



CENTER FOR
ACCOUNTABLE
INVESTMENT

Doing Business With Integrity

STORIES FROM SMALL- AND MEDIUM-SIZED
ENTERPRISES IN EUROPE AND EURASIA

Co-published by **CIPE Europe & Eurasia** and
CIPE Center for Accountable Investment

April 11, 2022

Table of Contents

Preface	1
Why SMEs: SMEs offer untapped potential in driving business integrity efforts forward	3
Global momentum and the rise of responsible investing	4
CIPE's approach and value proposition	6
Stories From SMEs.....	8
Smokehouse, Chisinau, Moldova.....	8
Manamey, Yerevan, Armenia.....	12
Ololo, Bishkek, Kyrgyzstan	17
Poslovna Inteligencija, Zagreb, Croatia.....	21
F&M Reklama, Tirana, Albania.....	24
Force Group, Kyiv, Ukraine.....	27
IGEPAbh, Sarajevo, Bosnia and Herzegovina	30
Conclusion	33

Acknowledgements

The Center for International Private Enterprise (CIPE) would like to thank its partners and experts who co-developed this publication: Narine Melikyan (Armenia), Silvija Vig (Croatia), Malike Alenova (Kyrgyzstan), David Smith (Moldova), Edval Zoto (Albania), Mila Crnogorac Bajić (Bosnia and Herzegovina), and Pavel Verkhniatsky (Ukraine). Additionally, we are greatly indebted to our field office colleagues who have worked tirelessly to set up conversations with companies and business associations. Likewise, many thanks go to the dedicated colleagues based throughout Europe who contributed to the development of this publication by offering valuable input and comments: Ekaterina (Katya) Lysova (Croatia), Bart Scheffers (Austria), and Kaidlyne Neukam (Germany).

Disclaimer: *CIPE worked with its partners and experts to conduct reasonable due diligence to select stories from companies committed to ethical business conduct. The stories included in this publication represent the accounts provided by the companies themselves and do not necessarily reflect the opinions or analysis of CIPE or its staff. The content of this report is provided "as is"; no representations are made that the content is error-free.*

© Copyright 2022 Center for International Private Enterprise (CIPE)

Preface

Business ethics, integrity, and compliance are often relatively new concepts for businesses in emerging markets,¹ most of which are small and medium-sized enterprises (SMEs).² To help SMEs realize the benefits of business integrity and offer practical suggestions to implement robust mechanisms for compliance and ethics, the Center for International Private Enterprise (CIPE) published the

¹Even though these three terms are used interchangeably throughout the publication, they have slightly different connotations. While “integrity” and “compliance” might focus more on corruption-related aspects, “ethics” covers a broader spectrum of responsible business conduct (RBC) as used by the OECD.

²SMEs are defined as “businesses that maintain revenues, assets or a number of employees below a certain threshold, which is established by each country”. Source: [Investopedia](#), “Small and Mid-size Enterprise (SME)”, accessed 18 March 2022. In most countries in Europe and Eurasia, the typical small firm employs up to 50 staff and medium-sized firms up to 300.

Strengthening Ethical Conduct & Business Integrity: A Guide for Companies in Emerging Markets in December 2020.³ The Guide offers practical recommendations to small business owners on how to apply existing anti-corruption compliance tools to their operations and growing needs for effective risk mitigation strategies and approaches. This new publication *Doing Business with Integrity: Stories from Small-and Medium-Sized Enterprises in Europe and Eurasia* seeks to supplement the Guide by providing specific, real-world examples of both business integrity challenges that companies face and approaches they use to overcome such challenges.

SMEs continue to frequently face the threat of bribery, fraud, and other unethical practices, as well as related challenges due to limited financial and human resources. Informality, described by the World Bank as economic activities conducted outside of official rules and regulations,ⁱ also presents significant challenges to responsible business conduct and countries' overall economic development. The costs of complying with relevant laws and regulations, and time spent dealing with bureaucracy, often present a deterrent for SMEs seeking to conduct business ethically and formally.

In addition, those challenges are compounded by widespread corruption, which further drives informality, as businesses seek ways to minimize their contacts with corrupt officials and therefore prefer to operate under the radar. An overall lack of trust in government and poor public service delivery can further complicate doing business ethically. Delayed decision-making, abuse of public authority, and inefficient or excessive bureaucratic procedures often result in SMEs facing high costs for regulatory compliance. Companies need to be able to trust that fair and effective remedies will be applied to abuses by public officials or misconduct in private transactions because they have limited capacity and agency to address these issues on their own.

³CIPE works with local business leaders in more than 50 countries to expand the opportunity for inclusive growth through market-led solutions. Over 130 CIPE programs promote a rule-based system which emphasizes principles of democratic governance, enables entrepreneurship, opens trade, and fights corruption. CIPE and its global partner network create knowledge and practical tools to drive local change. For more information, visit <https://www.cipe.org/>

Why SMEs: SMEs offer untapped potential in driving business integrity efforts forward

SMEs play an essential role in developing productive, diversified, and resilient economies. SMEs' role in job creation and creating economic value is critical, since they provide up to 70 percent of all jobs and contribute roughly 40 percent of gross national income in emerging economies.⁴ Despite SMEs' central role in advancing economic development, their compliance efforts are often limited. CIPE has observed that SMEs who are “doing the right thing,” meaning operating in compliance with local laws and requirements, not only face difficulties in adhering to regulations but also risk losing their competitive edge against informal or non-compliant peers.

Not surprisingly, it was challenging to find smaller local companies in the Europe and Eurasia region that have explicitly committed to business integrity — companies often feel vulnerable and at risk of retaliation that could jeopardize future business when speaking about integrity challenges. As a result, there is hardly any exchange of best practices by SMEs in the region as they struggle in isolation with the question of business ethics.

Nevertheless, SMEs hold immense potential in transforming market conditions and driving a more concerted response to present and future ethical dilemmas. The seven stories in this publication show the critical role SMEs can play in strengthening their local communities, encouraging economic recovery, and reviving trust in government by boosting various accountability mechanisms and citizen engagement.

⁴ World Bank, *SMEs Finance “Improving SMEs’ access to finance and finding innovative solutions to unlock sources of capital”*, accessed 18 March 2022, <https://www.worldbank.org/en/topic/sme/finance>

Global momentum and the rise of responsible investing

Responsible investment, defined as the strategy and practice that incorporates environmental, social and governance (ESG) factors in investment decisions,ⁱⁱ has gained significant global momentum. Since 2004 when the term ESG was first coined,ⁱⁱⁱ it has become common for many investors to assess ESG performance. Currently, nearly 75 percent of investors globally carry out a structured review of ESG performance.^{iv} These assessments can mitigate financial risks and can anchor corporate performance in ethical considerations. Companies that fail to adapt to this reality are therefore at risk of losing access to financing. And even though corruption does not often top the list of ESG-related concerns, a recent study showed that many businesses support ESG as an integral part of their anti-bribery and compliance programs.^v Indeed, sustainable investment assets are growing at impressive rates. In the United States alone, such assets grew by 42 percent between 2018 and 2020, reaching \$17.1 trillion in 2020.^{vi} The UN-supported [Principles for Responsible Investment \(PRI\)](#), established in 2006 by investors to incorporate ESG issues into investment practices, show a similar steep increase with total assets under management now amounting to a staggering \$121.3 trillion.⁵

CIPE also believes that ESG-driven investments are not just a trend, they are the future. Investors are faced with an ever-increasing demand from beneficiaries and clients for greater transparency regarding their investments. Investors are also expected to comply with guidance from regulators to consider ESG factors as part of their duties to clients and beneficiaries, and recognize that ESG factors can affect both risks and return.⁶ Accordingly, operating with strong business ethics is no longer optional for most SMEs, including those in emerging markets, as investors demand models that integrate ESG criteria throughout global value chains.^{vii} It is also anticipated that investors, including private loan providers, will demand more transparency and ESG related data from SMEs before providing capital.^{viii}

Business ethics and integrity are therefore becoming increasingly prominent topics in today's world. These terms commonly refer to business operations that align with ethical principles such as fairness, responsibility, and transparency. They are implemented through corporate rules and procedures to prevent harmful and dishonest behavior. The word business integrity permeated the boardrooms of

⁵ The PRI has grown consistently since it began in 2006. For data on the total reported assets under management (AUM) see here:

https://dwtyzx6upklss.cloudfront.net/Uploads/m/d/t/globalaumandaoaumexternaluse2_406229.xlsx

⁶ See also the UN Principles for Responsible Investment: <https://www.unpri.org/download?ac=10948>

most large corporations around the world and became part of public discourse. Several international bodies, including the [Organization for Economic Cooperation and Development \(OECD\)](#), the [United Nations Global Compact](#), [Transparency International](#), and the [World Economic Forum's Partnering Against Corruption Initiative \(PACI\)](#) have provided valuable guidance and resources in response to this trend. The past two years have also revealed that organizations with strong ethical cultures could respond more effectively to challenges posed by the COVID-19 pandemic by turning into assets non-financial considerations such as employee well-being, corporate transparency, and trust.^{ix} Overall, the issues of business ethics and responsible business conduct have garnered increased attention during the pandemic as a result of large-scale corruption and fraud with pandemic-related relief funds.^x

With the global rise of corporate compliance in recent decades, bribery and other forms of corruption are no longer tolerated. Thus, tax deductibility for bribes has become illegal in most jurisdictions, although certain legal loopholes still need to be closed.^{xi} A growing number of organizations now devote time and valuable resources to developing guidelines for companies to respect human rights, improve climate action, and strengthen corruption prevention.⁷ In 2021, the European Parliament adopted a resolution that calls on the European Commission to introduce far-reaching legislation that would mandate companies in EU member states to conduct due diligence regarding human rights, environmental and good governance conditions throughout entire supply and value chains.^{xii} Additionally, negotiations are underway at the United Nations (UN) to establish a legal instrument to regulate business enterprises vis-à-vis respecting human rights, which is now viewed as an integral part of business ethical conduct.^{xiii}

⁷ See for example the OECD's Responsible Business Conduct standards, such as the OECD Guidelines for Multinational Enterprises: <https://mneguidelines.oecd.org/mneguidelines/>

CIPE's approach and value proposition

By highlighting the individual stories of SMEs that strive to build business integrity culture and sharing their approaches and tools, CIPE hopes to inspire and support other SMEs in emerging markets to promote responsible management practices and strengthen their commitments to ethics and business integrity.

In addition, this publication seeks to contribute to the broader understanding and research of what it takes for small businesses to resist corruption and incorporate ethical principles. Some earlier academic studies and surveys have underscored that, for businesses to be able to operate ethically and promote positive change, they must gain broad societal support from business partners, customers, investors, and regulators.^{xiv} The studies further suggest that, for example, companies can frame their ethical behavior and tailor it to resonate with broader values within the community, such as those emanating from religious beliefs, or by appealing to larger goals such as national unity or a better future for younger generations. The earlier studies also call for a need to critically assess stereotypes and other common perceptions of corruption as they may no longer hold. For example, there might be many officials with integrity who do not expect or take bribes, even in environments rife with corruption, and such officials could be valuable partners in local collective action initiatives.

Finally, CIPE has observed that when local SMEs join regional or global supply chains, and have to meet certain compliance expectations, they can bolster their internal efforts to strengthen business integrity practices. The concern, however, is that smaller companies frequently end up copying compliance materials from larger firms without considering their own integrity risks and respective mitigation measures. Unsurprisingly, SMEs often perceive compliance as an additional burden that does not bring any immediate benefits. It is therefore critical to support SMEs with developing business integrity and compliance measures that address their unique risks and respond to their needs. As the stories below exemplify, SMEs that managed to develop adequate and appropriate compliance mechanisms have been able to mitigate some risks of bribery and extortion, which also helped them to grow their business and attract investments. This publication features the following seven companies:

- **Smokehouse**

Building a strong reputation for ethical business conduct and engaging in collective action through a local business association proved instrumental for a small hospitality and tourism company in Moldova to manage integrity risks and spearhead necessary reforms.

- **Manamey**

A strong commitment to business ethics helped a small, family-owned pharmacy in Armenia build a loyal customer base and strengthen its business despite unfavorable market conditions caused by unfair competition from large, monopolistic firms and a lack of proper regulatory enforcement.

- **ololo**

Through creativity, innovation, and transparency, a medium-sized coworking management company in Kyrgyzstan expanded its operations and attracted foreign investments, while offering a business integrity-focused entrepreneurship course to young entrepreneurs.

- **Poslovna Inteligencija**

A medium-sized Croatian IT company identified new business opportunities when it rejected a potentially tainted deal with short-term benefits. Instead, it managed to attract and retain talented and high-performing employees as a result of its business integrity-focused selection and onboarding program for new employees.

- **F&M Reklama**

Due to its commitment to operating formally and in compliance with local requirements, a small advertising and signage company in Albania was able to continue to operate and retain highly skilled workers with full pay during the COVID-19 pandemic.

- **Force Group**

A medium-sized transportation and translation company in Ukraine achieved robust growth despite struggling with complex and burdensome fiscal regulations and worked together with a local business association to advocate for fair taxation and key policy reforms.

- **IGEPAbh**

A small printing company in Bosnia and Herzegovina became a leading player in the national paper and printing industry by consistently making ethical choices and maintaining professional and ethical relationships with both public and private sector partners.

Stories From SMEs

STORIES FROM SMES: SMOKEHOUSE, CHISINAU, MOLDOVA



Introduction

As a Peace Corps volunteer in Moldova and Kazakhstan, David Smith witnessed the challenges for small businesses and entrepreneurs operating in emerging markets, such as bureaucracy and inefficient public services. Yet, driven by his entrepreneurial spirit, he came up with the idea to launch an American-style barbecue restaurant in Moldova that would not be business as usual. David and his team saw their new restaurant as an experiment in anti-corruption. They wanted to establish an ethical company in an environment stymied by systemic corruption and bureaucracy. In 2014, David and his partners opened Smokehouse in Chisinau, Moldova's capital.⁸ The restaurant employs 15 full-time employees and pays formal salaries and government-mandated social contributions. Smokehouse also served as an early founder of the [Alliance of Small Enterprises](#) (AIM) in Moldova, which is the local business association that supports SMEs across all industries to advance and protect their interests.^{xv} Since its establishment, AIM has helped reduce market barriers for SMEs and advance business

⁸ At the time of publication (March 2022), Smokehouse temporarily paused its activities due to the impact of the public health measures in response to the coronavirus pandemic. Meanwhile, the team continues to operate their bar "Taproom 27" and as of late February has made the restaurant premises available as a collection point for donations to support Ukrainians who fled to Moldova.

integrity throughout Moldova.⁹

Business integrity challenges and responses

Obtaining residence permits and business licenses

Smokehouse, incorporated as a limited liability company, from day one communicated its strict anti-bribery position via social media and through interactions with government officials and customers. By taking a strong public stand against corruption, David knew that his restaurant would attract all kinds of attention, with both positive and negative consequences. In anticipation, he retained an experienced lawyer and identified potential allies among various stakeholders in case the company needed support.

The first test for the team's integrity commitment came when the restaurant's American co-founders applied for residency visas. They were told that, to avoid lengthy procedures and obscure technical requirements, they would need to meet with certain officials informally and pay a bribe. Instead, the team reached out to allies among their personal and professional networks and asked for support to maintain their anti-bribery position. The team even prepared to make a public statement about the threat of corruption they faced as entrepreneurs and investors, despite the government's proclaimed commitment to attracting foreign investment. The immigration authorities ultimately issued the requested visas without bribes being exchanged. Later, though, the partners discovered that one of their business connections raised the corruption concern facing investors at a high government level — this intervention might have helped resolve the issue without the need for a bribe.

Soon after, the team rented a building and applied for

Insights

- Always ask inspectors or other officials to report their findings in writing and ask for signatures when possible.
- Always have a colleague present when inspectors visit your premises.
- Use the power of social media to share incidents of corruption and show-case ethical practices.



⁹ For example, [AIM has developed a Bill of Rights for Moldovan SMEs](#) to inform entrepreneurs about their rights and strengthen their ability to ensure that these rights are respected and promoted.

operating licenses and permits. They knew that these interactions would likely generate a solicitation of a bribe by unscrupulous public officials. The business partners reaffirmed their stance against engaging in any unethical conduct or negotiations. In one instance, an official offered an “expedited solution” for a food safety license that usually requires one month for processing. The team ignored the offer. Another time, an inspector observed a loud noise coming from their empty kitchen and proposed to “resolve” the issue informally. During yet another inspection, a public official claimed that the dishwashing room was too large (even though the location had been an authorized restaurant two years earlier) and demanded that the kitchen wall be moved by 10 centimeters before a permit could be granted!

Critically, during each inspection, the Smokehouse staff requested a written report signed by an inspector. However, none of the inspectors would issue and sign any formal documents. Without any facilitation payments from the restaurant, the inspectors ran out the clock for each step of the process but ultimately approved the necessary paperwork. In the end, it took 72 days before the restaurant could finally open its doors to customers.¹⁰

Speaking out about corruption and negative backlash

Since the restaurant’s opening, its founders have agreed to publicize any integrity or ethical challenges, hoping to gain public support for their ethical position and shed light on routine corruption in Moldova. It did not take long before local authorities noticed this small business with an unusually bold and principled ethical position. Following an interview with a local journalist that outlined the business’s experiences with corruption without naming any officials, Smokehouse’s founders received threats — including a potential libel case. The journalist and restaurant’s legal counsel were also approached with demands to withdraw the article. However, such a blunt attempt to quash critical discussion made headlines on social media. Public opinion showed strong support for Smokehouse and growing frustration about widespread corruption in routine interactions with public officials.

When they couldn’t stop Smokehouse owners from discussing corruption afflicting small businesses, local authorities suggested a meeting with the restaurant staff. The authorities expected a private, closed-door meeting, but Smokehouse saw an opportunity for a much-needed public forum. Participants included the restaurant’s owners and lawyer, joined by the local journalist who interviewed the business, the director of the National Restaurant Association, and a legal expert from the Business

¹⁰Since then, this situation has significantly improved, and the timeframe has changed to just 15 days due to a series of reforms that the AIM has been a strong advocate for.

Regulatory, Investment, and Trade Environment (BRITE) program.¹¹

Startled by the unexpected attendees, some inspectors began throwing defensive accusations at the company leadership but were quickly cut off by their supervisor, a prominent public figure. From that point, the meeting continued constructively, with each side sharing their concerns. In the end, the officials thanked the business owners for a candid discussion and their courage to share their experiences and promised to continue the conversation. Following this encounter, Smokehouse has solidified its public image as an ethical business and witnessed less frequent corruption attempts.

Unfair competition and the costs of compliance

Resisting routine petty corruption is not the only challenge facing Smokehouse in its daily operations. Wide-spread informality of business operations, particularly in the hospitality industry, creates unfair competition for any company trying to comply with regulations and operate with full transparency in Moldova.^{xvi} Many Moldovan restaurants often register transactions only partially or do not print receipts for customers to avoid paying value-added tax (VAT). Additionally, so-called “envelope wages,” a practice in which workers receive a portion of their salary through undeclared cash payments, is commonplace and further complicates doing business responsibly.^{xvii} As a result, Smokehouse competitors can achieve considerably higher profit margins while simultaneously distorting the market’s wages and pricing mechanisms. Informality fuels corruption.

Lessons learned

The Smokehouse example demonstrates that a small company that chooses to operate formally and ethically can exist even in a market dominated by systemic corruption. The company’s commitment to integrity may not offer immediate business opportunities, yet it manifests itself in other tangible and not-tangible benefits:

- A company’s reputation as a clean and ethical business – particularly if upheld in public opinion – can provide valuable protection against corrupt demands and arbitrary inspections.
- It is crucial for SMEs to understand their rights and to defend them. Corrupt officials will often abandon corrupt attempts instead of taking a risk by putting their names on documents when they are obviously bending the rules or breaking the law.
- While it is important to have a lawyer who can promptly advise business owners and staff on certain issues and decisions, public support and media publicity have proven to be even more

¹¹ The BRITE program is supported by the United States Agency for International Development (USAID)
https://pdf.usaid.gov/pdf_docs/PA00M13W.pdf

effective to help shield businesses from unethical demands and enable meaningful discussion and reforms.

- Operating legally and ethically requires significant commitment of time and money from small business owners and can be overwhelming for many. Systemic changes are needed to enable and incentivize more ethical practices by small businesses, so they are not forced to compromise on their integrity commitments.

STORIES FROM SMES:
MANAMEY, YEREVAN, ARMENIA



Introduction

After years spent working as a pharmacist in Yerevan, Margarit Melikyan saw a growing demand for a pharmacy where the needs of the patient came first. In 2017, Margarit decided to open her own pharmacy in Yerevan with support from her sister Narine.¹² Both were aware of the challenges facing

¹² Narine Melikyan is the director of the Corporate Governance Center (CGC) in Armenia which has been CIPE's partner in its business integrity programs since 2018.

small businesses in Armenia, yet they strongly believed that an honest and transparent business could succeed. Guided by the principle “follow the law, live in peace,” they founded Manamey and registered it as a limited liability company (LLC). Manamey currently has two full-time employees and outsources its accounting to a reputable firm.

Business integrity challenges and responses

Lack of enabling policies for ethical SMEs and uneven enforcement

Soon after opening, Manamey, like any SME, faced a major test: market conditions favoured larger competitors by allowing them to dictate pricing and control delivery and supply chains. As a small pharmacy, Manamey had little bargaining power when dealing with large suppliers and struggled to compete on pricing with its larger rivals. The start-up also faced a major challenge in attracting customers as bigger competitors could directly negotiate favorable pricing with doctors and hospitals. It is no secret that such “negotiations” often include offering gifts, cash prizes, hospitality services, and other perks. In Manamey’s view, such common “marketing techniques” are inappropriate at best and possibly illegal — and should be investigated by law enforcement authorities. Alas, such enforcement is lacking. As a result, the playing field is not level, particularly for smaller ethical businesses that are trying to establish themselves in the market. Patients, in turn, end up with limited options and risk being exposed to substandard products and services.

After a year in business, Manamey saw the potential for change due to significant political developments. Following the 2018 Velvet Revolution in Armenia fuelled

Insights

- Talk with your peers about business integrity — you are not alone
- Consider implementing a compliance certification program
- A quick consult with an accountant, lawyer, or other local market expert can help forestall potentially corrupt demands



by demands for tougher anti-corruption measures, leading business support organizations and other civil society groups explored their own collective action to combat corruption. The first private sector-led anti-corruption declaration in Armenia included seven key ethical principles and was issued jointly by the Corporate Governance Center, the Yerevan Chamber of Commerce, and the Armenian Lawyers Association. The declaration called on business owners to develop practices in line with these ethical principles and integrate them in their dealings with customers, partners, suppliers, and public authorities.¹³

Manamey joined with other small business owners to address the challenges of unfair competition and other unethical practices in the market. Since then, Armenia's first Business Integrity Club was launched with CIPE's support to offer a forum for businesses committed to ethics to discuss and advocate for fairer market conditions.^{xviii} Despite the challenging operating environment, Manamey has managed to expand its client base by remaining an honest business with a deep understanding of its customers' needs.

Earning customer loyalty has proven critical for Manamey's success, yet the business faced a new test during a time of a national crisis. A military flare-up of the Nagorno-Karabakh conflict in 2020 led to a temporary introduction of martial law, which alongside with the pandemic, allowed the importing of certain unregistered essential medicine. One of the large pharmaceutical companies took advantage of this situation and began to import medicine beyond those included in Armenia's essential drug list. As a result, the market became flooded with cheap medicine (of unknown quality), putting additional pressure on Manamey's already modest pricing.

Interacting with government officials and inspectors

Despite persistent rumours of bribery and corruption being involved in the business registration process, Manamey experienced no difficulties — the process took only three days to complete. The registration office did not request that Manamey submit additional information, and all interactions were professional and in accordance with the law. The same proved true regarding the licensing procedure, which was handled professionally and ethically by Armenia's Ministry of Health.

Similarly, Manamey's team did not even have to communicate in person with officials from the tax inspectorate, as tax filing and reporting were all done electronically. They believe that some local corruption perceptions — rather than actual experiences of corruption — can be an unnecessary and self-fulfilling prophecy that discourages business integrity and entrepreneurship.

After incorporation, Manamey had to communicate face-to-face with local authorities on only a few

¹³ The Anti-Corruption Declaration can be found here:

https://47-1548.s.cdn13.com/wp-content/uploads/2021/08/acc_declaration.pdf

occasions. One encounter stemmed from questions about the rent for the building. As the building owner, Margarit sublets the property to the pharmacy below the cadastral value, which is in compliance with existing regulations. A tax inspector questioned whether this rent was sufficient and suggested this might breach relevant regulations. Margarit immediately called her accountant to clarify and confirm that the company was fully compliant. To the tax inspector's question of how he should explain this situation to his supervisor, the director reiterated that the company strictly follows all regulations and that she had no intention of reviewing the rent fee at all, as there were no legal requirements to do so. While the inspector did not solicit a bribe explicitly, the interaction made the team feel uncomfortable. Yet, it also confirmed that it is critical to know your rights and to have the support of a knowledgeable accountant to help uphold a commitment to ethics and integrity.

Lessons learned

This story of a small business in Armenia that operates in the face of many challenges and uncertainties holds several valuable lessons for other SMEs. It reminds us that conducting business in an ethical manner is possible. This story also demonstrates that:

- An ethical business model can drive customer loyalty and help achieve sustainable revenues.
- Aspiring entrepreneurs should not be deterred by unsupported rumours or stereotypes about corrupt officials, as they are often not based on actual experiences.
- Assembling a team of professionals, including legal counsel and an accountant, can prove instrumental in safeguarding ethical business conduct. Having such professionals on your side can help prevent extortion and other forms of bribes from corrupt officials.
- Fair and equitable enforcement of applicable laws and regulations to support an inclusive business climate are critical to the long-term success of ethical businesses.¹⁴

¹⁴ See for example the 2021 Insights from the World Justice Project Rule of Law Index:

<https://worldjusticeproject.org/sites/default/files/documents/Insights-2021-final-revised.pdf>

DECLARATION FOR BUSINESS ETHICS AND COMPLIANCE INITIATIVE IN ARMENIA

We, as members of the Armenian private sector, recognize that corruption is a major handicap to the country's marketplace, as well as the continued success of our enterprises. We further recognize that transparency, ethics, honesty, and accountability are the means to combating such corruption and ensuring fair opportunities for all to participate in the market. In supporting of the foregoing, we hereby declare our intent to:

1. *Conduct all company business responsibly and in compliance with internationally recognized anticorruption standards and the laws of Armenia.*
2. *Prohibit all employees from engaging in corrupt, fraudulent, and unethical activities with private and public officials and organizations.*
3. *Introduce a transparent disclosure policy for the company's operations, including transparency about those who are the true owners of the company.*
4. *Treat our employees, customers, partners, and suppliers with honesty and respect.*
5. *Earn a reputation for ethics, competence, and excellence.*
6. *Support a nationwide initiative intended to create fair market conditions, promote transparency in business transactions, and ensure good corporate governance in Armenia.*
7. *Develop practices to disseminate above principles, concepts, and policies to all parties within our company, as well as our customers, partners, and suppliers.*

STORIES FROM SMES:

OLOLO, BISHKEK, KYRGYZSTAN



Introduction

From early on, Daniar Amanaliev dreamed of creating a space in Kyrgyzstan that would support innovative thinking, arts education, and entrepreneurship. In 2016, Daniar, his wife Ainura, and their friend Atai Sadybakasov decided to follow through and established an art studio and cultural center in Bishkek under the name ololo. Today, ololo is a multifaceted business that has become a leading service provider in the fast-growing digital nomad space.¹⁵ The company operates a group of seven membership-based coworking centers and currently serves over 150 member companies. Ololo also provides property management services and functions as both an event producer and digital marketing agency. In addition, the company runs a business accelerator program that includes a business school for young entrepreneurs. Ololo is managed by its three co-founders, including Daniar, who oversees investor relations, strategic development, and general management. The company currently employs over 60 staff members.

¹⁵ Definition by Oxford University Press (2021), "A person who earns a living working online in various locations of their choosing (rather than a fixed business location)", accessed 18 March 2022, https://www.lexico.com/definition/digital_nomad

Business integrity challenges and responses

Sustaining an ethical vision for sustainable growth and business development

Ololo's commitment to running an ethical business is guided by three tenets: Being honest with consumers and trying to improve their lives; being transparent with investors; and being responsible to the community by following environmentally sustainable practices. Since opening in 2016, ololo has committed to paying all required taxes and following local regulations. The co-founders consider such commitments as essential to their long-term goals for growth and investment.

During its startup phase, the ololo team maintained careful financial records to be retained for potential collaborations with both foreign and domestic investors. According to Daniar, many start-ups in Kyrgyzstan face challenges in attracting funding from outside the country because of regulatory concerns, i.e. a largely lacking rule-of-law environment with robust contract enforcement. Despite these challenges, ololo has managed to expand operations by demonstrating fiscal compliance, which includes paying taxes and maintaining financial controls, to potential investors.

To further guide ololo's ethical practices, the leadership team developed key guidelines for the company's staff and management on issues of taxation, inspections, and third-party due diligence. For instance, the Code of Conduct prohibits employees from engaging with major property owners who are public officials to avoid any potential integrity risks. This is especially important, given that due diligence information is largely lacking in Kyrgyzstan. In addition, when working with government inspections, employees are required to notify the company's legal team to ensure they can be present during inspections. Since its opening, ololo has

Insights

- Staying ahead of corruption, or its threat, can ensure the company maintains its ethical standards.
- Always do your due diligence on external partners.
- Engaging in social media advocacy can help build ethical reputation and protect from corrupt demands.



maintained a “no bribes” policy, despite a widespread belief that bribery is part of doing business in Kyrgyzstan. Daniar is adamant in his anti-bribery stance: “I pay all taxes and we have never paid bribes. I do not want to lose opportunities to work with foreign investors in the future. Fiscal compliance also works to build more trust for potential investors.”

The ololo team also believes that maintaining a public profile is necessary to uphold the company’s commitment to business ethics. Inspired by fellow entrepreneurs such as Emil Umetaliev, the founder of the company Kyrgyz Concept, and where Daniar first learned about the importance of transparency, they saw that publicity could provide valuable protection against ¹⁶ It appears that corrupt officials are more likely to stay away from companies that are vocal about their ethical position for fear of being exposed in corruption-related offenses. Therefore, Daniar operates YouTube and Telegram channels to maintain access to a broad audience in case he needs to publicize any types of transgression by authorities.

Cultivating business integrity in business schools and combating brain-drain

A business can’t thrive without access to talent. Concerned about the increasing number of younger people leaving Kyrgyzstan in recent years, Daniar and his team have created appealing spaces to help retain talented youth and provide a safe space for collaborations with their peers. Additionally, ololo is strongly committed to educating the current and future generations of local entrepreneurs. ololo’s established business school promotes the company’s commitment to business integrity through coursework on finance, taxation, sustainability, and compliance. The coursework also emphasizes the importance of not only making a profit in the short term, but also increasing capitalization over time. The curriculum is rooted in the belief that capitalization is only possible if a company works transparently and steers clear of corruption.

The business school coursework draws upon the company’s own experience and lessons learned. One of such lessons is that a successful company should have clear lines of responsibility for each business process or operation to ensure transparency and accountability of company’s staff and management. For that reason, for example, ololo has decided not to own property as it would have added a considerable layer of challenging due diligence and other complex procedures. Instead, the company directly negotiates leases with owners of suitable buildings and has even managed to involve the property owners in collaborating to invest in and improve the leased spaces.¹⁷ This is how the innovative

¹⁶ Kyrgyz Concept, “about”, accessed 18 March 2022, <https://concept.kg/en/about>

¹⁷ This approach is different from a more conventional model in the industry where co-working companies rent property, renovate these properties, and then rent them out at a higher price.

and successful property management business - first in Kyrgyzstan - has started and set ololo apart from competitors.

Improved access to capital

Ololo's focus on transparency and integrity in its operations and its innovative business approach has attracted local and foreign investors. In fact, the U.S./ Kyrgyz investor AV Frontiers agreed to make its first investment in Kyrgyzstan and provide funding to ololo for a new type of resort on the lake of Issyk-Kul.^{xix} This resort is set to comply with all sustainability requirements and will also offer a co-working space in addition to a kindergarten, school, clinic, coffee shop, and a restaurant.

Lessons learned

Ololo's story shows that a company driven by integrity and innovation can succeed even in circumstances challenging for business ethics. Some specific lessons learned include:

- Firm personal commitments to integrity and transparency from company leadership, supported by internal policies and procedures, have enabled the company to continue growing and become profitable.
- Identifying corruption risks early and looking for alternative, more transparent business options has helped ololo to develop a successful innovative business model.
- Publicly sharing company experience and operating challenges with a local community can help thwart potential corruption and raise public awareness of the cost of corruption for a society.
- Being a formal and financially transparent company can unlock new business opportunities and foreign investment, even in markets that are considered high risk.

STORIES FROM SMES:

POSLOVNA INTELIGENCIJA, ZAGREB, CROATIA



Introduction

Poslovna Inteligencija is a leading company in the information and communications technology (ICT) consulting sector in Southeast Europe that has built a successful, global organization by emphasizing ethical business policies. The company is registered in Zagreb, with additional offices in London, Vienna, Ljubljana, Belgrade, Podgorica, and Sarajevo. It was founded in 2010 by three partners, Anita Cvetić Oreščanin, Lidija Karaga, and Dražen Oreščanin. Each founder came to Poslovna Inteligencija from previously successful careers in different companies in Croatia. Together, the team has managed to significantly grow their joint venture since incorporation. By 2020, Poslovna Inteligencija generated 7.9 million Euros (\$8.75 million USD) in revenue while employing 95 workers.

Business integrity challenges and responses

Company's response to local market conditions driving business opportunities abroad

Throughout their careers, the founders often witnessed a mismatch between official policies for ethical practices and the realities of the marketplace. Therefore, at Poslovna Inteligencija they decided to integrate a zero-tolerance policy for corruption into every operation and decision-making process — regardless of business rationale or outcomes. They quickly realized the value of such a clear and unequivocal policy. Early on, a local state-owned company (SOE) approached the founders with an offer to do business together. Shortly after, the team learned they were expected to “grease some hands” to

take part in the opportunity. Although they needed the work, the founders declined the offer. The company ultimately decided against reporting the bribe solicitation due to the lack of robust whistleblower protection guarantees at that time and out of concerns about the potential negative impact on their business.

To mitigate such risks in the future, Poslovna Inteligencija refused to conduct business with any Croatian SOEs, despite the potential financial rewards. This decision has pushed Poslovna Inteligencija to seek more business opportunities abroad, which proved to be quite beneficial for company's bottom line. For instance, vendors outside of Croatia typically pay within 30 days, while those in-country take up to 200 days, on average.

Through its vast international partners, Poslovna Inteligencija has gained exposure to multiple anti-corruption and due diligence assessment mechanisms. These experiences have allowed the company to strengthen its internal processes and procedures and introduce compliance standards for its domestic business partners — promoting a culture of integrity further down the supply chain. As a member of the Croatian Independent Software Exporters ([CISEX](#)), an industry association that prioritizes integrity, Poslovna Inteligencija has helped other SME members to develop their own internal business integrity programs and practices.

A culture centered around business integrity helps attract and retain talented employees

Soon after joining the European Union in 2013, Croatia struggled to retain high-performing and talented employees who were seeking better job opportunities in other EU countries. While the country faced considerable emigration, Poslovna Inteligencija realized that their zero tolerance for corruption approach and

Insights

- Prioritizing your staff's professional and ethical needs will help your company stand out as an ethical and responsible employer and increase talented staff retention
- A strong, ethical reputation will make your staff feel proud and keep them motivated
- Always train your employees on compliance



reputation had begun to attract new, high-performing employees. This commitment to business integrity and ethics helps drive their rigorous recruitment and onboarding process, which can take up to six months. Poslovna Inteligencija's hiring practices include a required mentorship program that calls for each new employee to work with a mentor to develop a plan for mastering professional competencies. Mentors are often seasoned employees who help to explain the rules of conduct, business ethics, regulatory requirements, labor safety measures, and other aspects of the organization's culture. Poslovna Inteligencija has further integrated compliance into their Code of Conduct, bonus and promotion programs, and other relevant policies and procedures.

Likewise, when considering a prospective investor or business partner, the company factors in whether their organizational cultures will fit together. This emphasis on working with like-minded partners has helped the company retain valued team members and avoid culture clashes.

Lessons learned

Poslovna Inteligencija's story provides several key takeaways:

- Companies benefit from establishing sound internal processes and procedures to raise awareness of and promote ethical conduct among their staff.
- Rejecting corruption and standing by the company's ethical position with potential partners can yield better outcomes in the long term.
- Companies that lead in business ethics and compliance can act as powerful catalysts for change among peers and partners in their industries and communities.
- A company's decision to focus on business ethics and integrity within its organizational culture could prove the differentiator for retaining and recruiting high-quality prospective employees and clients.

STORIES FROM SMES:

F&M REKLAMA, TIRANA, ALBANIA



Introduction

The brothers Faolt and Marin Pahija developed their technical skillsets early on. During Faolt's electronics studies at the Polytechnic University in Tirana, he provided tech support to many internet cafes. Meanwhile, Marin, a student of Architecture, focused on mastering graphic design skills, which he used to create ads for the same cafes. The brothers then joined forces to construct illuminated signs for their clients. They worked from the balcony of their home, using their father's tools and relying on his advice, as an experienced mechanical and electric technician. The brothers' success led them to open a small workshop that formed the basis of what is now known as F&M Reklama, a leading advertising and signage company in Albania. Today, the company owns a manufacturing plant and showroom in Tirana, and employs over 50 full-time workers, and attributes much of its growth to a strong commitment to business integrity and compliance.

Business integrity challenges and responses

Overcoming informality and introducing compliance to achieve further growth

Almost from the start, the brothers faced obstacles due to Albania's widespread market informality. In 2007 when they began to attract orders that were too large to complete from their parents' apartment,

they researched how to expand their business. However, without a formal business registration, the brothers struggled to afford a larger working space, hire additional staff to process new orders, and engage with formal businesses. To remedy these challenges, they decided to register as individual entrepreneurs and for the following six years the brothers continued to grow their business. The common practice of customers paying in cash with no receipts or proper contracts made planning difficult, while irregular cash flow made it harder to hire full-time staff. Compounding the issue, the brothers-entrepreneurs had to rely on distributors and clients who were still operating informally, placing the business at risk of frequent tax inspections.

Eventually, the brothers decided to formalize their company and register it as an LLC. With a proper structure, the entrepreneurs could now invest in new equipment and production materials, attract qualified, full-time staff, and compete for public contracts. According to Faolt: “We were then able to get bank loans. In the early years of our business, we were unable to obtain business loans. This usually meant that we had to take small loans as individuals. It is now easier for us to advance investment plans, as our business, assets, and management can now easily be verified through documentation.” Aside from improving the company’s cashflow, proper compliance with all necessary business regulations resulted in better management and helped the brothers secure contracts with foreign suppliers and clients. Tax inspections became less threatening and less frequent. The company was also better prepared to deal with the COVID-19 pandemic: Unlike many other companies in Albania, they retained all staff members with full salary, in part because they met the criteria to receive government funding during the pandemic.

Insights

- Formalizing your business is the only way to win higher-value contracts and increase your revenue base
- Having formal status can provide a lifeline during an emergency like the COVID-19 pandemic to be able to qualify for government assistance
- Making ethics an important factor in relationships with supply chain partners and investors can improve long-term market conditions



Business ethics leads to new business opportunities and improves local conditions

It has become commonplace for F&M Reklma to allow for external anti-corruption and other compliance checks when bidding for contracts with local public entities and international companies. According to the team, these requirements are becoming standard, as the company extends its services to prominent businesses locally and throughout the region. The brothers do not consider these requirements to be burdensome. They appreciate the value of implementing and complying with these standards, as it allows them to show that their company takes seriously matters of integrity and ethics. By conducting business ethically and complying with regulations, F&M Reklama has gained confidence operating in foreign markets and providing services to financial institutions and other highly regulated entities. From the brothers' perspective, their company's strong commitment to business ethics and integrity has led several of their major clients to renew their contracts and extend their partnerships.

When searching for local business partners, F&M Reklama requires prospective subcontractors to register with tax authorities and commit to sharing F&M Reklama's values. While no formal background check tools currently exist in Albania, the brothers use Albania's National Business Registry to obtain this type of information. F&M Reklama also advises small advertising companies that seek to work with them but do not yet fulfill basic compliance requirements. Throughout this process, F&M Reklama helps these companies understand the many risks associated with working informally. These risks include administrative fines, a lack of access to formal financing, and high staff turnover. Through these engagements, the brothers are helping to shape a business culture committed to integrity and ethics within their broader community — something they consider essential for the long-term sustainable development of a positive business climate in Albania.

Lessons learned

F&M Reklama's story demonstrates the benefits businesses can realize by formalizing their operations in accordance with local laws and regulations. It also demonstrates that:

- The company's focus on business integrity, ethics, and compliance allowed it to build a strong reputation, which in turn helped the company secure several high-value contracts with both national and international clients.
- The need for formalization does not always present itself right away. However, the brothers learned that operating in a fully formal manner was essential when seeking required financing to support their business's growth potential.
- Being a formal and registered enterprise proved critical for managing the impact of pandemic on the business as it allowed access to necessary government support.

STORIES FROM SMES:
FORCE GROUP, KYIV, UKRAINE



Introduction

Founded by professionals with experience in translation, marketing, and transportation, Force Group is a medium-sized Ukrainian company with revenue of about USD 1 million. The company is managed by CEO Stanislav Horbachevskyi and comprised of two subsidiaries: Drive Force and Task Force.¹⁸ Drive Force is the company's transportation provider and owns a fleet of more than 70 vehicles. It also employs 30 full-time staff and collaborates with hundreds of freelance drivers. Task Force is the

¹⁸ At the time of publication, the war in Ukraine impacted Force Group, as all other businesses in the country. Task Force, the translation company, has changed its strategy and started approaching more potential clients in Europe and the USA. Drive Force remained primarily involved in domestic passenger logistics, including evacuations of employees of their client-companies.

company's translation unit and offers professional translation and interpretation services and works on films, videos, notarization, and apostille services. The company has managed to thrive despite a challenging climate with mixed support for businesses committed to formal operations.

Business integrity challenges and responses

Inefficient fiscal policies hinder incentives for ethical, transparent and formal business practices

The Force Group, registered as a limited liability company (LLC), finds Ukraine's conditions and requirements for SMEs and individual entrepreneurs to be challenging and even counterproductive. The personal tax rate has posed a major obstacle to growth, considering that salaries are one of Force Group's highest costs and some employees are taxed as high as 40 percent. As an active member of the [Union of Ukrainian Entrepreneurs](#) (SUP), the first and largest association of Ukrainian entrepreneurs, Force Group has advocated to provide more support for small businesses and incentivize emerging, ethical entrepreneurship practices. However, the government has been slow to review and adopt SUP's proposals. According to Stanislav: "If businesses played by the book from the outset, I am positive they would go bankrupt shortly after due to the current circumstances." As a result, many businesses in Ukraine find themselves operating in a half-formal, half-legal way. Many even resort to a fully cash-based system to avoid scrutiny.

Despite the challenges associated with operating formally, Force Group's leadership believes the key to long-term growth is to comply fully with local regulations. The team has frequently witnessed tax officers targeting growing businesses for inspection and

Insights

- Always strive to keep your company structure as open and transparent as possible
- Tax compliance leads to efficient record keeping and better understanding of the company's financial affairs
- Operating formally is key to long-term growth and international opportunities



believes that the more transparently a company operates, the more likely it can avoid penalties. This is especially true for companies seeking opportunities with larger partners outside Ukraine, since international businesses often require evidence of compliance with local regulations and global practices for their contractors and suppliers.

SMEs' position to comply with fiscal regulations

Tax optimization, a common euphemism for tax avoidance, is a widely-used tactic within a legal grey zone -- unlike tax evasion, which is a crime in most jurisdictions. While not strictly illegal, tax optimization significantly affects corporate transparency. The Ukrainian Tax Code appears to allow various options for tax optimization schemes, such as combining an LLC and private entrepreneurs (PEs) under an umbrella organization to take advantage of varying tax rates. Ukrainian LLCs pay nearly 40 percent in total tax for their employees, while PE tax rates range from 5 to 20 percent depending on their size, nature of business, and transaction volumes. Some PEs are even exempt from paying value added tax (VAT).

While it appears that many businesses in Ukraine take advantage of this opportunity, Force Group's founders oppose this practice and instead take a more straightforward approach to paying taxes. "Any business would rather have a single legal entity paying taxes than owning several entities, and then have to explain why they need them and why the business is still robust given this cumbersome structure," according to Stanislav. Additionally, creating a complex business structure for the sake of tax optimization can result in transactions being processed through different accounts. Over time, the team believes, this may cast doubt on a company's reputation. In Force Group's case, they have chosen to operate transparently to strengthen their ability to work with multinational companies and other investors.

Further complicating the situation, the Ukrainian state does not consider the mixing of LLC and PE statuses unlawful, but tax officers might question this practice during inspections, according to Force Group. Inspectors might ask businesses why they are financed through a PE, yet their business is employing staff via an LLC structure. At the same time, many companies continue to use this split structure thereby exacerbating the problem of unfair competition. To Force Group's frustration, domestic and international partners often insist on using its PE status if it wishes to work together or bid for public tenders — disincentivizing a more straightforward business. "I find it rather interesting that reform-oriented projects in Ukraine are the ones that encourage companies to act as PEs. As an LLC, Force Group pays a high amount of value added tax, does not artificially shrink its profits, and operates fully cashless. Yet, each time we apply for a tender, we have to use the PE entity," Stanislav laments. He compares this practice to the notorious envelope-based payments scheme, in which one pays a small amount of taxes on a minimal formal salary and the rest of the cash informally.

Lessons learned

Force Group's story highlights the frustration experienced by many small and medium businesses in Ukraine when attempting to comply with tax regulations and remain profitable. At the same time, the story demonstrates that:

- Conducting business in full fiscal compliance is possible and allows for less burdensome administration and fair taxation.
- Undesirable fiscal behavior and the creation of cumbersome business structures to avoid paying taxes make companies vulnerable to integrity and reputational risks. These efforts undermine long-term business development opportunities, such as partnering with international clients.
- Future tax reforms should address the loopholes that currently discourage the use of transparent and appropriate legal entities in business transactions.

STORIES FROM SMES:

IGEPABH, SARAJEVO, BOSNIA AND HERZEGOVINA



Introduction

IGEPAbh Ltd was founded in December 2008 in Sarajevo as a joint venture of Maja Ognjenović, a Bosnian entrepreneur, and IGEP Group, the Croatian subsidiary of a German group of companies known as a leading wholesaler in Europe of graphic paper, cardboard, packaging, and media and technology. When establishing IGEPAbh, Maja was not fully aware of the challenges of doing business in Bosnia and Herzegovina (BiH). She later described this as a blessing in disguise, because knowing about the obstacles upfront might have discouraged her from pursuing entrepreneurship altogether. IGEPAbh's management has prioritized business integrity and attributes its success to being fair and honest, while taking care of employees and local communities. Today, the company has 11 full-time employees and annual sales of almost 4 million EUR.

Business integrity challenges and responses

Obtaining business registrations and maintaining professional relations with tax authorities

The challenges for IGEPAbh started right after it registered with the BiH government. Due to delays in obtaining the necessary certificates and work permits from the appropriate tax authority, the business had to wait two months before formally starting operations. However, the company had already hired staff and needed to pay salaries and fixed costs. This resulted in the business incurring significant losses right away. While no bribes were ever solicited from IGEPAbh, the team believes this waiting period could probably have been shortened in exchange for a bribe (the authority involved was notorious for corruption and its former director has recently been jailed for corruption).^{xx}

Despite this experience, the company's leadership instructed staff to treat public servants with respect — and not be intimidated by them — reflecting the need to maintain professional working relations with government agencies. The company also underscored that employees cannot, under any circumstances, offer anything of value to public officials for a favorable decision or treatment. This clear guidance from senior management has been very helpful, especially in the light of ambiguity of existing tax laws and other regulations resulting in a significant room for discretion and various interpretations by individual public officials. In fact, even the full compliance with a tax official's recommendations does not always absolve the company from a potential violation if another official uses a different interpretation. The company learned to avoid dealing with any single official but rather rely on formal interpretations and clarifications issued by the tax authorities as a whole.

Skewed market conditions create unfair competition and impede winning public tenders

Despite the practice of paying “envelope wages” common in BiH, IGEPAbh views transparent payment of full salaries, including related taxes and contributions, a basic working condition. If the company cannot provide employees with a decent income, IGEPAbh leadership believes the problem lies in the

business model — not its commitment to operating formally. Unfortunately, IGEPAbh continues to face unfair competition from companies that refuse to pay full salaries to their employees formally. This practice reduces rival companies' tax expenses and other associated costs. A finance officer who has worked for IGEPAbh since its incorporation said she would not stay with the company if it practiced informal employment, as such practices go against her personal and professional ethical standards.

Although IGEPAbh has kept its business integrity pledge, the company has not managed to win any direct contracts via the public tender system for several years. The company's management attributes this outcome to its strict anti-bribery policy. After learning about several incidents of alleged bid-rigging and other instances of procurement fraud, the company decided to withdraw from participating in public tenders. Now, the company focuses on pursuing sales in local markets through regular marketing and fair competition.

Fair treatment of business partners, customers, and competitors

IGEPAbh remains committed to maintaining ethical and transparent relations with its business partners and customers. This means respecting all contractual obligations, issuing timely payments, avoiding situations of competition distortion, and responding to customers' needs in the professional way. When choosing suppliers, the company prefers working with long-term partners who share IGEPAbh's values and principles. It seeks to differentiate itself from the competition through quality and price. Therefore, the company prohibits employees from engaging in collusion with competitors to agree on certain outcomes, collecting confidential information on competitors to exert pressure on them, or pursuing efforts to gain an unfair advantage, among other

Insights

- Resist bribery and strive to maintain professional relations with government officials based on ethics and respect
- Distortion of competition, such as bid collusion or other forms of cartel behavior, hampers innovation and client satisfaction in the long run
- Staying true to an ethical business model can help ensure long-term success



unethical and illegal practices.

One commonly shared challenge by many companies in BiH is the absence of an appropriate and professional business dispute resolution mechanism. Without such an option, companies are often unable to resolve disputed claims and other impediments to conducting business ethically and transparently.

Lessons learned

IGEPAbh's story demonstrates the importance of setting an ethical tone for a business from the top. Due to the strong personal ethical beliefs and commitments of the founders, IGEPABh has been able to guide the company staff on establishing and maintaining proper relations with public officials, business partners, competitors, and customers. In addition, their story shows that:

- Despite frequent interactions with public officials, the company has been able to resist corruption, due to straightforward guidance from its leadership and internal policies that promote ethical conduct.
- IGEPAbh's decade-long success story is testament to its culture of integrity and transparency, as well as its commitment to establishing trust with customers and partners.
- Key structural reforms in BiH are urgently needed to support ethical SMEs, particularly on issues of taxation, public procurement, and dispute resolution.

Conclusion

There are many courageous and forward-looking entrepreneurs around the world who continue to rely on strong ethical values while facing very challenging environments. As renowned physicist and humanist John Ziman put it: "Ethics is not just an abstract intellectual discipline. It is about the conflicts that arise in trying to meet real human needs and values."^{xxi} Every story profiled in this publication contains a conflict where business owners and employees had to make a choice – whether to succumb to the "business as usual" approach or challenge it and accept certain risks, personal and professional. CIPE hopes that the stories of such entrepreneurs from Europe and Eurasia will inspire and encourage others around the world to stand by their ethical values and seek support from their peers and communities in doing so.

Although these stories illustrate that it is not always easy and many challenges remain, the featured entrepreneurs have brought about positive changes in their business environment. By speaking out against corruption and joining forces with other stakeholders, including investors, clients, and (social) media, they turned business integrity into an opportunity that yielded numerous benefits. Operating

formally and transparently, for example, enabled these SMEs to obtain a better grasp on their financial data and administration. It allowed these companies to strengthen their management practices, support growth and, importantly, pursue new business opportunities. Similarly, building a reputation as a responsible business has not only been instrumental to develop a loyal customer base, prevent bribery and reduce other regulatory risks, but it also enabled firms to reduce brain-drain and retain highly skilled staff who value leadership's commitment to business integrity.

On the personal level, doing business in an honest way provides both entrepreneurs and employees with greater peace of mind and a positive working environment. Apart from the above-mentioned material and intangible benefits, the spillover effects of these efforts should be noted. All featured companies are committed to improving market conditions not just for themselves but for all businesses operating in their countries. This ranges from entrepreneurship courses for the next generation of business leaders, to peer-mentoring programs, and the creation of business associations and ethics clubs advocating for policy reforms, as well as promoting awareness and taking action to do business honestly.

At CIPE, we support the work of ethical businesses around the world. We believe that promoting ethical norms of conducting business, for example by sharing good practices with business leaders and providing training to SMEs, is key to improving the long-term outlook of doing business ethically. The SMEs featured in this publication are engaging in crucial norm-setting initiatives that can impact generations to come. We hope these examples will serve as an inspiration for their peers to choose integrity over perceived short-term gains of corruption and contribute to a strong market economy, fair business environment, and a more democratic and prosperous future for all.

Endnotes

ⁱ World Bank, Press Release 2021/146/EF, "Widespread Informality Likely to Slow Recovery from COVID-19 in Developing Economies", accessed 18 March 2022, <https://www.worldbank.org/en/news/press-release/2021/05/11/widespread-informality-likely-to-slow-recovery-from-covid-19-in-developing-economies>

ⁱⁱ UN Principles for Responsible Investment, "What is responsible investment?", accessed 18 March 2022, <https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment/4780.article>

ⁱⁱⁱ UN Global Compact, 2004, "Who Cares Wins, Connecting Financial Markets to a Changing World".

-
- iv Matthew Bell, Ernst & Young UK, 18 March 2022, https://www.ey.com/en_gl/assurance/why-esg-performance-is-growing-in-importance-for-investors
- v Chelsea Daniels (Kroll), “The Changing Role of ESG and its Impact on the ABC Landscape”, accessed 18 March 2022, <https://www.kroll.com/en/insights/publications/compliance-risk/anti-bribery-and-corruption-benchmarking-report-2021/changing-role-of-esg-and-impact-on-abc-landscape>
- vi The Forum for Sustainable and Responsible Investment (USSIF), “Global Sustainable Investment Alliance Releases Global Sustainable Investment Review 2020”, accessed 18 March 2022, https://www.ussif.org/blog_home.asp?display=173
- vii Susanne Durst & Wolfgang Gerstlberger, 2020. “[Financing Responsible Small- and Medium-Sized Enterprises: An International Overview of Policies and Support Programmes](#)” JRFM, MDPI, vol. 14(1), pages 1-23, December.
- viii UNPRI, 2019, “[Spotlight on responsible investment in private debt.](#)”
- ix World Economic Forum, March 2020, “[Embracing the New Age of Materiality Harnessing the Pace of Change in ESG](#)”
- x Daniela Cepeda Cuadrado/U4, “Covid-19 corruption in 2021: August–September”, <https://www.u4.no/blog/covid-19-corruption-in-2021-augustseptember>
- xi Reuters, “Swiss to ban deducting bribes from taxes starting in 2022”, accessed 18 March 2022, <https://www.reuters.com/article/swiss-bribes-idUSL8N2HX5BV>
- xii European Parliament, resolution with recommendations to the Commission on corporate due diligence and corporate accountability, accessed 18 March 2022, https://www.europarl.europa.eu/doceo/document/TA-9-2021-0073_EN.html
- xiii Office of the United Nations High Commissioner for Human Rights, “Open-ended intergovernmental working group on transnational corporations and other business enterprises with respect to human rights”, accessed 18 March 2022, <https://www.ohchr.org/en/hr-bodies/hrc/wg-trans-corp/igwg-on-tnc>
- xiv S. Ramakrishna Velamuri, William S. Harvey, and S. Venkataraman, “Being an Ethical Business in a Corrupt Environment” accessed 18 March 2022, <https://hbr.org/2017/03/being-an-ethical-business-in-a-corrupt-environment>
- xv Alliance of Small Enterprises (AIM), “About us”, accessed 18 March 2022, <https://sme.md/en/about-us/>
- xvi International Labour Organization (ILO), “Indicator description: Informality”, accessed 18 March 2022, <https://ilostat.ilo.org/resources/concepts-and-definitions/description-informality/>
- xvii See also: International Labour Organization (ILO), 2006, “[The informal economy in the Republic of Moldova: a comprehensive review](#)”

^{xviii} Corporate Governance Center, “Business Integrity Club”, accessed 18 March 2022,

<https://corpgov.am/en/projects/2021/08/09/business-integrity-club>

^{xix} ACDI/VOCA, “Investing in a Hub for Digital Nomads in Kyrgyzstan”, accessed 18 March 2022,

<https://www.acdivoca.org/2021/04/investing-in-a-hub-for-digital-nomads-in-kyrgyzstan>

^{xx} OCCRP, “Bosnia Sends Ex Head of Tax Agency to Jail for Corruption”, accessed 18 March 2022,

<https://www.occrp.org/en/daily/14516-bosnia-sends-ex-head-of-tax-agency-to-jail-for-corruption>

^{xxi} Ziman, John. “Why Must Scientists Become More Ethically Sensitive Than They Used to Be?” *Science* 282, no. 5395 (1998): 1813–14. <http://www.jstor.org/stable/2896986>.



CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

@CIPEDC | @CIPEGLOBAL | @CIPE_EEA | CIPE.ORG/CAI