



# TELIA Case Study

## Addressing (ir)responsible business behavior

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## About the Authors

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## Introduction

This case describes how responsible business was addressed at TeliaSonera, subsequently renamed Telia Company (Telia).<sup>1</sup> The company was in crisis mode in 2012 and 2013 following media allegations of bribery in its activities in Uzbekistan. Telia appointed a new Board of Directors (hereafter, the Board) that elected a new Chair at the Annual General Meeting (AGM) in April 2013. A new Chief Executive Officer (CEO) joined the company in July 2013. There were ongoing internal investigations into Telia's operations in Eurasia by the English law firm, Norton Rose Fulbright (NRF), that reported to the Chair. The Chair and the CEO set a determined tone and communicated their intention to guide and fully support the transformation of the company into a responsible and sustainable business. In September 2013, the new Chief Ethics and Compliance Officer (CECO) joined the company and was instructed to create an Ethics and Compliance (E&C) function that had as its purpose the development of a framework for ethics and compliance programs and specifically the implementation of an effective anti-corruption program.<sup>2</sup> At Telia, this work was referred to as Responsible Business.<sup>3</sup>

This case, which covers a period of three and a half years, describes the hard work at Telia, guided by the new CECO, that involved people at all company levels as well as external professionals, sustainability managers, ethics and compliance officers, investigators, compliance specialists, lawyers, journalists, and regulators. Summarizing the process, the CECO states:

“It was a journey where not all answers were clear from the outset. A journey of over three and a half years with unexpected challenges, mistakes, and new insights from which we developed a framework and a methodology for enhancing responsible business at Telia.”

## Grasping the reality

In April 2012, the Swedish investigative TV program, Uppdrag Granskning (UG), broadcast an episode that described how oppressive governmental regimes in some Eurasian countries (mis-)used the telecom networks operated by Telia's subsidiaries and associated companies. The allegations were that Telia contributed to human rights violations in some Eurasian operations where the authorities had direct access to the networks and were using this access to threaten and oppress people with differing opinions or who were otherwise critical of the regimes.

In September 2012, UG broadcast yet another episode about Telia and its business in Eurasia. This program alleged that Telia had paid billions of Swedish crowns (SEK) to a company owned by a young fashionista in Gibraltar (Takilant) in exchange for licenses in Uzbekistan. The program claimed that the ultimate beneficiary behind Takilant was, in fact, the daughter of the Uzbek president. She had obtained the licenses by using her connections and considerable influence to acquire the valuable

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<sup>1</sup> This case was developed within the framework of a research project that explored the linkages between responsible leadership, sustainable business, innovation, and growth in Swedish-based corporations with a global outreach. The purpose of the project was to describe how responsible business behavior appears in everyday work and practices.

<sup>2</sup> This text is based on round-table seminars, interviews, and documentary data. The perspective is that of the ethics and compliance professional.

<sup>3</sup> Other corporate initiatives were taken that addressed sustainability at the company. These initiatives are not discussed in this case.

licenses at a very low price from the Uzbek government.

In response to increasing criticism and pressure, Telia began an independent investigation to be conducted by the law firm, Mannheimer Swartling, (MSA). Telia agreed to make the results of this external review public. At the same time, the Swedish prosecutor announced that he would open a criminal investigation into the matter. By December 2012, Telia's management was still denying the allegations. Telia's management was convinced that the ongoing investigations and legal process would show that the suspicions of criminal activity were unfounded. The independent review from MSA was released on February 1, 2013. MSA held a press conference and, contrary to Telia's expectations, expressed serious criticism on several points. MSA found no evidence of bribery or money laundering under Swedish law based on the information available. However, MSA could not state that there was no bribery and that the crimes the media and the Swedish prosecutor had described should be dismissed by virtue of its inquiry.

“If one carries out business in a corrupt country, one should quite simply be more thorough than TeliaSonera has been ... If one doesn't know who a counterparty is, nor how a counterparty has obtained it acquired assets, it would seem difficult to ensure that corruption has not occurred at some step along the way.” [MSA press release, February 1, 2013]

The CEO consequently announced his resignation. The current CFO was appointed as acting CEO. Although there was considerable harsh, public criticism by important shareholders and by the Swedish government, Telia continued to see itself as a victim of unfair media attention. Telia issued a press release in which the company pointed out that although the MSA investigation had identified several signs of corruption and some deficiencies in risk mitigation and controls, Telia's Board and management were convinced that the company had not committed any crimes. There were numerous red flags, but no smoking gun.

## Getting to work

At the AGM in April 2013, the shareholders elected a new Board that then appointed a new Chair. The Chair employed an English law firm, Norton Rose Fulbright, to investigate Telia's business practices in countries in Telia's business region of Eurasia. The Board employed a new CEO who joined the company on the 1 July 2013. The acting CEO returned to his former position as CFO. On September 1, the new Chief Ethics & Compliance Officer (CECO) began her new job.

The new CECO's assignment was to implement an Ethics & Compliance program with a specific focus on Anti-Bribery Corruption (ABC). The recruiter's job description of the CECO position was very professional in its listing of the cornerstones of “effective” ABC Programs. The new CECO states:

“We suspected that very few people in Telia management, or on the Telia Board, actually at this time, knew in detail what an “effective” ABC Program entailed.”

However, it was agreed that change at Telia was necessary and that the focus on ABC was very important. Telia, without delay, should inform investors, shareholders, analysts, and journalists which actions it planned to take to regain trust and to rebuild the company's brand. An E&C function and an effective ABC Program were important parts of this effort.

At this time, in 2013, there was ambiguity concerning which legal and ethical risks required attention. Lawyers wondered if all the legal risks required compliance programs. Some lawyers speculated that journalists influence compliance agendas on risks, especially when the media shines a spotlight on new risks. The situation seemed confusing, overwhelming, and unsatisfactory. Many lawyers asked: Is the E&C a function or a methodology? Is the E&C a “layer of defence” or something else? Could E&C be separated into Compliance and Ethics (the latter, more a voluntary issue)? There were, and still are, different answers to these questions. However, the new CECO was crystal clear:

“Compliance cannot be separated from Ethics. Ethics is not an extra layer of protection on top of legal requirements. Ethics is the foundation of a society’s common values system and its legislation. Consequently, to grasp the full concept of Responsible Business, a company needs to go beyond legal obligations.”

The work began at Telia with identifying and examining which areas/topics of behavioral risks Telia had and which areas/topics should be subject to effective compliance. The E&C team at Telia had a running start because the journalists had already called attention to many risks in their reporting on the company. In fact, the corruption risk and, to a lesser extent, the risk to freedom of expression and customer privacy were already media scandals. The E&C team quickly identified ABC and Freedom of Expression and Customer Privacy as important topics. The latter topic is especially important for a telecom company. Another topic, Occupational Health and Safety, was added because the new management wanted to prioritize this area of responsible business. The CECO recalls:

“At this point, it was quite clear that the corruption risk was not only a behavioral risk because the risk already had significant reputational impact and could have severe legal consequences (evidenced in Sweden at the time) and financial consequences (should the legal risks materialize - the fines in cases outside Sweden could be very high) as well as business continuity risk (could the company continue operating in this region?). In many experts’ opinion, the risk of bribery and corruption is also a human rights risk (or a societal risk, as Telia today describes it) because corruption and kleptocracy are effective blocking points in the protection of all human rights.”

Initially the E&C team prioritized the anti-bribery corruption program (ABC Program) because a well-crafted ABC Program would benefit other topics linked to responsible business. The CEO states:

“To prevent corruption, an effective ABC Program is a minimum requirement for any company, small or large, global or local, regardless of nationality.”

Drawing on her international experience, the CECO decided to take a global approach. The framework, described in detail below, addresses the “effective” compliance that a company is required to demonstrate that it exercises when examined by a regulator or authority, such as, for example, the Department of Justice (DOJ) in the United States (US). At that time, however, there was no indication that the US authorities planned to investigate Telia. The framework was then approved by Telia’s management and Board. Eight months later, the E&C team learned that the DOJ, the US Securities and Exchange Commission (SEC), and Dutch prosecutors had initiated investigations into Telia and its dealings with Takilant in Uzbekistan.<sup>4</sup>

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<sup>4</sup> In the US, the FCPA (Foreign Corrupt Practices Act), which identifies and describes certain corporate crimes, enables the DOJ and the SEC to investigate these crimes and approve effective compliance programs.

## Ethics and Compliance – a framework for Responsible Business

The E&C framework at Telia, which has ten cornerstones, describes what regulators and compliance professionals refer to as “effective” compliance or “adequate procedures.” Effective compliance at the highest corporate level aims to *prevent* wrongdoing, *detect* wrongdoing, *investigate* wrongdoing, send warning red flags, and provide remedies. Telia’s compliance framework, which takes an uncompromising tone emanating from top company management, specifies root causes of wrongdoings and proposes remedies.



More specifically, the ten cornerstones cover activities such as; thorough risk assessment (to identify and understand potential risks), setting up an organization and a governance structure for managing all aspects of responsible business, install policies, instructions and guidelines to help managers and employees to develop and sustain an ethical working practice, as well as providing training sessions on anti-corruption and other responsible business topics. Other activities focus on developing and implementing processes for due diligence of third parties, securing a Speak-Up line where misconduct can be reported, and procedures for preventing retaliation. And finally, in order to provide remedial

actions, which include corrective and disciplinary actions, a Special Investigations office has to be established. Placing “tone at the top” at the core of the framework signals that an effective compliance program requires that a company’s top management and its board of directors understand and support all aspects of effective compliance.

Telia’s framework for effective E&C, introduced during Fall 2013, was well received and was subsequently used in numerous presentations to the Board, management, investors, journalists, other ethics, compliance and sustainability officers, the SEC and DOJ in the US, and the Swedish and Dutch prosecutors. Since expectations were high, the E&C team experienced, from the very beginning, much pressure to show results. The team struggled with how to describe and measure progress. Similarly, Telia’s management and the Board were pressured to explain the actions taken to deal with corruption. Because the company had committed to regaining trust and to rebuilding its brand, people thought they had the right to know which promised changes had been made. The shareholders, the creditors, and the analysts especially claimed this right. The CECO recalls:

“Sometimes we felt we did not have time to actually *do* things before we were supposed to present the results.”

Although the framework was widely accepted at Telia, some people argued it was too complicated, took too much time, and required too many resources. Others argued it was too US-oriented with its disproportionate focus on the risk of corruption at the expense of other behavioral risks. Even when the demand to show ethics and compliance results decreased, such arguments were still occasionally raised at different levels in the company.

Acknowledging that there may be different views on how to address responsible business, the CECO states:

“This is in fact a very simple framework for how to practically implement commitments to responsibility and business ethics in a company.”

However, during the implementation of the framework, the E&C team learned that the process caused friction at all company levels and raised other issues that required prioritization. These requirements, which meant difficult decisions had to be made transparently, ultimately tested the robustness of Telia’s management. Eventually, when the E&C team realized that frictions were a necessary part of the implementation process, they were addressed in the framework. (See Appendix 1 for examples of friction).

## Remediation

Remediation describes the process of fixing a problem. Remedial actions, which include corrective and disciplinary actions, are important features in an effective compliance program. Telia’s CECO knew that the first questions posed by regulators or prosecutors would address which remedial actions the company had taken when charged with ethical violations and/or legal crimes.

The E&C team began by examining the crisis and “what had gone wrong.” The company had the two reports from the lawyers: the MSA report on the Uzbekistan activities that had a lot of useful information and the NRF report on the investigation at the “entry level” (how Telia had entered the markets and structured its ownership) in the other Eurasian markets. In November 2013, NRF presented its first report that described some very troubling and questionable business transactions in other Eurasian operations. The new CEO, who had been at the company for only a few months, knew he had to part ways with four senior leaders in the company, including the CFO and the former head of the largest business area, Mobility (formerly Head of the Business Area of Eurasia). Telia publicly stated that its problems, unfortunately, were not unique to Uzbekistan. Indeed, Telia had a pattern of unethical, possibly unlawful, business activities in Eurasia.

In addition to these investigations (by MSA and NRF), the E&C team conducted its own examinations in the countries where Telia operated. These examinations included risk assessments of Telia’s operations in each country. The problems were identified. Now it was time “to fix the problems.” The Head of the ABC Program made a list – a long list – of necessary remedial actions. The list was an action plan specifying needed actions and identifying responsible persons. Owners of the actions came from all levels of Telia: the offices of the CEO, Finance and Control, Legal & Regulatory, Procurement, Internal Audit, Corporate Development, and Sales and Marketing, plus the Ethics & Compliance team. The list, which was initially monitored on a weekly basis, meant some proposed actions received more attention than others, depending on the urgency and risk associated with them.

For a period of time, the action plan was a recurrent Board agenda item. The Head of the ABC Program had many intense discussions with the owners of the proposed actions.

At this stage, given the pressure within the company, most people were aware of the urgent need to take action. They did not object to “being ordered about” by the E&C team. By Summer 2014, Telia had also received letters from the DOJ and the SEC requesting information on Telia’s activities in Uzbekistan. The Telia office in Amsterdam had been dawn-raided by the Dutch prosecutor. When the US authorities took an interest in Telia’s business, the CECO and the Head of the ABC Program immediately realized that at some point in the future they would be held accountable for the design and effectiveness of the ABC Program.

The Head of the ABC Program recalls:

“It took us a week, working around the clock in an isolated conference room, to make the list. We actively used the framework of Ethics & Compliance and did not shy away from listing actions, down to every detail.”

There were no more additions to the initial remedial actions after two years had passed, but with new investigations (see Special Investigations, Disciplinary/Corrective Actions) still another set of remedial actions were added. The Head of the ABC Program remarks:

“It is a continuous exercise of perseverance where you have to stick to the program. Everybody who works in compliance or has learned the hard way in a scandal like the one at Telia knows how hard this is and how much dedication it takes to stay with the program.”

## Risk assessment

The fundamental principle of any compliance program is thorough risk assessment. The purpose of risk assessment is to identify and understand potential risks and then to create a program that will work in practice and that will allow the company to do business in challenging contexts. In short, risk assessment requires understanding the internal and external context and conducting dialogue with parties within and outside the organization.

### Analyze and understand your own company and business

At Telia, risk assessment began with an examination of the company’s many ownership/legal structures and their governance. This work revealed the existence of quite complex and intertwined structures as well as contradictory and variously delegated governance systems. The E&C team understood that the business activities in Eurasia operated differently from Telia’s other activities. The CECO describes the situation:

“The business region of Eurasia was surrounded by rumors of undefinable threats and by security concerns . . . the regional and local managers in Eurasia were treated differently; they were “heroes” who had “delivered” unmatched growth during recent years while working in a “hostile” environment. They must not be “disturbed.” We were told that the environment was just too difficult, with somewhat arrogant disdain, for us to understand because things “were done differently” in Eurasia.”

Telia’s managers in Eurasia rarely visited Stockholm. Their powerful regional head office was in

Istanbul. In fact, the Internal Audit function of the Eurasian operations was not always integrated with Telia's central Internal Audit function. When attempts were made to enlarge the company's audit scope, the central Internal Audit function was encouraged to "tread with caution" and not to "interfere" with the Eurasian "business." Continued growth in Eurasia, it was argued, was essential for Telia.

Another observation was that many managers and other employees who were not involved with the Eurasian business viewed the issue of irresponsible business practices solely as a "Eurasian" problem. They thought it was an issue that had little or no relevance for them, for the business in other countries, or for group management. They thought it was unfair that all of Telia suffered because of a few individuals who worked far from Sweden. Some of them thought the Swedish business community and media had a poor understanding of how business "was done" in Eurasia. In their opinion, Telia was the victim of moral panic and hostile media coverage. The CECO comments:

"What was forgotten in these discussions was that the critical, and now severely questioned, business decisions were made at the headquarters in Stockholm."

She adds:

"In hindsight, we did not properly understand nor deal with the resistance from leaders and employees who still worked under the control and guidance provided by "old" management. Others thought that, because Telia now had a new Board and new management, everything was in order. The "bad guys" were gone. That assumption, as events later revealed, was somewhat premature. There was still a lot of hard work ahead."

#### Analyze and understand your external context

It is important for ethics and compliance professionals to understand how to do business in their companies' foreign markets. This means understanding how to structure and resource compliance work. At Telia, the E&C team conducted extensive risk assessments of the countries and institutions in Eurasia, guided by the ABC Program. When the team conducted the operational risk assessments in these countries, they learned how internal work processes were used to manage the various external pressures.

The Head of the ABC Program and another E&C expert conducted the operational risk assessment in the first year when they travelled to the Eurasian countries where Telia had business activities. They met with the local managements. They examined specific areas of corruption risk in the business operations in these Eurasian countries. They examined leadership, governance structures, interaction with local boards and local shareholder(s), human resources practices, import duties, use of agents/distributors, conflicts of interest, procurement policies and processes, financial controls, bank relationships, processes for donations and sponsorships, and M&A activities. These were only some of the areas examined.

In 2015, the E&C team conducted risk assessments in countries outside Eurasia. The team developed a tool with MSA that helped local management make the risk assessments without the physical presence of a representative from the E&C team. The Head of the ABC Program states:

"The initial work was substantial and made it possible to streamline our efforts later on. Also, the initial work raised the level of risk awareness among local managers and made the risk more visible and

actionable.”

Telia’s Communications Department arranged several meetings/briefings with various stakeholder groups (e.g., owners, potential investors, creditors, analysts, interested NGOs, journalists, and employees). These groups met the new CEO, the executive management team, and the E&C team. These “dialogue meetings” provided an excellent opportunity for Telia to learn more about these stakeholders’ concerns and what they thought the compliance work should focus on. The CECO explains:

“A well prepared and thorough stakeholder dialogue is a very helpful tool for understanding a specific context and its behavioral risks. As employees are one important stakeholder, we included employees from different levels and groups in the dialogues.”

### Understanding the effects on human rights

Companies are expected not only to act responsibly in a general sense, but also to understand the effects of their business activities on human rights. Therefore, many companies conduct a Human Rights Impact Assessment (HRIA). This assessment, which engages people from inside and outside a company, aims to increase awareness of how a company may abuse the fundamental human rights of people within its sphere of influence. A HRIA emphasizes that human rights are not separate from business. Companies are responsible, with governments, NGOs, and other individuals, to respect the rights of all people. A HRIA also supports the claim that behavioral risks often can result in violations of human rights. The CECO states:

“Responsible business is based on an understanding that true change does not arise from fear of legal proceedings, fear of the media, and/or fear of personal disgrace. True change will only occur if people want to do the right thing because it is the right thing to do. Change will only truly occur if people take this lesson to heart and understand why their acts and decisions matter.”

During 2015-2016, in cooperation with an internationally-recognized organization, Telia conducted HRIAs in all countries where it had business activities. These assessments, which were well received, addressed leadership in the countries and the different company group functions. After lengthy internal discussions where different opinions, agendas, and priorities were in focus, the reports with their recommended remedial actions were published (in summary form) in the Annual and Sustainability Report for 2016. By contrast, the 2012 HRIA report for group level Telia had only a passing mention in the Annual Report for 2012.

### Organization

Implementing responsible business, in general, and in an ABC Program, in particular, requires that an organization has the competence and confidence sufficient to manage all aspects of such a program. Accordingly, the E&C function has to have a leader and team members with relevant competence, experience, and, in some cases, professional seniority. The CECO comments:

“The CECO should report to a level in the organization that has proper authority and integrity. If the company has problems with the regulatory authorities or with the prosecutors, those authorities will not be impressed if the CECO does not have direct access to the CEO and cannot report independently to the Board or one of its subcommittees.”

Telia's CECO reported directly to the CEO. The E&C team attended meetings held by the Board's Sustainability and Ethics Committee and by the Audit Committee.

At Telia, the functions of management control, compliance, and auditing were prioritized as the company began implementing company-wide strengthened controls, improving compliance systems, and introducing responsibility for ethical business practices. Moreover, given the involvement of the DOJ and the SEC, the most rigorous regulators in the world, Telia's top management understood that every aspect of its anti-corruption program would be scrutinized and evaluated.

The Head of the ABC Program, who also was appointed to the Regional Chief Ethics and Compliance Officer for Eurasia, was the first member of the E&C team. Other team members were enrolled, some of whom already worked at Telia in areas of effective compliance (e.g., training on the company's conduct code or supporting the Procurement Department on sustainability issues). A few team members were recruited externally when specific competences were not available internally.

The central E&C team consisted of ten team members who worked at the group and regional levels plus seven local E&C Officers, each representing a Eurasian country. In total, 17 people were on the team. To ensure that the E&C team produced high-quality work, the CECO required that each team member meet continuing education and international certification standards.

The E&C function was the owner of the ABC Program. The CECO states:

“This [structure] is very common because ABC is “the mother” of all compliance regulation and work. Moreover, at Telia, the E&C team had the necessary skills and background to conduct a program that was long overdue.”

Other employees and teams with competence and knowledge related to other responsibility topics (e.g., Freedom of Expression and Customer Privacy) took ownership of their programs. They provided guidance on the Ethics & Compliance requirements and on the concept of Responsible Business.

## Policies, Instructions, and Guidelines

A policy is normally a written document of rules issued by the board of directors, a company's highest governance level. The next governance level, the executive level or similar level, issues instructions that explain the rules to the employees. Some companies have additional guidelines issued by managers who are responsible for various areas/departments. These guidelines describe the instructions in greater detail.

This hierarchy of rules, instructions, and guidelines is commonly referred to as “policies/instructions”. Formalized processes may explain how the policies/instructions are to be implemented (e.g., in the decision-making chain). The CECO states:

“It is important to point out that “policies/instructions” are the binding rules for behavior in the company . . . for how things are done. Addressing this hierarchy of “rules” from an anti-corruption perspective is where the E&C work started.”

At Telia, more policies/instructions were soon added to the original policies/instructions. There were instructions for gifts and hospitality, interactions with government officials, sponsorships, donations, and other philanthropic contributions. Other instructions covered internal investigations, corrective

and disciplinary actions, procurement, third-party policies, and mergers and acquisitions. The E&C team, which had ownership of the ABC Program, was responsible for introducing and monitoring the common framework of rules. The process covered all areas of Telia's business ... its various functions and layers. The CECO comments:

“The Telia E&C team spent a lot of time “anchoring” internally. Because of the pressure of the looming DOJ/SEC proceedings, the team sometimes despaired and just wanted to resist. Maybe this was done at one point or another. However, the idea was to aim for as much internal buy-in as possible. Internal buy-in on the documents would make the transition from words to actions somewhat smoother.”

The policies/instructions in the ABC Program explained Telia's position as a responsible business on criminal activities such as bribery and corruption. The E&C team ensured that all employees could access the company's rules, instructions, and guidelines. The team even disseminated a document to selected employees. These employees were required to sign that they had read and understood Telia's new policies/instructions (pull and push capability).

In 2014 and 2015, Telia's upper-level management introduced group-wide policies and instructions on responsible business behavior. These documents covered, in addition to anti-corruption, areas such as Freedom of Expression and Privacy, People, Health and Safety, Environment, Insider Trading, Anti-Trust, Company Assets, and Travel. In 2016, The E&C team introduced the new Code of Responsible Business Practices (see below: The Telia Code of Responsible Business Behavior).

Rules are only as strong as their enforcement. To ensure that rules are taken seriously, a process is needed for how to make and forward exception requests. The reasons for exceptions must be clearly and transparently stated at the appropriate corporate level. The Head of the ABC Program states:

“Every exception will undermine the rules and the work morale of those whose job it is to maintain the rules, to keep the company out of trouble, and to develop responsible business practices. Therefore, we should be mindful of recurring exception requests that strongly indicate the rules are not taken seriously.”

An action or behavior that may not be illegal, given the particular facts and circumstances, may well be illegal when the situation changes and other facts are revealed. Telia learned this lesson the hard way. The problem actions and behaviors for Telia in Uzbekistan occurred in 2006, but they were not revealed and challenged until some six or seven years later. The CECO states:

“Business ethics should not be considered as an “impact cushion”. Nor should business ethics be considered a “margin” in the framework of corporate rules when difficult situations require asking for a legal opinion. Ethics, which are the foundation of legislation describe the common view of right and wrong while legislation is just an interpretation. Ethics explain why we have legislation. This explanation of *why* allows you to have a better grasp of the law, to recognise the limitations of the law, and to understand why laws may change over time.”

## The Telia Code of Responsible Business Conduct

A Code of Conduct is an “umbrella document.” This umbrella provides easy access and easy understanding of the requirements and rules a company issues for conducting responsible business. The CECO explains the commonly accepted view of such codes:

“A Code of Conduct should be engaging, modern, and accessible. As an umbrella, the Code should stand on a firm ground of policies/instructions.”

Telia’s new Code of Responsible Business Conduct (hereafter, the Code) was made accessible to employees by an app with links to the relevant policies/instructions that encouraged them to explore all details if and when needed. The Code was internally anchored by the close involvement of the owners of the different polices/instructions. The Legal Department was the owner of the Antitrust Framework; Security was the owner of the Privacy Framework; Human Resources was the owner of the People Framework; and so on. The executive leadership was the ultimate owner of all rules, instructions, and guidelines. The Board was the owner of all policies.

Because transparency was essential in the implementation process of the new policies/instructions, the new Code was posted on Telia’s homepage, under the heading “dontdothisatwork”.

The CECO states:

“What applies in your own company should also apply to your third parties and others who represent the company.”

However, many companies, including Telia, have a separate Code of Conduct for third parties. Normally such a code would be unnecessary except when an individual Code of Conduct is needed for suppliers where there are specific requirements and topics applicable to third parties. For example, although Telia has modern, comfortable, and secure offices, equipped with all necessary equipment, some of its suppliers are located in countries where the workplace is quite different. In these countries, local industry and labor legislation is not nearly as advanced as in Sweden. For this reason, Telia must be specific in setting third-party requirements.

Telia also has rules on how to conduct supplier due diligence and how to determine supplier ownership (and for other third parties). Application of these very specific rules may require lengthy deliberations and difficult decisions in local environments. Sometimes difficult decisions are escalated to the higher management levels. Telia also provides specific guidance on how to interpret the requirements developed for third parties. This guidance also explains when and how exceptions can be made to the rules.

In 2013, a top priority for the new CEO was to establish stronger governance over Telia’s operations in

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Eurasia. At this time, the group policies/instructions were generally inapplicable at the Eurasian companies. Local boards of directors had oversight responsibility rather than Telia's group management. Although Telia held a majority stake in these companies, a structured process did not exist that ensured Telia's policies/instructions were applied. However, by Spring 2014, when Telia's group management had assumed responsibility for, and authority over, the Eurasian companies, its group policies/instructions were also implemented.

## Education and Communication

Telia provided its employees with training on anti-corruption and other responsible business topics. The training modules, which were evaluated annually, were designed for employees in various positions. Some training sessions were voluntary while others were mandatory. The HR Director states:

“Training is a powerful tool for creating understanding of ethical issues and for building an ethical culture.”

Originally, the E&C team prioritized face-to-face training. The CECO explains:

“The value of direct interaction with the opportunity to discuss questions and dilemmas in a real setting cannot be measured in monetary terms. We are convinced of that idea. By far, a real setting for a discussion exceeds any cost of a face-to-face session.”

After the introduction of the Code, the E&C team introduced e-learning training sessions on the Code and the various areas of responsible business. This training used the same “look and feel” approach that the Code took. This approach emphasized that the Code and its rules, processes, training sessions, and future implementation were parts of a common effort to build responsible business.

Crisis management, when corruption is involved, is more than just explaining why an anti-corruption program is essential. Although a company in such a crisis is at risk of prosecution, executive incarceration, and large fines for bribery and kleptocracy, perhaps its main concern is the damage to its reputation, especially if human rights have been abused.

The E&C team was convinced that decisions and actions were more critical than words and statements. A culture of business ethics had to be created: a culture of “doing the right thing.” The Head of the ABC Program explains:

“It is easy to make the right decision when everything is equal, when you focus only on the ethical aspects. However, the reality is more complex because there are several factors that influence our decision-making. We may even be unaware of some of these factors. Our decisions may also be influenced by group and time pressures, fear of failing, short-sightedness, and faulty assumptions. That is why we need to train employees in ethical decision-making.”

The E&C team worked diligently and professionally to illuminate the problem they call “ethical blindness.”<sup>5</sup> This is a term used to describe how individuals can be influenced by factors that may momentarily “blind” them from doing the right thing, making the right choice, and taking the right decision. This “blindness” can occur at all levels of an organization. Through a systematic training program Telia’s leaders were trained to understand how ethical blindness worked.

Yet it is questionable whether ethical blindness is an acceptable excuse for bad decision-making. The CECO states:

“We all have to be accountable for what we do. However, a better understanding of the difficulties encountered in making the right choices and decisions will, we believe, support building a culture of ethics and integrity and will help our leaders understand themselves and others better in situations where there are friction and uncertainty.”

As part of the training, the E&C team made a list of problematic dilemmas identified in Telia’s operations. This list was used in an “ethical dilemma game” that the participants played in groups. They found the game engaging and provocative because it encouraged transparent discussions on alternatives decisions and actions in specific dilemmas.

#### EXAMPLES - the ethical dilemma game

Telia Company is conducting supplier checks on a supplier. You are a member of the audit team from Telia’s Human Resources Department. Long days are spent on the audit. At the end of the week, the supplier invites the audit team members to an ice hockey game to thank them for the efforts spent. What do you do?

Your manager has a beautiful house with a pool in Italy. You are invited to spend a weekend with your spouse and children at the house. Is that okay?

Your manager has left the company and is now your “former manager” and friend. He works as a senior consultant with his own business. You are invited to spend a weekend with your spouse and children at his beautiful house with a pool in Italy. Is that okay?

Your manager has left the company and now is the CEO of a competitor. She has tickets for the private box at Wimbledon on the day of the women’s semi-finals. You, your family, and your friends are invited to use the box. Is that okay?

## Due diligence and third-party management

When the E&C team began work in September 2013, there were – as previously mentioned – several ongoing investigations. As the work continued, the team members learned more about the company’s operations and the severity of its business culture problem. Throughout the process, several managers were asked to resign. Others left Telia voluntarily.

As the months passed, the E&C team members realized that the time and effort needed “to fix the

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<sup>5</sup> Ethical blindness describes the moral condition that allows anyone to become involved in unethical/illegal behavior. The general belief is that personal character does not explain such behavior; rather, the context may be the explanation. The context can be stronger than the individual and the individual’s moral compass. Influenced by the context – organizational pressure (e.g., fear of failure or ridicule) or situational pressure (e.g., time, group, or authority pressure) – people may look at the world through a filter that prevents them from seeing things clearly. At that moment, they are momentarily ethically “blind”.

problem” would be significantly greater than they had anticipated. During Spring 2014, the E&C team understood that it would be evaluated in accordance with the highest standards and requirements of effective compliance. The team members understood they would be running the ABC Program while the company was under criminal investigation by three authorities. The CECO recalls:

“You cannot sit in front of the DOJ lawyers and not know how to answer the following very reasonable question: ‘Do you know, as we speak, that you are not paying bribes?’ Indeed, it is hard to blame any ongoing wrongdoing on the previous management. The responsibility lies with the new management and with us.”

The E&C team had a fast start under the ABC Program. The team was working with the following activities and areas: a fix-it remedial list, risk assessments, a new organization, new governance structures, new policies and instructions, a new speak-up line and investigation process, training sessions, and e-learning.

The Finance Department handled payment reconciliations with companies at the group and subsidiary levels, introduced new risk catalogues and controls, and strengthened the Procurement Department (that now encompassed all Telia group companies). Despite these actions, after one year it was clear that Telia still lacked satisfactory control over third parties. Telia could not always account for who was the beneficiary of a particular supplier. Who received payments and why? The documentation and control were simply inadequate. Thus, neither the E&C team nor Telia management could answer the following questions affirmatively: “Do you know that you are not paying bribes as we speak?” The CECO states:

“It may seem unfair that a company has to be so certain, given you are speaking for an entire organization and for third parties. However, the authorities are not very forgiving. They do not accept the idea of ‘the rogue employee’ or of third parties who act irresponsibly, unethically, or illegally without your knowledge. The conduct of the employees and third parties is simply a company risk. You have to take a leap of faith when you answer questions knowledgeably about the processes and procedures in place, providing assurance that they are working. You have to answer: ‘Yes, we have done everything in our power to detect and prevent any misconduct’.”

Telia realized it needed new processes for the third parties it worked with. An examination of the entire history of its dealings with vendors, distributors, consultants, agents, and other third parties was needed. The E&C team called this historic examination “the backlog”. To manage the backlog, the E&C team had to develop and implement processes for due diligence of third parties, country by country, and contract by contract. This required the involvement of people from the Finance, Procurement, and Legal Departments.

As the team members had the right competences for this task, initially they created a “due diligence” function in the E&C team. The E&C team eventually turned over this third-party due diligence function to the Procurement Department that by then had built relevant processes and competences. The function was now called “Responsible Procurement.” This function also recruited local Due Diligence officers in the Eurasian countries. The CECO summarizes the work:

“Building this competence and implementing these controls at the local level in each country took a lot of dedication, patience, and perseverance from all involved.”

The third-party category also includes the organizations Telia associates with through sponsorships, donations, and philanthropy. The CECO explains:

“In fact, these areas have high-risk activities where corruption and bribery are temptations. In countries where the government engages in systematic kleptocracy, officials do not hesitate to require companies to support a particular organization or another local, so-called not-for profit or charitable organization. Companies feel compelled to contribute, but they do not know where the money goes, and they have no control over it. The risk of bribery is very high.”

In Telia, third parties involved in the company’s M&A activities were where the real problems started. The problems originated when certain essential checks were not made (e.g., ownership structures, financial examinations and controls, and operations). Telia adopted new policies and processes intended to ensure that all M&A activities were handled by the professional M&A team, consistent with the M&A instructions (the M&A Handbook).

The CECO admits that third-party management is the most difficult task of the compliance program. It is here that the E&C team struggled to overcome internal differences and to meet external challenges. She states:

“There are so many conflicting interests. The processes take time and, inevitably, from time to time cause irritating and even, as far as day-to-day operations, harmful delays. Suppliers who are preferred and may have been reviewed many times, over many years, may still not be acceptable from a compliance point of view. You may lack alternative suppliers. You may experience pressure from the government or influential people to work with a specific supplier. The list of possible friction areas is long. It takes time and resources to build confidence in the competence and integrity of suppliers, so the road to effectiveness is long and bumpy. However, third-party management is the most important area of responsibility with the highest level of risk. Globally, it is reported that 90 % of the corruption cases in the US (FCPA cases) involve third parties. The third-party management problem requires the full support of executive management and the Board. “

## Whistleblowing, Speak-Up, Non-retaliation

During the Fall and Winter 2013-2014, Telia introduced and operated an externally hosted Speak-Up line, accessible from any location, in all relevant languages with anonymity assured. A link to the Speak-Up line was posted prominently on the company’s Intranet and on its Internet homepage. Speak-Up could be accessed by both internal and external parties who wished to report their concerns about possible misconduct. The E&C team appointed a Special Investigations Office to receive, log, and manage incoming whistle-blower reports. Nothing similar had been in place and as soon as the Speak-Up line was launched, there was a surge of whistleblowing activity.

Normally, many whistle-blowers’ concerns are too vague to act upon. Many come from disgruntled employees who complain about their managers. However, the E&C team also got reports of serious wrongdoing (e.g., instances of fraud, conflicts of interest, and bribery). The team members also learned about wrongdoing that had been reported earlier but had been disregarded or managed in a manner that disappointed the reporter. The team members concluded in these instances that Telia had the will but not the means to deal with these complaints.

The most important factor that deters people in a company from speaking up is their fear of retaliation.

Retaliation can take many forms, such as being bypassed for a promotion or losing popularity and respect in the group. The period of retaliation may be brief, but it may also last for some time. In the latter instance, retaliation may turn into systematic mistreatment that only ends when the victim leaves the company.

The CECO states:

“Retaliation is very hard to put your finger on or to prove. It is important to keep in mind that we are all human beings who want to be liked and respected. We rely on the group. We want to be part of the group. Our survival depends on that – even in the corporate context.”

The ABC training at Telia included a reminder that employees were strictly prohibited from retaliatory actions and that they had an obligation to report any retaliation observed or experienced.<sup>6</sup>

Telia also opened the Speak-Up line for external reporting of human rights violations. This is called a Human Rights Grievance mechanism where the company offers employees a channel for reporting situations where the human rights of an individual or group may have been violated. Such cases are reported to upper management and the Board.

Telia also reports on the whistleblowing cases and their disposition in its annual Sustainability Report. The Head of the ABC Program states:

“One’s instinct may be to say and report as little as possible about these cases, especially the cases that lead to disciplinary actions. From an effective compliance perspective, the opposite is true. Since an effective compliance program thrive on transparency, it is crucial to show that it is never okay to violate common rules and good behavioral expectations and that whistleblowing reports leads to action and consequences.”

## Special Investigations, disciplinary / corrective actions

The E&C team knew that the second most important factor that deters people from speaking up is their belief that no action will be taken. “If nothing happens anyway, why should I expose myself to the uncomfortable consequences of speaking up?” This is a fair question that highlights the importance of high-quality internal investigations. Telia’s investigations (by MSA in 2012-13 and NRF in 2013-14) exposed some significant deficiencies in Telia’s governance, controls, and compliance. Red flags were raised that warned of possible corruption and other wrongdoings related to the ownership issues in Uzbekistan. Thus, when Telia, among other actions, put in a new management team, created the E&C team, established the Special Investigations Office, published a new Code of Responsible Business Conduct, revised its “policies/instructions,” began a review process of Eurasian contracts, and re-examined its third-party relationships (and made many of these actions public), it seemed clear that actions had been taken.

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<sup>6</sup> The difficulties associated with speaking up, retaliation, humiliation, and sometimes finding yourself unemployed have led several authorities (e.g., the DOJ and the Internal Revenue Service (IRS) in the US) to pay large monetary rewards to whistleblowers whose cases have been substantiated. While the issue of whistle-blower protection has been discussed in the EU, there is no formal system in place.

The CECO comments:

“The job of special investigations is a tough job. It requires intelligence, experience, and integrity. It also requires the ability to work under pressure and to produce reports that people can understand. As a special investigator, you will sometime be the bearer of bad news. Then you may risk getting shot down.”

The E&C team, as soon as it was created, suspected hard work lay ahead, primarily in the operations in Eurasia. The experiences reported by other companies in similar situations indicated that “one corrupt act leads to another.” There was no reason to believe that Telia was an exception. The team knew it was essential to communicate this concern to upper management.

An effective ethics and compliance program should have the highest level of engagement and commitment at all levels in an organization. This commitment will be crucial when difficult ethical dilemmas arise and when decisions have to be made that result in disciplinary actions. The Head of the ABC Program explains:

“Two of the first questions a regulator will ask in an investigation of your anti-corruption program are the following: ‘Have all the perpetrators left the company?’ and ‘How many people have been dismissed or disciplined due to misconduct?’”

Disciplinary actions are the most challenging part of the ethics and compliance work. The Head of the ABC Program states:

“All the hard work of making risk assessments, building an organization, working with policies and procedures, evaluating third parties, and training people will be in vain if the implicated employees are not identified and the managers responsible for the misconduct are allowed to keep their positions.”

She adds:

“The delegation of disciplinary action in the organization sends the wrong message, increases the friction at lower levels owing to insufficient top management direction, and possibly jeopardizes the effectiveness of ethics and compliance work as well as the efforts exerted to build a culture of ethics and integrity.”

Neither the E&C team nor the Special Investigations Office had responsibility for any disciplinary actions. A special management forum, “the Ethics Forum”, consisting of executive management members made the final decisions on whether disciplinary actions were required. Disciplinary actions could be oral warnings, formal written warnings, dismissal, demotion, or change in responsibilities. In addition, in some instances, additional training to encourage behavioral change was required.

## Improvement / audit / report

Telia’s E&C team experienced constant pressure to issue progress reports on the E&C results, especially results from the ABC Program. This was both a blessing and a curse. The pressure forced the team to use Key Performance Indicators (KPI) that were meaningful to the wider audience interested in the company. From a positive perspective, the pressure to report to the Board, the shareholders, and the analysts prepared the CECO and the Head of the ABC Program for reporting to the DOJ, the SEC, and the Dutch and Swedish prosecutors. The CECO admitted that under strong

external and internal pressure, “It can be very tempting to avoid reporting or disclosing things that are not so good or in a bad state.”

At its AGM in 2015, Telia had an open “pre-meeting” that dealt with sustainability reporting with a question and answer forum. The E&C team members talked about the challenges and difficulties they had encountered in implementing responsible business, particularly with third-party matters. The same approach had been taken in the 2014 Annual Report. In other words, Telia was trying to increase its credibility among its external stakeholders by courageously and openly revealing its weaknesses as well as its areas of improvement. The CECO explains:

“We believe that transparency is the most effective way to govern a company from a responsible business perspective. Transparency provides the stakeholders with information and takes away the expectation that management can work miracles.”

The Telia Board and the executive management group have ultimate oversight over the responsible business programs. The CECO speaks for the E&C team:

“This is as it should be; the fewer filters between the E&C team and the Board, the more effective the program.”

Working with the Internal Audit Department, the E&C team identified areas where the team could submit proposed actions to upper management. The CECO also engaged an external compliance consultant to help the team understand its weaknesses and to help prioritize activities during its work. In addition, the E&C team engaged a US-based ethics institute to evaluate and benchmark the compliance programs. In combination, these actions supported the implementation process and prevented rushed work and poor prioritization.

The CECO acknowledges that sometimes the external environment can be so challenging that it seems impossible, or nearly impossible, to implement responsible business practices without jeopardizing the whole company. Working with other companies – in collective actions – may then increase the chances of success. Because the telecommunications industry has many interactions with governments and government officials (e.g., on matters related to licenses, frequencies, and assorted approvals), Telia initiated an industry collaboration “the Telecom Industry Integrity Initiative” in cooperation with Transparency International).

Telia also had a joint initiative with the anti-corruption agency, TRACE International, to award a scholarship to a student from the former Soviet Union for anti-corruption studies at a top university in the UK or the US. The CECO explains:

“The root causes of behavioral risks are to some extent external to the company. Collaboration with peers and other institutions can be one key to progress.”

## Tone from the top

The framework for E&C team refers to the “tone from the top”, which means that an effective compliance program requires that a company’s top management and its board of directors understand and support all aspects of effective compliance. This includes acknowledging the existence of, and understanding, the consequences of the many frictions and dilemmas that occur when implementing

effective compliance. There is a reason for positioning leadership at the core of the framework. The “tone from the top” is not a marketing/public relations slogan. It is a clear and affirmative statement of what a company’s upper management and board actually decide and do. The CECO summarizes:

“Leaders set the tone used to handle the frictions and dilemmas. Every decision and every action matter when building a culture of business ethics. Responsible business requires steadfast adherence to your principles. The “tone form the top” is not just set at the very “top” where we find the executive management and the board. The tone is confirmed at all management levels of a company.”

## Epilogue

On September 21, 2017, Telia entered into a DPA (Deferred Prosecution Agreement) with the DOJ (US Department of Justice), the SEC (US Stock Exchange Commission), and the DPPS (the Dutch Public Prosecution Service). By the terms of this agreement, Telia admitted criminal violations of bribery. Telia had to pay a total of \$965,603,972 in criminal penalties and disgorgements.

Despite the seriousness of the crime, as reflected by the very large financial penalty, Telia was awarded full credit (25% off the otherwise-applicable US Sentencing Guidelines fines range) for its cooperation, for its extensive remedial measures, for its creation of a new, robust, and company-wide compliance function, for implementing a comprehensive anti-corruption program, and for completely revising its corporate governance structure.

In a rare statement, the DOJ further determined that, based on Telia’s remediation and the state of its compliance program, an independent compliance monitor was unnecessary.

On December 5 2018, Telia announced that it had sold its interest in the Uzbek subsidiary for \$215,000,000 to the State Committee of the Republic of Uzbekistan for Assistance to Privatized Enterprises and Development of Competition, a governmental authority of the sovereign state of Uzbekistan.

## Examples of frictions at Telia

During the implementation of the ethical and compliance framework at Telia, the E&C team learned that the process caused friction at all company levels. In order to illustrate what kinds of problems that responsible business has to address in a global company some examples of frictions that the E&C team had to deal with are presented below.

### How much transparency?

The risk assessments for Telia in 2013/ 2014 provided information that was helpful for understanding the challenges and requirements of conducting business responsibly in Eurasia. These assessments clearly raised some very significant questions as to whether Telia, in some ways, supported a corrupt dictatorial regime that had little respect for human rights. The risk assessments explained how much work and time were needed to operate reasonably responsible business in Eurasia. Some proof points revealed that some progress had been made, especially as a result of the strong pressure from investors, owners, and other stakeholders. However, the risk assessments were troubling and insulting to the controlling authorities in countries where Telia had operations, to local co-shareholders, and to many employees. Consequently, many different opinions were expressed about the risk assessments report. Who should have this information? How should it be presented and shared?

### Exceptions to the rules

Telia wanted to export a smartphone to Country X and bundle it with Telia services. In Country X, Company C had a monopoly on the importing of mobile phones. In its due diligence of Company C, Telia uncovered some disturbing information that sent up significant red flags relating to company ownership. From a strictly legal point of view, the ownership structure did not seem illegal. Telia went ahead with its work with Company C. The Smartphone was really THE mobile phone, but without a telecom operator to support it, it was rather useless. What do you do? Do you consider only the legal opinion that was issued by a reputable law firm? And what are the possible consequences when exceptions are made to the rules?

### Consequences of kleptocracy

In Uzbekistan, local companies are expected to participate in building and strengthening society by their sponsorships and donations to charitable organizations. However, companies do not participate in such activities voluntarily. When asked, they cannot refuse. A company that refuses is likely to experience difficulties in its day-to-day operations (e.g., revoked work permits, prolonged license application processes, and creative enforcement of tax laws). Each year companies receive demands for large payments to sports teams, education organizations, and various charitable entities. The contributions are paid to official bank accounts, but there is no real accounting of how the money is spent. Should a company pay? What happens if it doesn't pay? Are a company's rules on sponsorship and donations, which require full transparency on how the funds are used, applicable in countries such as Uzbekistan? Are there security risks involved if payments are not made? What does an "official" bank account mean in a country where public officials own or represent the bank?

## Silent resistance

In setting up the E&C team at Telia, the team met employees who wanted to join the team, they met managers and employees who wanted to support the team's efforts and welcomed the initiatives. However, they also met managers and employees who were not convinced that the matter concerned them. Some employees felt insulted and provoked by statements and criticisms related to "change", "ethics", and "responsibility." It seemed that the new Board, the new management, and the new E&C team were all sending a message to the employees that they had somehow fallen short of company expectations. Some employees were very outspoken in their resistance. Many of the employees who were most resistant eventually left the company. Nevertheless, "silent resistance" persisted. It is difficult to predict what will happen to the silent resistance. Will it disappear now that the scandal has been resolved? Will it disappear when people embrace the changes?