

Corporate Governance in Emerging Markets



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situation

Ensuring management and employees at every level understand and obey the rules of governance is difficult for foreign subsidiaries operating in emerging markets, such as China, where local regulations and business practices may be inconsistent with those in the home office.

in-house counsel challenge

Regulatory and cultural diversities make global companies susceptible to compliance violations in emerging markets. The legal department must be proactive in both explaining and then enforcing internal corporate governance policies and regulations throughout the organization.

approach adopted

The process begins with our governance and ethics policies. Each new AIU hire is introduced to AIG's employee code of conduct, covering everything from discrimination to gifts, during his or her orientation session.

Compliance and code of conduct messages are repeatedly reinforced through ongoing all-employee training sessions. There are currently four modules, each lasting approximately two hours. AIU China's employees are required to receive about four to eight hours of compliance training each year (depending on their level and duty).

Updated regulatory information is presented first. Then, to keep each session fresh and interesting, a legal department facilitator presents a series of "front line" examples—common operational challenges to which managers and employees can easily relate.

For example, increased cross-border activities by Chinese individuals and entities require global coverage. But as a subsidiary of a U.S. corporation, we cannot provide coverage in certain countries subject to U.S. sanction. In one compliance training session, we explain why AIU China must comply with the U.S. Office of Foreign Assets Control (OFAC) regulations even though it might mean losing business.

As follow-up, we require all participants take an online test sometime later, ensuring the topics discussed were fully understood.

implementation steps

- Establish employee code of conduct guidelines.
- Sponsor annual employee training sessions to reinforce the compliance message.
- Make the training interesting; include "front line" business situations to which employees can easily relate.
- Implement follow-up training evaluations.
- Open legal department doors to employees looking to discuss compliance-ethics related questions.
- Conduct annual business unit compliance audits.

Like many companies, AIU also established a compliance hotline. We found our colleagues prefer discussing compliance issues before taking any action. As a result, we encourage all employees to contact the legal department directly whenever compliance and ethics questions or concerns arise.

If necessary, inside counsel meets with the individual(s), analyzes the situation and explains possible solutions. If there's no ideal solution, the compliance risk is brought to the attention of senior management, who makes the final decision.

Finally, the AIU China legal department—following guidance from the AIU legal department in New York—conducts annual compliance operation reviews for each of its business units.

measuring success

Determine success by analyzing training seminar testing results and business unit compliance audits.

future issues to consider

We continue to add new topics so modules will be updated from time to time. Further, AIG Corporate Training in the United States has implemented an e-learning training platform with a planned upgrade to meet multiple language training needs, including Chinese.