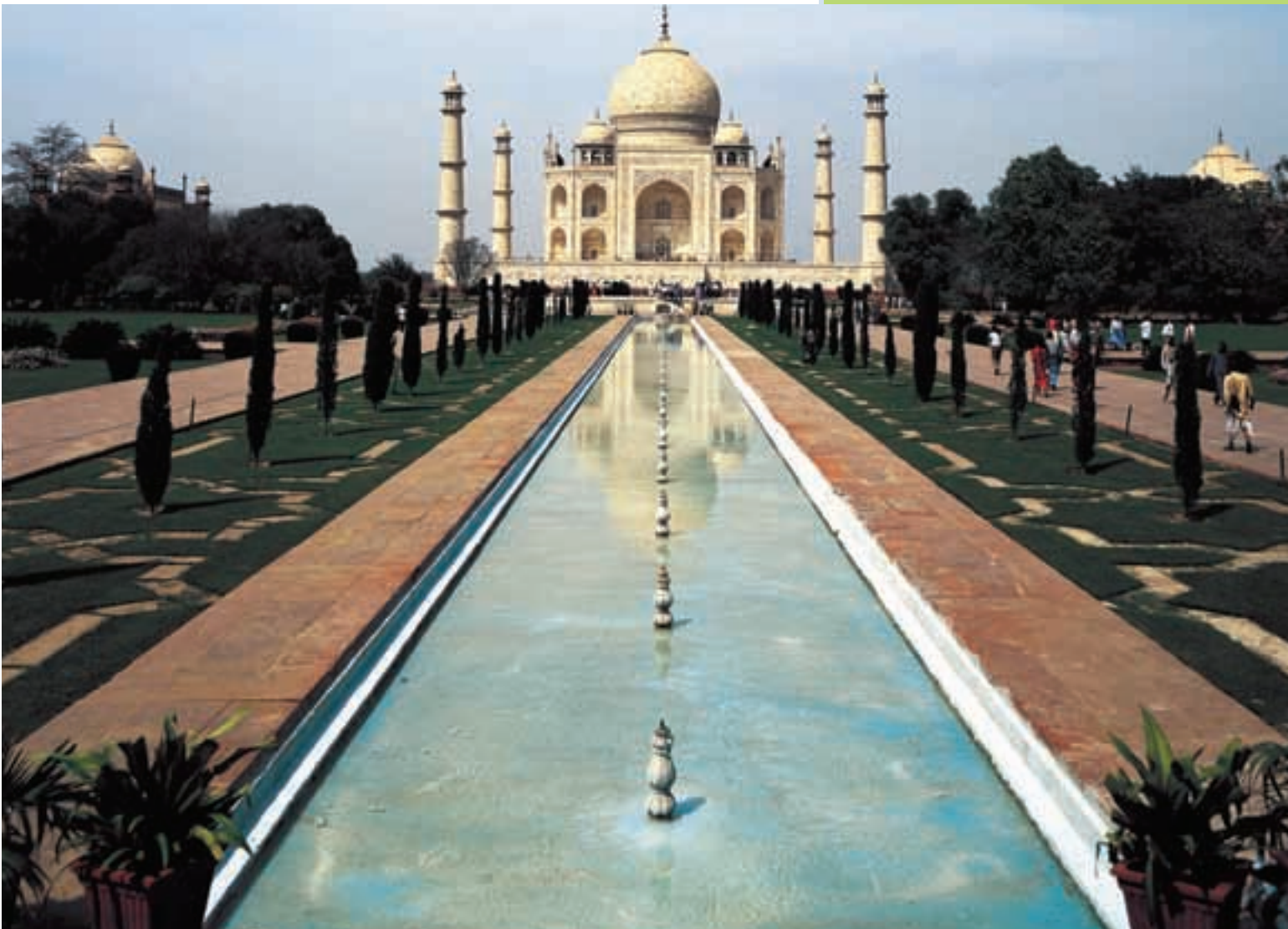


GLOBAL COMPLIANCE: INDIA

Conducting business in India has obvious great allure for global corporations. As an exporter, companies are attracted to its consumer and industrial market potential (2nd largest population in the world). Global business interest in India, however, goes well beyond its market potential. India is also a source for intellectual capital and a relatively inexpensive educated labor force, nearly all of which speaks English. While India provides corporations with great opportunity (especially for outsourcing), it does not come without potential pitfalls. Companies must educate themselves on the potential hazards to avoid compliance issues and mitigate the risks.

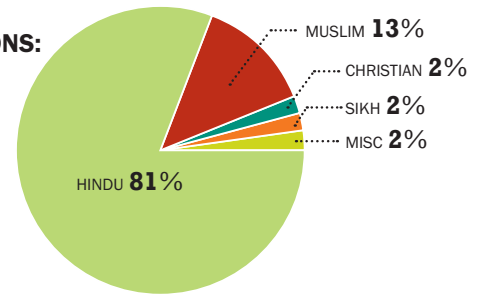
This regular section of Ethisphere Magazine focuses on compliance and ethics in global business. Each issue spotlights a different country, with excerpts from Ethisphere Council research. Ethisphere Council members can access more detailed country reports at www.ethisphere.com.



POPULATION:

POPULATION: 1 billion people (2nd most populous country in the world)
MEDIAN AGE: 25 years
LIFE EXPECTANCY: 65 years
LANGUAGES: 14 official languages plus English
Hindi spoken by 30% of population.
CAPITAL: Delhi (13.8 million people)
LITERACY RATE: 60%

MAJOR RELIGIONS:



ETIQUETTE TIPS:

YOU ARE RECOGNIZABLE.

Foreigners stand out easily and are often expected to act in a higher standard.

BE PATIENT. Many Indians love to negotiate and business dealings can drag out. Being aggressive and quick in negotiations may be interpreted as showing disrespect. Patience will also serve you well in dealing with the enormous bureaucracy.

INVEST IN PENS, NOT LEATHER.

The quality of a pen is a status symbol. Use a recognized one. And don't give leather gifts as they may offend.

KNOW CRICKET AND BOLLYWOOD.

Two subjects that Indians are passionate about. Bollywood does more movies annually than the U.S. and U.K. combined. Cricket is the national sport and is followed with fervor.

BE RIGHT. Never point fingers, only use full hand to indicate something. And never pass anything to someone with left hand. And if you give a business card, take it out of your jacket from your chest (heart), not out of your wallet.

LEARN "NAMASTE". It can go a long way to earning respect and building relationships to fold your hands and say "Namaste" for 'hellos' and 'goodbyes'.

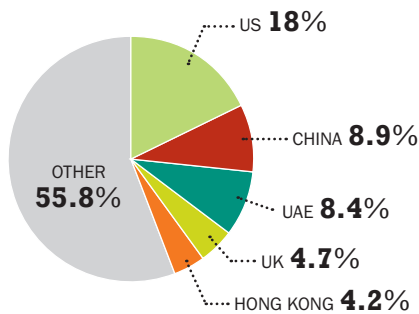
ECONOMY AND TRADING PARTNERS:

GDP PER CAPITA (PPP): \$3,300

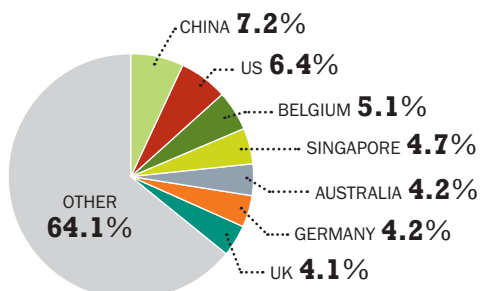
MAJOR INDUSTRIES:

Textiles	Chemicals
Food Processing	Steel
Transportation Equipment	Cement
Mining	Petroleum
Machinery	Software

TOP EXPORT PARTNERS 2005:



TOP IMPORT PARTNERS 2005:



THE ETHICAL CLIMATE FOR FOREIGN ENTERPRISES:

While not legally codified in this manner, from a practical standpoint (particularly in terms of public perception and how that could affect a case or business or legal outcome) foreign multinationals should expect to be held to a higher standard than a domestic Indian corporation. As such, a foreign enterprise may be more likely to be investigated for a particular activity than a domestic Indian company.

Thus, it is incumbent on corporations to establish policies and controls in India of similar quality to what your organization would employ elsewhere in the West. Recognize that brand and reputation, built in part by relationship to community, are extremely important when local or state governments consider action against an enterprise. Companies with a planned long-term commitment to the India market should work to build goodwill through such things as developing schools and institutes, providing housing (or supplements) to employees, and investing in educational philanthropies.

India views itself to be a global power and some feel that the Western world has been slow to recognize that fact. When rolling out compliance and ethics programs in India, it is very important to be culturally sensitive and tailor the programs accordingly. For example, if a multinational corporation were to impose a Western-centric ethics training program on their India employees, this could come across as paternalistic and insulting.

ACCESS ARTICLE AT WWW.ETHISPHERE.COM/0107005

SEVEN COMPLIANCE AND ETHICS ISSUES TO CONSIDER:



01 // BRIBERY According to Transparency International, of the top 30 export countries, Indian companies are most likely to offer a bribe to get business. Companies are also pressured to give bribes to win business in India. While not limited to such, this is a particular problem for foreign operations trying to sell to State enterprises within India (such as hospitals, government, infrastructure).

DEAL WITH IT Don't be naïve. While India is a signatory to the UN convention on corruption, it has yet to ratify it. Expect that your managers and employees will be pressured to give bribes as well as presented with temptation to receive bribes. The only effective solution is training (including Foreign Corrupt Practices Act), strict policies and zero tolerance.



02 // TRANSPARENCY It can be difficult to get accurate information, including financials and forecasting, from a JV partner in India. When a multinational needs to certify overall financial information, and an India operation is part of the overall results, this can be a significant risk area. Regardless of which party 'controls' the venture from a legal standpoint, whichever party controls the information generated by or within the venture, effectively 'controls' the venture at the end of the day.

DEAL WITH IT Be certain to have strong local and international counsel in setting up a JV, with: (1) guaranteed regular reports; (2) specific representations and warranties; and (3) auditing rights not only of the financials, but other elements as well, such as information security employed in JV. Furthermore, go beyond legal and get involved in establishing a practical operational process for gathering and processing the information that you will want to track. It is highly preferable to have a physical personnel presence within the JV, even if there is pushback from an Indian partner.



03 // DATA PROTECTION IN OUTSOURCING Identity theft and loss of customer information are major issues for global corporations, particularly when in outsourcing customer service business processing to India. This can be a high risk area. This risk was underscored in June 2006 when an HSBC employee in Bangalore was arrested for stealing \$437,000 from customers' accounts.

DEAL WITH IT The biggest risk for a global corporation is the severe brand reputation damage which could occur if there was a wholesale loss or theft of customer information by an outsourcing partner in India. In practice, experts agree that there are relatively fewer computer network and identity theft breaches in India than in the United States. All the same, this underscores the importance of working with a reputable and experienced firm if outsourcing processes to India.



04 // SEXUAL HARASSMENT AND DISCRIMINATION Sexual harassment is illegal in India, yet still widespread. There is a male gender bias in many industries for employment. However, slow progress seems to have been made, particularly in the major cities. From a discrimination standpoint, the 'Caste' system in India is well-known. However, 'Caste' discrimination in modern business is negligible and is not as major of an issue for Western corporations.

DEAL WITH IT While the legal liability for potential harassment is not apparently huge for Western corporations, most of them have extended their anti-harassment and discrimination programs successfully to India. The most important element is how the country manager and fellow executives act in practice. A foreign-trained country manager (whether ex-pat or a foreigner themselves) can generally set the proper anti-harassment/discrimination tone.



05 // ENVIRONMENTAL AND PRODUCT SAFETY Ever since the Bhopal Union Carbide disaster of the 1980s, much of the population of India has been quick to ascribe poor environmental and product safety practices to multinationals. This is not limited to chemical companies. For example, in 2006 PepsiCo and Coca-Cola were both accused of having unacceptably high levels of pesticides in their products. The irony, however, is that polls show that only 30% of Indians are concerned about the environment and environmental degradation is widespread.

DEAL WITH IT Despite poverty and poor environmental conditions that may surround your operations (leading a country manager to possibly think 'what difference does it matter to be environmentally sound or worry about product safety?'), DO NOT allow cutting of corners and compromising of safety or quality standards vs. Western standards. Establish environmental policies for doing business in India, including an environmental management and reporting program. Foreign enterprises are attractive protest and legal targets and country managers can be held personally criminally liable for the corporation's actions. Furthermore, be prepared to defend your organization (perhaps through proactive EH&S audit on local operations annually) in the event of allegations by government (most likely at state level).



06 // CONFLICTS OF INTEREST Many companies report that the general perception of a conflict of interest in India is very different than in the West. In most circles, large gift giving is acceptable in India, as is showing favoritism, cronyism and nepotism. When the 'family member' is not the best supplier or hire, this can interfere with operational success.

DEAL WITH IT Shine a bright light on the issue and it may scurry away. If you operate a JV, be sure to have policies and procedures in place upfront (and which are followed) that address the conflicts of interest potential in hiring and procurement. Set gift policies which recognize local culture without violating international bribery conventions.



07 // NGO INTENTIONS Sometimes to enter a market, build awareness, or offset a crisis, there is an opportunity to work with a Non-Governmental Organization (NGOs), of which there are countless ones in India. However, Western corporations have sometimes found that some NGOs end up having an alternative agenda which is inconsistent with the goals of the corporation.

DEAL WITH IT Before teaming up with an NGO on a matter, be sure to fully research it and preferably talk to other corporations who have worked with the NGO previously.

► Looking for more information on India or a compliance, ethics and risk report on another country? Ethisphere Council members can access many other country reports and research online at www.ethisphere.com. The Ethisphere Council would like to thank Professor Kishore Dash, Professor at the Garvin School of International Management of Thunderbird, for his valuable input on this report.