Rethinking your third-party risk management initiatives and responsibilities: Part 2

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Do Central Asia and compliance have something in common? Ethics and compliance policies have always been viewed among the most undesired things to deal with, even at headquarter offices of many multinationals. The 2013 BDO’s Board Survey revealed that compliance is the area corporate directors prefer to spend less time on. If it is so, someone can imagine how much employees and managers at local offices, with their totally different cultural backgrounds, would view compliance and ethics as “burdensome.”

The European Bank for Reconstruction and Development (EBRD) and the World Bank rank corruption among the top obstacles for the business of representative firms in most Central Asian countries. The 2013 Global Corruption Barometer says that from 34% to 50% of the population is paying bribes in Post-Soviet Central Asian countries—Central Asia stands out from other regions, showing the highest third-party risk also. KPMG’s 2013 analysis shows 53% of red reports on third parties in Central Asia—the highest of all geographical regions.

This all means very high exposure to foreign corruption and other compliance risks for multinationals with businesses in Central Asia. And, by the way, at least six high-profile FCPA cases have emerged, up from zero for the last several years in this region.

Our experience of working in the region proves that if no due adaptation work is done to global corporate ethics policies and procedures, they are not going to be appropriately understood by local managers and employees in Central Asia. Rather, they are always neglected by both local managers and many expats. The business culture of this region is particularly different. Non-compliance is a way of life, which has already brought some multinationals to very bad worldwide “fame” here in the region.

To be honest, non-customized corporate ethics standards, coupled with standardized regular trainings, often have very low effect. Normally, around 15% to 20% of local managers take such “imported standards” seriously.
Outright workplace harassment, stealing of office supplies, reimbursement of inflated out-of-pocket expenses, and personal use of corporate properties are normal occurrences across the region, in violation of all ethics policies. You will only be able to detect something wrong is happening when a violation inevitably transforms into something bigger, with huge reputational and financial consequences. We all know well that if small misdeeds go undetected and unpunished, they never stop there.

The point is: the culture is not simply different in Central Asia, but it is a big factor that strongly undermines otherwise very good compliance and ethics programs. What is good in the U.S. may be considered inappropriate in Kyrgyzstan or in Kazakhstan, and this really factors into a different perception of ethics and compliance.

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Why Central Asia is so special?
We all remember when the discovery of horse DNA in hamburger meat for sale at supermarkets caused an uproar in Europe in early 2013. Of course, many in the U.S. also felt horrible about that. On the contrary, horse meat has always been considered the most delicious and most expensive in Kazakhstan and Kyrgyzstan, usually eaten only for special occasions.

You probably would be scared at restaurants in Central Asia when served with a black, whole, boiled head of sheep on your plate, with its teeth and eyes staring and with its tongue hanging out of its mouth. It even sounds horrible, does it not? But it is how they treat the most honorable guests in some countries of Central Asia.

If someone ahead of you in traffic in Kazakhstan blinks the turn signals on his car, you probably would not understand that he is saying “Thank you” to you. Why would he do that? Well, probably for you yielding way for him. Astonished? Of course. There are thousands of other things that would surprise you.

But differences are not all about food or traffic. Informal, unwritten, and unknown differences are everywhere, including the business field. This requires that compliance officers either customize and adapt business conduct policies for Central Asian local offices, or increase dumb enforcement of existing global standards by setting stronger penalties (which is the least effective way, I think).

Based on thousands of interviews and more than a decade of research on over 40 countries, culture scholar Geert Hofstede identified five dimensions that distinguish all cultures across the countries. Those dimensions are:

- **Power distance**: the degree of inequality that exists and that is accepted among people with and without power.
- **Individualism**: the strength or weakness of the ties people tend to have with others in their community.
- **Masculinity**: how much a society values and exhibits traditional male and female roles and expects them to be different.
- **Uncertainty avoidance**: the degree of anxiety people feel in an uncertain or unfamiliar situation.
- **Long-term orientation**: a focus on long-term planning, delivering on social obligations, and avoiding loosing face.
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The problem for Central Asia is that the cultural dimensions that have been put into the base of most US and European compliance and ethics programs differ radically from those cultural dimensions of the people who live in Central Asia.

Employees in Central Asian offices might not let you know they disagree with you on some important points. This is inherent in most of Central Asian cultures. Your compliance manager and other staff may not be raising an issue when they should be. The compliance manager lives in a different ethics dimension, a different reality. That being said, he has to live with double standards, where one is the corporate standard and the other is local ethics.

There are so many conflicts between these standards. When the local manager agrees with you, it does not necessarily mean he understands or shares your view. It might look very impolite from your local subordinate’s view if he/she disagrees with you or criticizes your point. So, if you are not attentive to cultural barriers in Central Asia, you may end up totally unaware of the real picture of compliance control effectiveness on the ground.

Is it really hard to prevent failures in Central Asia?

Cultural differences are a vital issue if you want to effectively implement global compliance and ethics standards in Central Asia. A huge cultural gap exists, and there is a lot of work that should be done to fill the gap, before your corporate ethics policies start working in these countries.

Corruption is a way of doing business in many of these countries. That is why Central Asia stands out in many corruption, fraud, and money laundering rankings.

Since the last cases happened here, unfortunately, nothing positively changed in terms of corruption in Kazakhstan, or Uzbekistan, or Kyrgyzstan. The same people today at local governments are still doing the same businesses, applying the same “tactics” which might impact your local businesses the same way. However, the number of corruption cases is going to increase in the region. This is the only change we are observing so far.

The good news is that preventing such big crashes here is much easier than dealing with devastating consequences. Just making global policies local means making them really work, which in turn means protecting your company from very serious foreign corruption and fraud exposure. With no such adaptation, even the best ethics standards would, unfortunately, miss the point and get misunderstood.

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6. For FCPA cases in Central Asian countries, please, see Securities and Exchange Commissions website page at http://1.usa.gov/1150g0