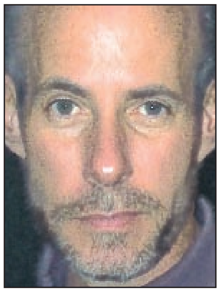


Confronting corruption: the strategic value in building civil society

Jonathan B. Levine looks at Merck's funding of an ethics centre in the UAE and at the benefits this has delivered for the company

Ask any sales or operations executive in almost any country about corruption, and he or she'll have a hair-raising story to tell about bribery, extortion and ultimately damage to the well being of its people. It's one of those insidious, intractable realities that whole societies – let alone sole corporations – seem incapable of changing. Merck & Co.'s single-handed attempt is one model of how even one company can make a difference. More important are its lessons about the potential of strategic social investments to strengthen the foundations of civil society while improving the competitive environment for business.

Back in the mid-1990s, Merck, a leading American pharmaceuticals company, had its share of headaches keeping or growing market share in many developing countries because of corrupt local business practices. With deep ethical roots dating from the 1950s, Merck's culture and policies prohibited it from making "contributions" to many a health minister's Swiss bank account, among other illicit practices. Salespeople walked away from the deal table in country after country. "We were losing our business edge in many regions – not because of our products but because of our business ethics," says John R. Taylor, executive vice president of The Merck Company Foundation at the time.

Merck was highly aware of the corrosive effect of corruption on local economic and social development, on foreign investment, the environment, productivity and even public health. So in its foundation's social responsibility mission to support foreign communities, Merck launched the Gulf Centre for Excellence in Ethics in 1998, a pilot educational institute in Abu Dhabi, United Arab Emirates (UAE), to see if it could raise business standards in the region by promoting organisational ethics. If, in time, business transactions became more transparent, Taylor and his colleagues reasoned that their products would gain ground by competing on a more 'level playing field'. And, if they could gain traction in a challenging environment like the Arabian Gulf, it might even serve as a prototype for other regions. (Indeed it did. Merck has subsequently funded ethics centres in South Africa, Colombia and Turkey.)

A natural first partner

The UAE was a natural first partner. Merck's experiment seemed to provide a missing key in the federal government's grand ambition to become a regional leader in commerce and finance. Arguably the most transparent state in the region, the UAE faced a rising trend of money laundering and other unsavoury practices, and the country's flawed reputation by Western standards as a place to do business posed a hurdle to future growth. As its oil resources dwindled, further economic and social development greatly depended on elevating its image in the eyes of multinational corporations it hoped to attract. The Gulf Centre's mission to raise ethical standards fitted the bill.

Out of the enlightened self-interest of both parties, the Gulf Centre was conceived to challenge some of the most fundamental behaviours in UAE society. In hindsight, the idea today of an American pharmaceutical company promoting ethics to Muslims in the Middle East is one of the most improbable business concepts of the decade. But by late 2002, when Merck asked the Center for Corporate Citizenship at Boston College to assess its impact, the Gulf Centre had clearly impressed a cross-section of government, military and business thought leaders on the importance of codifying and enforcing 'workplace ethics'. While only a small handful had yet made any attempts at real organisational change, the newly receptive mindset was meaningful in a culture where the concept never before existed. In a relatively short five years on the ground, the Centre even had some anecdotal success in influencing the UAE government to make its procurement of drugs a more equitable process.

To set up and run the Gulf Centre's consulting and educational operations, Merck enlisted the Ethics Resource Center (ERC), a Washington, DC-based non-profit whose former chairman, Ray Gilmartin, had become Merck's chief executive in 1994. The ERC, a strictly domestic enterprise at the time, jumped at the chance to expand internationally. In the complex political and cultural environment of the UAE, Merck and the ERC framed the Centre's ambitions loosely, with few preconceived milestones or requirements beyond three primary goals: to build legitimacy for the concept of ethical workplace standards; to build trusting relationships that could help create an equitable commercial environment, or level playing field, in which to sell Merck's products; and, recognizing the long-term nature of its challenge, to become financially self-supporting within a limited timeframe.

A rocky start

Not everything went smoothly. Despite initial high-level political acceptance, the ERC learned that practical realities were never as they seemed. The Centre had difficulty overcoming the deep suspicions of Emirati leaders, who presumed it would preach an agenda of American moral values. And as the ERC managed remotely from Washington for the first two years, a series of legal, cultural and political issues hobbled the Centre's official opening until a Palestinian-American entrepreneur, Alex Zalami, was hired to run the operation locally.

Zalami, without whom the Centre might well have foundered, embodied a clear lesson: hire the right person in the right place at the right time. Beyond his language and cultural adeptness, Zalami possessed a deferential approach to tap the local power base, to assuage egos and build personal relationships that are so decisive in Arabic culture. Within months of arriving, he realised that the UAE's Islamic culture had no context outside of the religious to interpret ethics in the Western sense of workplace behaviour. He rapidly shifted strategic course, from an earlier plan to build the Centre through fee-based consulting, to instead build general awareness through free ethics seminars throughout the country. Although the change delayed the Centre's financial sustainability, "we needed a building phase to get decision-makers to see value in workplace ethics training" before they would ever hire the Centre to help them devise ethics codes, Zalami said. "We had no blueprint, but we learned to expect mid-course corrections."

Among the Centre's triumphs, in fact, was the rare development of a code of ethics for the UAE Ministry of Health (MOH), which the Centre hoped would serve as a model for other public and private enterprises alike. With 15,000 employees, mostly expatriates from more than 100 different countries, its staff desperately needed to unify and codify their hugely divergent standards in ethical behaviour, in everything from patient care and biomedical issues to business processes such as drug procurement procedures. Although final monitoring implementation of the ethics code fell disappointingly short, the Gulf Centre's two-year process of leading the staff through its codification seemed to yield some benefits. Patient complaints about quality of care and medical practices declined precipitously, as the code apparently encouraged medical staff to record treatments more accurately, to respect patients' rights of consent, and other ethical practices.

A breakthrough

A notable outcome of the Gulf Centre's several high-profile public ethics conferences was the recommendation of a National Bioethics Commission in the UAE – the first attempt in the entire Gulf region to have the health care sector self-regulate its ethical behaviour. By last autumn (2003), legislation was slowly proceeding to establish the NBC and nominate its first commissioners, for whom Merck has agreed to fund ethics training. Regardless of the NBC's outcome, the shift required to even make such a recommendation was a breakthrough in political and organisational mindset.

On the business side, the MOH ethics code, along with Centre-sponsored seminars and conferences created an overall climate within the health ministry that seemed to produce even more profound, if anecdotal, behavioural changes. Drug vendors reported lower levels of extortion from MOH personnel; rare law enforcement against illicit acts in the health care system seemed to increase; some observers even credited the Centre's work, in small part, with helping the US trade representative to induce the UAE to initiate

The UAE Air Force has been active in stamping out corruption within its organisation

patent protection legislation for pharmaceuticals in 2002.

The most tangible evidence, however, came in the summer of 2001. The government had awarded orders for several pirated versions of patented drugs, including Merck's blockbuster Zocor, to local knock-off manufacturers, who had allegedly circumvented official registration procedures. Citing the ministry's recent commitment to improving its ethics, Merck appealed to the MOH's undersecretary, the Centre's champion within the government. After investigating, he overturned the order and awarded it to Merck instead. Though worth a relatively small US$500,000, "the reversal set a strong precedent that such violations will not be tolerated," said Nidal Fakhoury, Merck's general manager for the Gulf region. "No one wants to be seen as breaking the rules anymore."

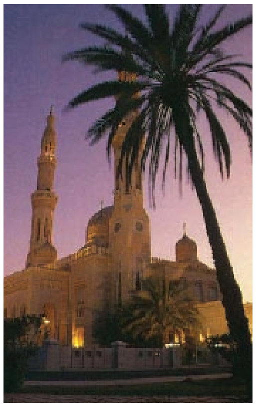
The Centre's work went well beyond Merck's home turf in health care, which validated but also greatly complicated its mission. Awareness seminars on the value of workplace ethics codes were directed broadly at business and industry, academic and military audiences – with mostly positive reception. Thought leaders readily picked up on the message and were able to articulate its value to their own organisations. With concerns mounting about money laundering, for instance, the Abu Dhabi Islamic Bank had begun requiring employees to sign oaths of ethical behaviour before the Centre had come along. But after hearing the Centre's lectures, chief executive officer Abdul

Figure 1: Strategic Interests of Key Partners

UAE	Merck Foundation	Merck Corporate	ERC
• Boost reputation/ image • Support growth objectives to attract MNCs	• Support international communities • Establish model for other regions	• Level playing field for sales and marketing • Reap share of international growth	• Support international expansion

Figure 2: The Gulf Centre's strategic objectives

1.	Build awareness and legitimacy for ethical workplace standards.
2.	Build relationships with decision-makers to help create "level playing field" for Merck products.
3.	Improve ethical behaviour in UAE workplaces.
4.	Create model ethical code and compliance procedures.
5.	Enhance Merck's reputation for commitment to positive change in local communities.
6.	Enhance UAE's reputation among neighbouring states and MNCs.
7.	Extend influence to wider Gulf region.
8.	Become financially self-sustaining from local support in limited timeframe.



The first, Palestinian-American head of the UAE's Ethics Resource Centre could not find a basis for workplace ethics in Islamic culture

Malik realised that the oaths "have no meaning unless people are taught what (workplace ethics) means," he admitted. "We must develop the values of our business."

Rules and results

Likewise, in the UAE Air Force, where management was grappling to instil a culture of loyalty and honourable conduct, training director Col. Ali Nasser Al-Nuaimi acknowledged the importance of uncovering fraud and other code violations. "They are weak links that can destroy a system," he says. "When you respect ethical rules, you get results. The Centre can help us shape leadership and promote a healthy organization." Such pronouncements would have been extraordinary only a few years ago. Zalami rightfully takes some credit for the progress: "We've helped change the context of ethics and legitimised the dialog about it beyond the religion [of Islam]," which was the only framework for ethics that most citizens had understood.

For all of the good will it generated, the Centre's appeals to private-sector enterprises to train employees in ethical behaviour fell on deaf ears. The reasons are many and complex. For starters, few laws or regulations compel ethical conduct in most UAE industries; where they do, long-embedded social traditions such as bakshish (financial favours to win business) and waasta (pulling strings for personal gain) often still prevail. Most organisations, with a huge turnover of a mostly expatriate workforce even among senior management, are unwilling to spend money training employees for anything outside of job-specific skills. And unless rivals take up the issue first and make it a competitive imperative, private businesses are hard-pressed to financially justify the cost of implementing ethics codes. Despite its relative successes, the MOH code, falling in the uncompetitive public sector, turned out not to provide the model that the Centre hoped it would for private industry.

Failing the financial support of private industry, by 2002 the Centre was testing Merck's will to continue its sole financial support, which had mounted to nearly US$3 million over the seven years since conception. Late last year, Zalami convinced the Dubai Executive Office, the economic development arm of the Crown Prince of Dubai, to take over financial and management responsibility for the Centre. The Crown Prince's unquestioned authority, political and financial clout, and widely respected campaigns against corruption were seen to be the perfect prescription for driving the Centre's message more deeply into UAE society. Times had also changed the context for Merck's involvement: Enron and other corporate scandals in the US were calling into question the advisability of an American company to fund business ethics advocacy around the world. Moreover, deteriorating Arab-American relations after 9/11 were another good reason to seek a local owner.

Setbacks

But last January (2003) the Executive Office pulled out of its agreement, citing its inability to come up with a business plan that would meet its goal to ultimately spin off the Centre as a self-sustaining entity; the Centre's affairs soon went dormant. Then

Figure 3: Key startup lessons

Strategic	Organizational	Legal/Political	Cultural
• Design program objectives to satisfy and secure com mitment of multiple partners • Build political clout and spread financial risk among multiple sponsors	• Avoid remote management; secure a local, culturally attuned leader • Deepen political and cultural acceptance with connected board of directors or similar mechanism • Stay nimble, shift tactics as necessary to maintain focus	• Maintain non-profit position and distance from commercial operations at all costs • Adapt structure to local legal requirements	• Locate where cultural and political acceptance is secure • Objectively assess cultural readiness and adapt program strategy accordingly

Figure 4: Private-Sector Reasons for Not Committing to Ethical Training

Business	Cultural
• Thin awareness of fundamental concepts of organizational ethics • Tenuous financial justification for adopting codes of conduct • Low propensity for organizations to offer any non-skill-specific training due to high workforce turnover • Few legal or regulatory imperatives to compel ethical conduct • MOH an inappropriate model for competitive industries • Confusion over Islamic v. Western context for discussion of ethics	• Embedded societal traditions such as bakshish and waasta • Society's deference to authority precludes individual initiative to assume cause of ethics

last summer, the respected Dubai Chamber of Commerce and Industry agreed to reinvigorate the mission, with the ERC's support, and restart operations by late this year. Merck has approved funding through 2005, and is supporting the ERC in its search for other corporate investors to leverage its investment and diversify funding sources.

The Gulf Centre's recent setbacks neither lessen the impact of what it had begun to achieve, nor nullify the lessons learned: With consistent appeal to local interests, the logic of a unified and enforced code of ethical behaviour in the workplace is undeniable in any civil society. But by the same token, realising such a change requires steadfast and long-term commitment. For Merck's part, it also proved that working toward such social goals could provide business benefits as well. More important than any early commercial gains, the company's ethics initiative undoubtedly helped it secure better access and relationships with key health-care decision-makers in the UAE and other Gulf markets, which will serve it well for years to come.

The Gulf Centre also provided early valuable lessons on building capacity and awareness for Merck and the ERC's subsequent expansion efforts. In South Africa, EthicsSA recently expanded its bioethics focus to the broader business sector, where it has enjoyed a boon in activity from a recent government mandate that all publicly traded companies must have an organisational ethics programme. TEDMER in Istanbul has pursued a broad programme of public seminars similar to the UAE's, while Transparencia por Colombia in Bogota has identified a unique target niche in small and medium sized businesses.

Ultimately, the Gulf Centre is an example of the kind of enlightened engagement required of major corporations to transcend some of today's most vexing challenges of globalisation. At the least, it provides important experience for any of several attempts by various organisations to construct a global set of ethical business standards. Notably, the Centre was careful not to overtly impose Western standards on its audiences, but rather strove to achieve a delicate duality in messages: "Find your own values and live by the standards you set," it has advocated in essence, "but also be cognisant of what Western partners expect of you." Bridging the gap between those frequently divergent sets of standards is a fundamental challenge for all emerging markets in a global economy, and the Gulf Centre's efforts have demonstrated a balanced and realistic approach. ■

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