overseas locations presents the greatest risk.

Using agents abroad to win business, arming them with cash, not managing them and not knowing exactly what they might be doing all create real risks for businesses. The use of third-party agents has been a prominent feature of several recent SFO investigations, resulting in Deferred Prosecution Agreements, massive penalty payments and sometimes the appointment of a monitor, which invariably is costly and intrusive.

Many managers who understand the issue believe that the risk is reduced or eliminated by having tight rules in place, but that alone is not a solution. Of course, rules are important but senior management must ensure that the rules are followed and that those who ignore them will be disciplined.

This is not just a responsibility of management. The board must hold management's feet to the fire and satisfy itself that the rules are appropriate and are being adhered to.

This responsibility goes far beyond bribery and isn't limited to what might be happening abroad. Starting at home, the board and management must ensure that the standards applying there and throughout the company fit in with what is expected of modern international companies. This responsibility stretches overseas, not just in subsidiaries but in joint-venture companies and suppliers.

The consequences of failing to apply are manifest and potentially devastating. For example, if a company was to face a modern-day slavery investigation, not only would it suffer reputational damage, but investors would also suffer through a potentially large reduction in share price.

Concern for the workforce, ensuring that the place of work is safe (not being content simply to meet local rules and regulations if here in the UK we would demand higher standards) is essential and the consequences of getting this wrong could not only be prosecution, regulatory intervention and investor discontent but also damaging media interest from which the company might not survive.

Hopefully avoiding these problems but managing them carefully if they do occur is key.

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