

CEP Magazine – March 2019

Multinationals' growing compliance risk and mitigation strategy for emerging markets

By Pooja Bedi, BA, LLB, FCS

Pooja Bedi (puja.mails@gmail.com) is a corporate lawyer and compliance professional based in Gurgaon, India. She was recognized as the “Rising Star—Under 40 In-house Counsel” by the Legal Era Foundation in 2017.

- [linkedin.com/in/poojabedi/](https://www.linkedin.com/in/poojabedi/)

Why did companies start appointing compliance officers? Sorry to disappoint, but the story is short and not very glamorous: The government started mandating transparency and accountability from companies that were thriving on public money. This became even more critical to businesses in December 1977, when the Foreign Corrupt Practices Act (FCPA) was signed into law after an investigation by the Securities and Exchange Commission revealed that several hundred US companies bribed foreign officials to obtain foreign government contracts or bidding advantages. The FCPA, along with the creation of enforcement agencies, such as the Environmental Protection Agency and the Drug Enforcement Administration, prompted companies to develop internal resources that would actively monitor compliance with laws, rules, and regulations. Companies had to somehow survive this growing transparency trend and establish credibility with the public. Organizations needed an independent view of their own business conduct—someone who could alert them in advance, truly act as a watchdog, be a gatekeeper who helps remediate violations proactively, and be an effective eye for the governing board.

The need grew as organizations began expanding operations internationally. The default assumption was that many violations were not the result of deliberate attempts to commit fraud or abuse. In their desire to do business well, employees may be tempted to take shortcuts or make clerical errors that can come back to haunt organizations. I really like that default assumption. So, companies wrote a code of business conduct that clearly set boundaries and made rules around what is and is not acceptable. Compliance officers became a full-fledged global compliance function, with lawyers and financial inspectors across operations worldwide to keep businesses on track with laws and regulations, navigating through local complexities. This helped compliance professionals build credibility. Organizations started budgeting for compliance and risk mitigation strategies, which stimulated a progressive business environment. The government started acknowledging efforts and giving credit, and the compliance officer became the expert navigator bridging the gaps in understanding between management and stakeholders.

Despite hundreds of pages of policies, codes of ethics, codes of conduct, organizational values, and carefully defined work environments and company cultures, lapses in workplace ethics occur every day (e.g., manipulation of financial statements, insider stock trading, expense account fraud, sexual harassment, and involvement in conflicts of interest). This tells us that ethics and compliance initiatives are not infallible; a tick-the-box approach doesn't take you far; and a lot depends on an organization's internal will, culture, and people.

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