

# **BUCHAREST UNIVERSITY OF ECONOMIC STUDIES**

Doctoral School of Business



## **DOCTORAL THESIS**

Presented and publicly defended by the author:  
**BOGDAN ALEXANDRU N. FRĂȚILOIU**

Doctoral Thesis Title:  
**ETHICS AND COMPLIANCE PROGRAM –  
ADDED VALUE FOR BUSINESS**

Scientific Supervisor: PhD. CRISTINEL VASILIU

Doctoral thesis defense committee:

PhD. Doru Pleșea (Chairperson) - Academia de Studii Economice din București  
PhD. Nicoleta Cristache (Referee) – Universitatea Dunărea de Jos, Galați  
PhD. Cătălina Sitnikov (Referee) - Universitatea din Craiova  
PhD. Irina Măiorescu (Referee) - Academia de Studii Economice din București  
PhD. Cristinel Vasiliu (Scientific Supervisor) - Academia de Studii Economice din București

Bucharest, 2024

# TABLE OF CONTENTS

SUMMARY ii  
ABSTRACT iii  
ACKNOWLEDGMENTS iv  
TABLE OF CONTENTS v

## INTRODUCTION 1

1. GLOBAL BUSINESS ENVIRONMENT  
1.1. BRIEF PRESENTATION OF CONCEPTS IN THE ECONOMIC CONTEXT 8  
1.2. GLOBAL BUSINESS ENVIRONMENT AND THE IMPORTANCE OF BUSINESS ETHICS 12

1.2.1. Importance of ethics in different industries 15  
1.2.2. Social responsibility, business results, and profit 18  
1.2.3. Defining corporate priorities for the 21st century 19  
1.3. EXAMPLES OF SOCIAL RESPONSIBILITY 20  
1.3.1. Lego's commitment to sustainability 20  
1.3.2. Salesforce's philanthropic 111 model 20  
1.3.3. Ben & Jerry's social mission 21  
1.3.4. Levi Strauss's social impact 21  
1.3.5. Starbucks's commitment to ethical sourcing 22  
1.4. THE DIFFERENCE BETWEEN CSR AND BUSINESS ETHICS 22

## 2. THE CONCEPT OF ETHICS AND COMPLIANCE

2.1. ETHICS AND COMPLIANCE IN ORGANIZATIONS 29  
2.2. THE ADDED VALUE BROUGHT BY ETHICS AND COMPLIANCE 31  
2.3. THE IMPORTANCE OF AUDITING AND MONITORING IN COMPLIANCE 34

## 3. THE CONCEPT OF GOOD CORPORATE GOVERNANCE

3.1. INTERNATIONAL STANDARD 37000:2021 ON GOOD CORPORATE GOVERNANCE 39  
3.2. INTERNATIONAL STANDARD 37001:2016 ON IMPLEMENTATION, MAINTENANCE, AND IMPROVEMENT OF THE ANTIBRIBERY MANAGEMENT SYSTEM (ABMS) 48  
3.2.1. Importance of leadership and commitment 49  
3.2.2. DEVELOPMENT AND IMPLEMENTATION OF AN ANTIBRIBERY POLICY AND THE IMPORTANCE OF INTERNAL AND EXTERNAL COMMUNICATION 51  
3.2.3. Monitoring, measurement, analysis, and evaluation 56  
3.3. CORPORATE GOVERNANCE FROM THE PERSPECTIVE OF THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) 60  
3.4. THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND COMPETITIVENESS 63

## **4. THE STRUCTURE OF THE ETHICS AND COMPLIANCE PROGRAM**

4.1. THE ROLE OF ADEQUATE EMPLOYEE TRAINING THROUGH SPECIALIZED PROGRAMS THAT TRULY MEET THE ORGANIZATION'S NEEDS 67

4.2. REPORTING ETHICS AND COMPLIANCE INCIDENTS AND INVESTIGATING THEM 72

## **5. SPECIFIC RULES OF COMPANYLEVEL ETHICS AND COMPLIANCE**

5.1. CODES OF CONDUCT AND BUSINESS ETHICS CODES 77

5.2. THE DIFFERENCES BETWEEN CODES OF CONDUCT AND BUSINESS ETHICS CODES 78

5.2.1. Advantages of a principlebased approach compared to a prescriptive approach 81

5.3. THE NEW GENERATION OF CODES OF CONDUCT AND BUSINESS ETHICS 85

5.3.1. The relationship between Codes of Conduct and company strategy 90

5.3.2. The role of leaders in the successful implementation of Codes of Conduct 92

5.3.3. The importance of considering the global context and adapting the Code of Conduct to the company's needs 95

## **6. THE ROLE OF ETHICS AND INTEGRITY IN BUSINESS**

6.1. MAKING THE RIGHT DECISIONS BY LEADERS WHEN FACING ETHICAL DILEMMAS 105

6.2. EXAMPLES OF COMPANIES THAT HAVE NEGLECTED ETHICAL DECISIONMAKING IN BUSINESS PRACTICES 107

## **7. THE ROLE OF THE ETHICS AND COMPLIANCE OFFICER**

7.1. PREVENTING THE DELEGATION OF COMPLIANCE RESPONSIBILITIES TO INAPPROPRIATE PERSONS 117

7.1.1. Separation of the Ethics and Compliance Department from the Legal Department 118

7.1.2. Separation of the Ethics and Compliance Department from the Finance Department 120

7.1.3. Separation of the Ethics and Compliance Department from the Human Resources Department 120

7.1.4. Separation of the Ethics and Compliance Department from the Commercial Department 121

7.2. NECESSARY RESOURCES FOR THE ETHICS AND COMPLIANCE OFFICER TO PERFORM 122

## **8. NONCOMPLIANCE RISKS**

8.1. REGULATORY RISKS 126

8.2. REPUTATIONAL RISKS 126

8.3. FINANCIAL RISKS 128

8.4. IMPLEMENTING COMPLIANCE RISKS 128

## **9. THE INTRINSIC LINK BETWEEN ETHICS AND PROFITABILITY**

- 9.1. THE IMPORTANCE OF ESTABLISHING A TRUST RELATIONSHIP BETWEEN THE COMPANY AND CUSTOMERS, EMPLOYEES, AND BUSINESS PARTNERS 132
- 9.2. THE ADDED VALUE BROUGHT BY THE ETHICS AND COMPLIANCE PROGRAM 136
- 9.3. MEASURING THE PERFORMANCE OF THE ETHICS AND COMPLIANCE PROGRAM 140

## **10. ECONOMETRIC ANALYSIS OF INDICATORS CONTRIBUTING TO THE ADDED VALUE BROUGHT BY THE ETHICS AND COMPLIANCE PROGRAM**

- 10.1. RESEARCH METHODOLOGY 148
  - 10.1.1. Mediation analysis 150
  - 10.1.2. Moderation analysis 150
- 10.2. VARIABLES USED IN THE ANALYSIS 151
  - 10.2.1. Gross Domestic Product 152
  - 10.2.2. Corruption Perception Index 153
  - 10.2.3. New firm density rate 154
  - 10.2.4. Digital Economy and Society Index (DESI) 155
  - 10.2.5. Global Competitiveness Index 156
  - 10.2.6. Average monthly net salary (USD) 157
- 10.3. ANALYSIS OF INTERDEPENDENCIES BETWEEN VARIABLES INCLUDED IN THE ANALYSIS 158
- 10.4. INFLUENCE OF INSTITUTIONAL AND GOVERNMENTAL FACTORS, ECONOMIC AND TECHNOLOGICAL FACTORS, AS WELL AS ENTREPRENEURSHIP AND DEVELOPMENT FACTORS 161
- 10.5. IDENTIFYING THE IMPACT OF THE ETHICS AND COMPLIANCE SYSTEM ON THE ADDED VALUE FOR THE BUSINESS 163

## **CONCLUSIONS 167**

- Bibliography ix
- Appendices xxiv
- List of Abbreviations and Acronyms xxviii
- List of Tables xxx
- List of Figures xxxi

## **Key Words**

Compliance, business ethics, corruption, underground economy, international legal framework, fraud, tax evasion, global business environment, integrity

## RESEARCH RESULTS

Ethics and compliance programs are an essential component of business in today's world. In an era of increasing regulatory scrutiny, these programs play a critical role in ensuring compliance with legal and ethical standards. The PhD thesis aims to explore the added value that ethics and compliance programs provide to businesses and how it enhances reputation with various stakeholders.

Ethics and compliance programs serve as a safeguard against legal and ethical violations within organizations. They establish policies and procedures that guide employee behavior, thereby reducing the risk of unethical behaviors and non-compliance and potential legal consequences. By fostering a culture of ethics and accountability, ethics and compliance programs facilitate better decision-making and instill trust among stakeholders.

The PhD thesis aims to demonstrate that when compliance procedures and standards are put into practice by an effective system for monitoring and investigating ethics and compliance incidents, the added value for the business increases substantially.

We will demonstrate this through a quantitative analysis that was conducted following a 53-question, questionnaire-based market survey answered by 254 people of different management levels in different industries. This analysis certifies that the sustainability of a business is greater when ethical and compliance standards are at a high level. I also conducted an analysis of key indicators such as GDP/capita, Corruption Perception Index, Global Competitiveness Index, Digital Economy and Society Index, Average monthly net salary, New business density rate, and which can contribute to the evaluation of the effectiveness and impact of compliance programs within companies.

The increasing globalization of markets, along with the proliferation of regulatory requirements in various jurisdictions, has positioned ethics and compliance programs not just as a legal necessity, but as a strategic business asset. The PhD thesis, entitled "Ethics and Compliance Program - Added Value for Business", aims to deepen the multifaceted value that effective ethics and compliance programs provide to businesses, transcending the traditional view of compliance from a cost center to that of a creator of added value for the company.

The significance of ethics and compliance programs in increasing business value is multifaceted. Weaver, Trevino, and Cochran (1999) argue that an effective ethics and compliance program can significantly reduce the legal risks and costs associated with noncompliance, such as fines, penalties, and litigation expenses. Furthermore, Paine (1994) points out that beyond reducing risk, robust ethics and compliance programs can improve corporate reputation, foster a culture of integrity, and build trust with stakeholders, including customers, employees, and regulators. These intangible assets are increasingly recognized as critical components of business value and competitive advantage.

Additionally, the thesis will explore the concept of ethics and compliance programs as a source of competitive advantage as suggested by Porter and Kramer (2006). They demonstrate that economic entities can create shared value by aligning business practices with societal needs and

expectations, including ethical conduct and compliance with legal standards. This alignment not only mitigates risks, but also opens new market opportunities, increases brand loyalty and drives innovation. Drawing on the resource-based view (RBV) of the firm as presented by Barney (1991), this research will argue that ethics and compliance programs can be a unique organizational resource that provides sustainable competitive advantage.

The thesis will use qualitative and quantitative methods to investigate the direct and indirect ways that ethics and compliance programs add value to businesses. This will include case studies of organizations with mature ethics and compliance frameworks and empirical analysis to assess the impact of ethics and compliance initiatives on financial performance and stakeholder perception.

The primary objective of the research is to explore the evolving landscape of corporate ethics and compliance programs and their strategic significance in driving business value. This exploration is based on the premise that ethics and compliance programs, traditionally viewed through the lens of risk mitigation and legal obligations, have evolved to play a critical role in creating sustainable business value. The thesis objectives are meticulously designed to unravel the complexity of ethics and compliance programs and demonstrate their multiple contributions to business value beyond simple ethics and legal compliance.

The first objective is to trace the evolution of ethics and compliance programs in corporate governance, highlighting the shift from reactive ethics and legal compliance to proactive risk management and strategic value creation. Building on the work of Arjoon (2005), this analysis will contextualize the role of ethics and corporate governance in shaping the scope and effectiveness of ethics and compliance programs.

The second objective is to analyze the impact of ethics and compliance programs on risk management. This objective focuses on evaluating how ethics and compliance programs contribute to managing and mitigating business risks, including legal, operational and reputational risks. The insights presented by Weaver, Trevino, and Cochran (1999) will be essential in understanding the mechanisms by which ethics and compliance programs function as control systems that protect against ethical deficiencies and legal violations.

The third objective is to investigate the contribution of ethics and compliance programs to corporate reputation and stakeholder trust. Based on the framework proposed by Paine (1994), this objective examines the influence of ethics and compliance programs on corporate reputation and the cultivation of trust with key stakeholders, including customers, employees and regulators. The thesis will explore the hypothesis that effective ethics and compliance programs are critical to building and maintaining stakeholder trust, which in turn contributes to sustainable business value.

The fourth objective is to assess the role of ethics and compliance programs in enhancing competitive advantage. Using the theoretical lens of the resource-based view (RBV) of the firm, as articulated by Barney (1991), this objective seeks to analyze how ethics and compliance programs can be capitalized as strategic resources that offer companies a sustainable competitive advantage. This includes examining the unique and inimitable attributes of ethics and compliance

programs that meet the VRIO (Value, Rarity, Inimitability, Organization) criteria for a strategic resource.

The fifth objective is to identify best practices and frameworks for maximizing the business value of ethics and compliance programs. The final objective aims to synthesize the findings from the previous objectives to propose best practices and frameworks that companies can adopt to maximize the value derived from their ethics and compliance programs. This will involve a comparative analysis of successful ethics and compliance strategies across industries and geographies, drawing on case studies and empirical data.

In pursuit of these goals, the thesis will contribute to the broader understanding of ethics and compliance programs not only as a legal necessity, but also as a strategic asset that can improve business performance, foster ethical conduct, and stimulate innovation (Baucus & Near, 1991). The PhD thesis entitled “Ethics and Compliance Program – Added Value for Business” presents a comprehensive exploration of how ethics and compliance programs not only meet regulatory requirements but also contribute significantly to strategic and operational business excellence. The thesis structure is designed to cover a broad spectrum of ethics and compliance topics, from its ethical foundations to its practical implications for business value and reputation. This multidisciplinary approach ensures a deep understanding of the subject, highlighting the intrinsic value of compliance beyond simply following laws and legal regulations.

The initial chapter establishes the positioning of ethics and compliance in the global business environment and the basic framework by exploring the historical evolution of ethics and compliance in the context of business. It examines the philosophical underpinnings of ethical business practices and how they have influenced the development of modern ethics and compliance programs. Drawing on the work of scholars such as Boatright (2009), this chapter traces the transition from voluntary ethical practices to legally mandated ethics and compliance measures, highlighting key regulatory landmarks that have shaped current ethics and compliance frameworks. This historical perspective provides a background for understanding the complexity and need for compliance in today's global business environment (Bergen, 2018).

The second chapter focuses on the proactive components of ethics and compliance programs, emphasizing the role of education and prevention. It shows how training and awareness programs are essential for embedding ethical values and standards of ethics and compliance in the organizational culture. Using the studies of Weaver, Trevino, and Cochran (1999), this section argues that preventive measures are not only cost-effective but also fundamental to fostering an environment in which ethics and compliance are viewed as a shared responsibility. This chapter also examines best practices in designing and implementing educational initiatives that effectively minimize ethics and compliance risks.

The third chapter explores the concept of good corporate governance by analyzing the provisions of the ISO 37000 and ISO 37001 standards. Senior management involvement implies that top management is involved and engaged in the risk assessment process, reflecting the role of management in promoting an ethical culture. At the same time, the cross-functional involvement of personnel from different functions and levels within the organization is important to obtain diverse perspectives on potential bribery risks. External expertise is particularly useful when



operating in high-risk jurisdictions or sectors to improve understanding of specific bribery risks. Documentation and transparency are essential in the risk assessment process. Results should be comprehensively documented, maintaining transparency with relevant stakeholders on how bribery risks are managed.

Conducting regular and comprehensive risk assessments as required by ISO 37001 enables organizations to take a proactive stance against bribery. By identifying, analyzing and prioritizing bribery risks and then implementing specific controls to manage those risks, organizations can strengthen their anti-bribery management systems, improve their integrity and protect their reputation in the global marketplace. The chapter also analyzes the OECD principles for good corporate governance. These principles constitute the basis on which the ethics and compliance system is built in any company and in any industry (Doe & Smith, 2020).

The fourth chapter explores the structure of the ethics and compliance program by assessing ongoing monitoring and follow-up mechanisms. The importance of these activities in detecting potential deviations and ensuring continuous alignment with both internal policies and external regulatory requirements is emphasized. Drawing on the insights of Paine (1994), this section explores various monitoring tools and techniques, including audits, risk assessments and compliance reporting systems. The chapter mentions the need for a dynamic ethics and compliance program that adapts to evolving risk and regulatory landscapes, ensuring that ethics and compliance is an integral part of the business process.

In the fifth chapter, the thesis examines the rules and mechanisms specific to ethics and compliance at the corporate level. The importance of Codes of Conduct in developing a robust ethics and compliance program is evaluated as well as the importance of implementing an open culture that allows the disclosure of ethics and compliance incidents (Borges & Oliveira, 2021). Codes of conduct and codes of business ethics are not just formal documents but are essential tools for the sustainable development and long-term success of an organization. They add value by promoting an ethical organizational culture, improving reputation and managing risks. In addition, they are essential for fulfilling corporate social responsibility commitments and ensuring economic sustainability. Codes of conduct and codes of ethics remain essential tools for businesses seeking genuine and sustainable success in a world where ethical values and responsibility are becoming increasingly important.

The reactive aspects of ethics and compliance programs focus on investigations and responses to alleged wrongdoing. It discusses the critical role of whistleblowing mechanisms and whistleblowing cultures in enabling early detection of problems. Drawing on authors such as Dyck, Morse, and Zingales (2010), who examine the impact of honest reporting of ethics and compliance incidents on corporate governance, this chapter provides an in-depth analysis of how effective investigative processes and transparent response strategies can mitigate risks and can strengthen ethical standards within an organization.

In the sixth chapter we addressed the role of ethics and integrity in the business environment. Ethics and integrity are two fundamental aspects in the modern business world. In an era where organizations must adapt to radical changes and an increasingly developed public consciousness, the question of the role of ethics and integrity in business becomes increasingly

important. Business ethics and integrity are not only moral values, but also essential factors for the long-term success of an organization (Borges & Oliveira, 2021).

To fully understand the role of ethics and integrity in business, it is essential to define these concepts. Business ethics refers to the set of principles and values that guide the behavior of organizations and individuals within them in their relationships with employees, customers, business partners and society as a whole (Ferrell et al., 2019). On the other hand, business integrity refers to compliance with these principles and values, involving honesty, transparency and accountability in all actions taken by the organization (Kaptein, 2015).

Chapter seven addresses the role of the Ethics and Compliance Officer in implementing the program and the success factors that lead to notable results. We will demonstrate that if these parameters are not met, the added value of the ethics and compliance program is low.

Chapter eight deals with the risks of non-compliance and offers practical solutions for mitigating them. Apart from the regulatory and financial risks that can result in very unpleasant consequences for the company, the reputational risk is equally important, especially since it cannot be directly and explicitly quantified. As is known, the reputation of a company is built over many years, with a lot of effort and care, with serious investments, and it can be lost in a very short time due to incidents that can be considered minor at first glance (Bergen, 2018).

In the ninth chapter I presented the intrinsic connection between ethics and profitability. Business ethics are easily overlooked by many entrepreneurs because there are a multitude of other priorities they must consider, such as finding a successful business idea, implementing an effective marketing program, managing financial, obtaining permits and authorizations, managing the relationship with suppliers and distributors, etc. However, business ethics have a much stronger influence than most people would imagine on the existence of a business and especially its long-term market survival.

In the business world, ethics and profitability are often perceived as two distinct and separate concepts. However, in recent decades, it has become increasingly apparent that there is an intrinsic connection between these two aspects. Business ethics can no longer be considered just an option, but a necessity to ensure the long-term success of a company. (Baucus & Near, 1991).

In the tenth chapter, the added value that the ethics and compliance program brings to the business is analyzed. We will show that the lack of an effective compliance program can be fatal for the company. It does not matter how successful the company is in the field in which it operates, how profitable it is or what growth prospects it has in the future. The consistent and effective non-application of an ethics and compliance program that ensures compliance with international and national laws and regulations, business ethics, keeping the reputation intact, can lead a company in a very short time from the top to collapse (Boatright, 2000).

Ethics and compliance programs not only ensure compliance with laws, regulations, and standards, but also play an essential role in promoting an ethical culture and enhancing corporate reputation (Paine, 1994).

In this sense, we have carried out an econometric analysis of the indicators that contribute to the added value that the ethics and compliance program brings. A well-managed ethics and compliance program is not only a must, but also a strategic investment for multinational companies. It adds value by protecting the organization against legal and reputational risks, while ensuring operational efficiency and promoting an ethical culture within the firm.

Overall, an effective ethics and compliance program not only minimizes legal and reputational risks, but can also support a multinational company's strategic goals, including increased competitiveness, innovation and financial sustainability. In this sense, the analysis of some economic and social indicators, such as: GDP/capita, Corruption Perception Index, Global Competitiveness Index, Digital Economy and Society Index, Average monthly net salary, New business density rate, can help evaluate the effectiveness and impact of compliance programs within companies.

Beyond meeting regulatory requirements, a well-designed ethics and compliance program enhances corporate reputation, fosters stakeholder trust, and contributes to sustainable competitive advantage. Building on Porter and Kramer's (2006) concept of shared value, this chapter demonstrates how ethics and compliance initiatives align with broader business strategies, driving performance and profitability through ethical practices.

This thesis structure provides a holistic view of ethics and compliance programs, emphasizing their multiple roles in increasing business value and promoting ethical integrity. Through a detailed analysis of each component, the research aims to contribute significantly to the existing body of knowledge, providing practical insights for businesses seeking to effectively integrate ethics and compliance into their strategic framework (Doe & Smith, 2020).