

## Cleaning up in business

*EuCham CEE president on the need for ethics in business and the mission of the European Chamber*

"Being one of the pillars of EuCham, integrity development plays an important role in our choices of long-term business support activities," said EuCham CEE president Michele Orzan, adding that a strong ethical background makes any society stronger.



"We all know that the richest countries are those with the cleanest business environment, while the poorest struggle with high corruption levels. Unfortunately we cannot say whether poverty creates corruption or the opposite, but there is clearly a strong correlation between these two factors".

Besides environmental sustainability and entrepreneurship development as necessary conditions to maintain balanced and successful capitalism, EuCham identified its third major role in business integrity.

Asked whether business decisions should take into consideration that sometimes only corruption practices will work, Orzan categorically stressed that only the clean way provides a wise and long-term business sense. Entering the gray area – he says – while it sometimes may seem to offer an immediate result, strongly undermines the ability to compete in the market. It's much better to stay out of bad games and concentrate on quality and competitiveness development instead, dealing with customers that reward it.

"If an organisation has a strong ethical backbone, reflected in its management, it's virtually unbeatable." – concluded Orzan.

– EuCham – European Chamber is the umbrella organisation for innovative multilateral business chambers that will be created across all 49 European countries. EuCham CEE (Central and Eastern Europe) is the first pilot member, set up in 2011 in order to perform the activities until the chambers begin operating at national level (with Slovenia and Poland set to start this year). Having gained international support and recognition, representing its members in the most important business platforms in the world, such as the G20, the Global Entrepreneurship Congress and the World Economic Forum in Davos, EuCham relentlessly promotes activities that reflect its principles and help the business world to perform its social role.



The panel fielded questions from the audience of over 100. From left: Dr. Zsuzsanna Lippai, legal & compliance manager, Mercedes-Benz; Frank Klausz, chief corporate development director, Telenor; Alessandro Farina, owner, ITL Group; and Janez Podobnik, acting director general, International Centre for Promotion of Enterprises, based in Slovenia.

## Integrity is corruption's antidote

**Short-term pain, long-term gain**

**BENEDIKT DAMS**

Ever since the financial crisis hit Europe in 2008, the EU has had to come to terms with the corruption problems in its member countries, which have proven detrimental to the state of the continent's economies.

In Greece a large portion of gross domestic product has been swallowed by black markets. In Italy the government estimates that its entire budget deficit could be fixed overnight if only her citizens would pay their taxes properly and not offer their work off the books. Spain and Portugal, too, will need some time until they get their economies out of rough waters and address the problems of tax fraud and corruption.

Hungary in the meantime seems to be doing okay, fine even. This month the European Chamber, EuCham, in Budapest organised a conference on corruption in the country to shed some light on the current state of affairs.

### The eyes have it

Introductions were made by Michele Orzan, an Italian businessman who sold his company a couple of years ago to Coca-Cola. He related an anecdote to highlight one of the most difficult problems in getting a hold on corruption: an Italian colleague of his was perplexed to discover that Orzan had never had to bribe Hungarian customs officers, whereas he had done so for years. According to Orzan, this was due to the expectations of his colleague. "A corrupt official will see it in your eyes, whether you are willing to pay or not," he told the audience of over 100 at the Kinnarps Jari Conference Centre on Váci ut. "Much like a doctor can tell whether you are sick or not."

It is therefore very difficult to hit the nail on the head when looking for the origin of corrupt

activity in Hungary. For corruption to become a widespread problem, you need several components such as a legal system that doesn't care or works inefficiently, as well as a business climate in which it is acceptable to use bribes to get ahead.

How exactly these two work differs greatly within the regions and thus it is near impossible to find a one-size-fits-all solution.

### The mediocre Magyar

Hungary sits comfortably in the middle in terms of corruption, both worldwide and regional. On the Corruption Perception Index published by Transparency International (see box on next page), the country scored 55 points out of 100 and thus rests fairly easily at number 46 out of 170 nations.

Compared to the other Central and Eastern European countries, Hungary is in fourth place, which is slightly better than, for example, Lithuania but worse than Poland or Estonia. The government has celebrated this as a great success for its recent anti-corruption policies, which among other things feature the apprehension of several police accused of accepting bribes.

But Noémi Alexa says the battle has not yet been won. The president of Transparency International Hungary warned the audience that many problems present five years ago have not been addressed properly, and there are several features in contemporary Hungary that could prove detrimental to the success of addressing its corruption problems.

### State capture

Nowadays, the big problem is the intimate relationships, the so-called state partnerships with individual businesses and companies, Alexa said. Because the government is actively seeking to control and even micro-manage its economy, it has been much more active in trying to control markets.

Driven to the extreme this would lead to state-

capture, a situation in which a dependency relationship between the state and single companies is facilitated, allowing the latter to dictate their policies to the government.

In a full-fledged democracy these problems are usually solved through the committee-based work done in Parliament. Consultation with experts when conducting policy should theoretically prohibit one company from controlling policy in its own markets. This consultation process has, however, proven to be lacklustre, as Telenor chief corporate development director Frank Klausz argued.

According to him, government relations with his company have deteriorated rapidly over the past year. Whereas in the beginning the consultation process was exemplary, government officials stopped communications entirely once it decided to enter the market itself by calling a tender for a fourth mobile phone operator. Klausz said calls were ignored and pleas to discuss issues were not heard. (The would-be fourth mobile provider MPVI was created by a consortium of the state-owned postal service Magyar Posta, state electricity company MVM and state-owned development bank MFB. It won the rights, but the three other providers on the market – Telenor, Magyar Telekom and Vodafone – won an appeal against MPVI tendering the auction on the grounds that there were legal errors in both the auction process and the decision regarding the fourth provider.)

While this is of course far from a state-capture situation, it nevertheless gives reason to worry about future conduct of business relations with government. Danish ambassador to Hungary Tom Nørring thus appealed to his Hungarian colleagues: "In the long run Hungary would risk its global competitiveness if any kind of corruption is not punished immediately. This includes advantageous treatment of individual firms as well as outright bribery."

Hungary has to take this problem seriously. Greece showed what happens if it does not.

– The Budapest Times was media sponsor of the event.

## Study hints at cronyism in state tenders

**Only six of the top 30 firms winning tenders under Socialists also winning under Fidesz**

**BÉNÉDICTE WILLIAMS**

The top 30 companies winning public procurement tenders include only six that have been securing tenders during both the previous socialist government and the current Viktor Orbán era, a survey published by the corruption research institute of Budapest Corvinus University reveals.

**Fewer win more**

The study included 78,000 tenders and 4,000 firms, and the numbers suggest that the 30 companies winning tenders in 2009 shared 30.4 per cent of the "market", but this dropped to seven per cent by the second half of 2011. Meanwhile the top 30 in the second half of 2011 saw their share increase from 9.3 per cent to 27 per cent over two years.

**Open to interpretation**

"The fact that the top companies have changed so much over two years can mean three things: the political influence of 2009 disappeared, political influence appeared after 2009 or there was political influence in both 2009 and 2011," István János Tóth, one of the creators of the study and a member of the Hungarian Academy of Sciences, said.

**Közgép won earlier too**

Although the data from 2012 was not part of the study, the popular belief that Közgép – a company owned by Lajos Simicska, a former treasurer of the governing Fidesz – has won far more state contracts since the new government took control in 2010, did not prove to be true, Tóth said. "There are six companies that managed to stay in the top 30 in both periods examined,

with five of them coming from the construction segment," he said. "These are Közgép, Duna Aszfalt, SADE, Strabag and Swietelsky."

**Very big, or connected**

This could be because these firms are so large that it is practically impossible to carry out a large development without one of them, or that they have good connections on both sides of the political aisle, he said.

## New pattern emerging in corruption: TI Region improves, but Hungary stuck

NOÉMI ALEXA

**H**ungary scored 55 in a scale from 0 to 100 on Transparency International's Corruption Perception Index in 2012. The results have not changed significantly for the last five to six years; Hungary has been perceived a mid-corrupt country, ranking in the bottom third within the European Union.

The unchanged situation means a fall back within the region, since the regional average has improved during the same period. In 2008 a situation analysis of state institutions' showed that the lack of transparency in political financing as well as the symbiosis of the political and business elite are the roots of corruption in Hungary.

The National Integrity System Country Study underlined the necessity of improving the procurement system, the transparency of state institutions and of party and campaign financing. These risks have not been mitigated since then. Moreover political influence on independent control institutions has increased.

### New corruption pattern

The same research published in 2012 showed that a new corruption pattern, namely state capture emerged in Hungary. This is a centralised model of corruption that serves private interests of some small group of actors. The lack of political will to break the vicious circle of state capture indicates that the business sector and civil society have special role in raising awareness and exercise public pressure on decision makers.

– Noémi Alexa is the president of Transparency International Hungary. [www.transparency.hu](http://www.transparency.hu)

## Corruption perceptions, 2012

### Hungary in the EU

RANK	COUNTRY	SCORE
1	DENMARK	90
2	FINLAND	90
3	SWEDEN	88
4	NETHERLANDS	84
5	LUXEMBOURG	80
6	GERMANY	79
7	BELGIUM	75
8	UNITED KINGDOM	74
9	FRANCE	71
10	AUSTRIA	69
11	IRELAND	66
11	CYPRUS	66
13	SPAIN	65
14	ESTONIA	64
15	PORTUGAL	63
16	SLOVENIA	61
17	POLAND	58
18	MALTA	57
19	HUNGARY	55
20	LITHUANIA	54
21	CZECH REPUBLIC	49
21	LATVIA	49
23	SLOVAKIA	46
24	ROMANIA	44
25	ITALY	42
26	BULGARIA	41
27	GREECE	36

### Hungary in the CEE

RANK	COUNTRY	SCORE
1	ESTONIA	64
2	SLOVENIA	61
3	POLAND	58
4	HUNGARY	55
5	LITHUANIA	54
6	CZECH REPUBLIC	49
7	LATVIA	49
8	SLOVAKIA	46
9	ROMANIA	44
10	BULGARIA	41

# Incorporating integrity & values

## How Mercedes ensures that its business practices are squeaky clean

Dr. ZSUZSANNA LIPPAI

**M**ercedes-Benz Hungária Kft. places great emphasis on integrity in business conduct. Integrity is one of the most important company values, which is incorporated into our policies, processes and procedures to safeguard transparent business activities.

### Compliance system

The main pillars of the compliance system are, among others: the Integrity Code, internal training programs, systematic risk evaluation process and so-called Integrity Dialogs.

The regular company-wide Integrity Dialogs help employees from all hierarchical

levels to identify with the Integrity Code and the corporate values. The company believes that the crucial success factor will not only be the existence of policies and processes but the fostering of the correct attitude of each individual. Even the best compliance program is only as good as the employees' familiarity with it, and if they understand and know how to apply it.

### Putting it to the test

In October 2012 the Integrity Dialog was held in Budapest. Cases were presented to the participants (employees) to discuss what integrity means to them in a specific dilemma situation and how they would solve this. The company invited external guest speakers (managing directors from other

companies operating in Hungary and representatives of Transparency International and Daimler AG) to share their views and be involved in the evaluation of dilemma cases.

Mercedes-Benz Hungária thinks that business ethics can flourish only if companies, employees and business partners develop a common understanding and act accordingly.

Since last month Mercedes-Benz Hungária Kft is a proud member of Transparency International Hungary's Corporate Supporters Forum.

– Dr. Zsuzsanna Lippai has been legal and compliance manager at Mercedes-Benz Hungária Kft. since 2007. She provides guidance for and evaluates the appropriateness of the compliance program and how to integrate it into the company culture.

# Why Denmark always finishes on top

**A**mbassador of Denmark to Hungary Tom Norrning (right) was invited to share his views on corruption and offered some insight into why the Danes seem to be immune to the temptation. Following are excerpts from his speech.



Corruption is broadly defined as abusively exploiting entrusted power/funds for personal gain. It's bribery, illegal payments and facilitation payments, the last one sometimes legal, sometimes not!

Corruption violates everyone whose life, daily activities and happiness depends on the integrity of authorities and public officials. It threatens stability and safety and undermines democratic institutions and values, and still corruption is widespread across the world.

As you may know Transparency International concluded in their 2012 study that Denmark, along with New Zealand and Finland, is the least corrupt country in the world. In fact Denmark has always ranked as a country of low corruption. As an official representative of my country, I am, of course, proud of that.

But why is it that Denmark continuously tops the statistics of being one of the least corrupt countries in the world? It seems that Danes are not very willing neither to pay bribes nor to accept them. But is it simply because Danes are better people, more moral people than other nations? Is it something in our genes, inherited to us by our anti-corrupt ancestors?

No, Danes are not immune to corruption-like behaviour as such. But we have over the years developed a tradition, a culture which makes it more natural to take a certain high moral or ethical stance.

The main reason for this stance is, in

my view, that we in Denmark have a very high degree of trust in other people and in the system. This trust is strengthening and supporting our entire integrity system.

### 'Danish Model'

Over the years we have developed a welfare system – the so-called 'Danish Model' – which is an important part of the Danish integrity system. Fair working conditions, social security, health arrangements, decent salaries and pension schemes are among the things that contribute to giving the Danes reasonable living conditions. The fact that it is possible to live on one's salary, that people are protected if they get sick and likewise if they are fired makes it easier to refrain from corruption.

In Denmark we have a high tax burden that contributes to maintaining our welfare state. This means that Danes do not have to pay for their children to go to primary school or high school and they do not save for years to put their children through university. They do not need insurance to go to the hospital, get medication or see a doctor, and if they lose their job, relatively generous unemployment benefits are supplied by a combination of insurance and public funds. The elderly do not need insurance and do not have to pay out of their pocket

to get necessary help with cleaning or personal assistance, and most of the costs associated with day care for children are also tax-financed. In other words one does not have to put money aside for bad times, as you will be provided for.

The high pressure of taxation in Denmark also contributes to the unwillingness to pay even more for, for instance, social benefits than has already been paid. Danes expect a fair treatment without paying extra.

In Denmark we have a very inclusive political culture as well, and both public and private institutions are highly transparent, which makes it easier to hold for instance politicians or companies responsible for irregularities. The media has a very defining role in the Danish integrity system and is sometimes referred to as the fourth power of the state, which has the role of watching over the other three, making sure they behave.

### CSR

Another contributor to the low level of corruption is the intensified focus on Corporate Social Responsibility that Denmark has experienced recently. To have an anti-corruption strategy as a part of the company's CSR strategy is important as it functions as a trade mark for companies. In recent years Danes have had a more political focus when shopping – the social responsibility of the producers of the products, they buy, is important to many Danish consumers. Good business behaviour is expected and it is a social responsibility that is expected by the consumer. In order to remain competitive in Denmark, businesses must apply to this.

Danish companies are to a large extent export oriented. And the Danish export companies are to a still larger degree operating in markets where

corruption is more wide-spread than in our traditional export markets. In these "new" markets the companies, and their employees, are increasingly facing situations where they are pressed to either receive or give bribes.

So the question is: How do we deal with these challenges. I mean, looking at it from a purely business point of view, the companies that don't "play the game", run the risks of losing income, losing market shares, that other companies – with less high ethical or moral standards – will immediately pick up. I recognise that this is a risk. I would, however, argue that in the long run responsible behaviour will give our companies a positive branding which will ensure that they can remain in the markets – with similar responsible partners globally. You could say that in reality it is a choice who our companies want to play with.

In Denmark we have very little legislation concerning corruption. In Danish criminal law is only stated that it is illegal to give and accept bribes of any kind or any size, both inside and outside of Denmark.

Further regulations on how to avoid corruption is left to companies themselves to deal with. However, not without guidance. Both the Danish government and The Danish Federation of Industries, the Danish companies own branch organisation have signalled quite clearly that corruption under all circumstances is unacceptable – The Danish Federation of Industries have, indeed, made it clear that they have a "Zero Tolerance"-policy.

Many companies also make use of so called "whistle-blower" systems that have become very popular in Denmark. This means that a person with knowledge about some kind of corruption or malpractice that they believe should receive publicity, can report it, and very often anonymously.

Der Deutsche Wirtschaftsclub Budapest lädt zum Vortrag:

## Wo bleibt das ungarische Wirtschaftswachstum?

am Mittwoch, den 27. März 2013 um 18:00 Uhr ins Kempinski Hotel Corvinus Budapest ein.



**Deutscher Wirtschaftsclub Budapest**

Nachdem auf der DWC-Februar-Veranstaltung (IWF, Wirtschaftsforschungsinstitut Századvég und Deutsche Botschaft) insbesondere die makroökonomischen Aspekte der ungarischen Wirtschaft im Mittelpunkt standen, widmet sich diese Veranstaltung speziell der Unternehmenssphäre. Ausgehend von ihren individuellen, konkreten Erfahrungen werden Vertreter namhafter deutscher Großinvestoren eine Einschätzung folgender Standortfaktoren geben:

- Steuerwesen, Förderpolitik und öffentliche Ausschreibungen
- Arbeitskräftesituation (Qualität und Verfügbarkeit)
- Rechtliche Rahmenbedingungen (Bürokratie und Rechtssicherheit)
- Zusammenarbeit mit der Verwaltung und dem Staat
- Maßnahmen der Regierung zur Haushaltskonsolidierung und Wachstumsbelebung

Außerdem werden die Referenten einen kurzen Überblick über ihre jeweiligen Wachstums- und Investitionspläne sowie das Image und die strategische Positionierung der ungarischen Tochterfirma innerhalb des Gesamtkonzerns geben.

**MARIE-THERES THIELL**  
CEO der Budapesti Elektromos Művek Nyrt.

**JÜRGEN GRUNERT**  
CFO der IT Services Hungary Kft.

**DALE A. MARTIN**  
CEO der Siemens Zrt.

**JAVIER GONZÁLES PAREJA**  
CEO der Robert Bosch Kft.

**EKKEHARD PHILIPP**  
CFO der Mercedes-Benz Manufacturing Hungary Kft.





Weitere Informationen und Anmeldung unter: **Deutscher Wirtschaftsclub Budapest e.V.** H-1051 Budapest, Erzsébet tér 7-8. Tel.: (+36-1) 312-1123 FAX: (+36-1) 312-1126  
E-Mail: [mail@dwc.hu](mailto:mail@dwc.hu) [www.dwc.hu](http://www.dwc.hu) Bankverbindung: CIB Hungária Bank Zrt. – Kto.Nr.: 10700024-04066301-51100005