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RESEARCH REPORT **COMPANIES' USE OF INTERNAL CONTROL AND CODES OF CONDUCT IN VIETNAM**

Hanoi, March 2019

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ACRONYMS AND ABBREVIATIONS

AC	Anti-Corruption
APIM	The Asia Pacific Institute of Management
ASEAN	The Association of Southeast Asian Nations
B2B	Business-to-Business
B2G	Business-to-Government
BSI	The British Standards Institution
CoC	Code of Conduct
COSO	The Committee of Sponsoring Organizations of the Treadway Commission
ESG	Environmental, Social and Governance
FCPA	The Foreign Corrupt Practices Act
GBII	The Government-Business Integrity Initiative
GSO	The General Statistics Office of Vietnam
IC	Internal Control
ICC	The International Chamber of Commerce
ISO	The International Organization for Standardization
MNC	Multinational Corporation
OECD	The Organization for Economic Cooperation and Development
PCI	The Provincial Competitiveness Index
SME	Small and Medium-sized Enterprise
SOE	State-Owned Enterprise
UNDP	The United Nations Development Programme
UNGC	The United Nations Global Compact
UNODC	The United Nations Office on Drugs and Crime
USAID	The United States Agency for International Development
VCCI	The Vietnam Chamber of Commerce and Industry
WB	The World Bank
WBCSD	The World Business Council for Sustainable Development

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EXECUTIVE SUMMARY

Vietnam's economy has been growing rapidly in the last two decades and has contributed significantly to the country's development. However, both practitioners and scholars have raised concerns about the prevalence of corruption in the business sector, both in business-to-government (B2G) and business-to-business (B2B) relations. Various surveys and studies have shown that corruption in business has not been reduced in the last decade. Furthermore, corruption has emerged as a threat to the viability of companies operating in Vietnam, undermining the country's economic growth prospects and long-term sustainability.

This study was conducted in the context of the newly revised Anti-Corruption Law, passed by the National Assembly of Viet Nam on 20 November 2018, and due to come into force in July 2019. That law's private sector chapter¹ mentions a number of new provisions that are placed on companies, in particular Internal Control (IC) systems and Codes of Conduct (CoCs).

International experience shows that the application of a reliable IC system and well-articulated CoC can help companies control their operations better, enabling them to improve their effectiveness, reliability and compliance with the law. However, in Vietnam, where these concepts are relatively new, much less is known about how companies understand and use these management tools.

This study attempts to place IC and CoCs within the context of the anti-corruption legislative reform and its impact on business. The ultimate objective of the study is to recommend ways in which the Government of Vietnam, the Vietnam Chamber of Commerce and Industry (VCCI), and companies in Vietnam can encourage the use of IC and CoCs to improve business practices and effectiveness, as well as to prevent corruption.

The study comprises:

- i) A review of IC- and CoC-related legal regulations in Vietnam;
- ii) Research into how IC and CoCs have been used to help reduce corruption in companies abroad;
- iii) A field survey and analysis of companies' practices and experience in Vietnam;
- iv) A set of recommendations to the Government of Vietnam, VCCI and companies.

Key Findings of the Survey

The team sent the survey to 800 companies and invited 50 companies to participate in focus group discussions. 239 companies responded to the survey and 40 companies participated in the focus group discussions. We followed the Committee of Sponsoring Organizations of the

¹. Chapter VI: Prevention and combat against corruption in enterprises and organizations in non-state sector

Treadway Commission (2013) (COSO, 2013) framework to examine the status of companies' IC in Vietnam. This well-established framework for implementing IC comprises five pillars: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring.

A large proportion of surveyed companies misunderstood or did not fully understand the concepts of IC and CoC. Only about 50%–60% of the companies correctly selected the most commonly accepted definitions of the two concepts. Many companies believed IC was the responsibility solely of the internal auditors, not of management in general.

Control Environment

The control environment reflects business philosophy and values that guide a company's operations. This is the set of standards, processes, and structures that provide the basis for carrying out IC across the organization. Critical weaknesses emerging from the survey included a lack of structures that indicate clear responsibility and control over performance management, and a serious lack of commitment to honesty and ethical values from staff members. The focus group discussions suggested that many private companies in Vietnam had a "quick profit" mentality at the expense of longer-term sustainability and growth objectives.

Risk Assessment

Risk assessment involves a dynamic and iterative process for identifying and analyzing risks in a company's operations. This is a critical weakness of Vietnamese companies, especially SMEs. In the survey, only half of the respondents believed that their companies maintained a risk awareness mechanism and about the same proportion believed that their companies actively evaluated internal and external risks. Qualitative discussions suggested that Vietnamese companies, especially SMEs, gave priority to "quick profit" without carefully considering the high risks that accompanied high returns.

Control Activities

Control activities are the actions established by the policies and procedures to help mitigate risks to achieve the company's objectives. Critical weaknesses in this pillar include a lack of clear auditing and inspection mechanisms and insufficient technical competencies, such as financial control or job description formalization.

Information and Communication

This component refers to how well communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day IC activities. Neither hardware (IT systems) nor software (reporting systems and information sharing) of Vietnamese companies are sufficiently strong. Insufficient information flow to support smooth operations, a lack of activities to strengthen employees' awareness of IC, and out-of-date information systems are the most frequent weaknesses.

Monitoring

Monitoring includes evaluative activities to ascertain that IC components are present and functioning. The lack of monitoring plans and competence in this area are weaknesses that need to be addressed by many companies in Vietnam.

Compliance issues

* B2G relations

In companies' relations with the state, two serious issues emerged. First, a high proportion of companies committed some violation of regulations. Secondly, making informal payments to state officials appeared to be a normal practice among business in Vietnam. As an explanation, - or an excuse -, companies reported challenges in abiding by the legislation, including difficulties in applying the regulations, unpredicted changes in the law, and lack of human resources to keep informed about legislative change.

* B2B relations

In B2B interactions, informal and relationship-based measures were still used quite extensively. Personal relationships, informal payments, disguised in various forms, were used by around 25 – 30% of the companies in dealing with business partners. Competitive tendering was never used by one-third of the companies.

Irregularities in purchasing and sales existed in a significant proportion of the surveyed companies, threatening the integrity of business operations. In purchasing, such poor business practices as *"purchase order is not in keeping with requirements"*, *"purchase order is poor quality"*, or *"quotations were biased"* were reported by about 10% of respondents. Similarly, on the sales side, 11-16% of all respondents (equivalent to 24-34% of those who followed company practices) clearly recognized irregularities such as *"incorrect sales invoice"*, *"sales are not in accordance with company policy"*, or *"goods delivered do not match contract"*. More alarming were irregularities in human resource management. Around 27% to 38% of respondents recognized such incidents as *"does not follow regulations in payment to employees"*, *"not in accordance with labor law in contract signing and implementation"*, and *"employment based on relationship rather than competence"*.

Comparison of companies

A comparison of companies with different ownership structures provides several insights. SOEs appear to be strongest, while private companies are weakest in having IC elements in place. However, a more detailed analysis of the actual impact of IC reveals a more nuanced picture. Firstly, SOEs use relationship-based employment more extensively. Secondly, SOEs got lowest scores on compliance with the law. According to participants in the focus group discussions, SOEs have all the elements of IC in place but they rarely used them genuinely.

A comparison of companies with different sizes shows that medium-sized companies appear

to be strongest in their implementation of IC.

One question we addressed was whether companies with stronger IC are more legally compliant. The results show that Control Environment, Information & Communication, and Monitoring IC pillars do help to reduce violations.

Recommendations

Based on the results of the survey and our review of international experience, the study offers several recommendations to key stakeholders.

SOEs: The key for SOEs is to fully implement their existing IC systems. There needs to be a renewed effort in share distribution and supervision of SOEs to create the motivation and drivers for this to happen. SOEs should follow “real business” systems rather than the current confusing mix of “state-business” management systems.

Private companies: Our recommendation to private companies is that they should shift their business philosophy from “quick profit” to longer-term sustainable growth. The companies should develop long-term strategies that respect regulations, accepted standards and ethical values, and apply them internally and externally in their supply chains. In order to implement these strategies, companies should receive substantive training about IC with a view to developing their own IC systems. We encourage large and medium-sized companies that are already successfully implementing IC systems to provide advice and encouragement to their business partners and customers to help spread the benefits throughout the economy.

VCCI: The recommendation for VCCI is to become a central hub of information and expertise for distributing business integrity, anti-corruption, IC and CoC advice and training to companies and other business associations, creating, coordinating and licensing the training on IC and CoCs. While knowledge of IC and CoCs can be found in many academic books/ programs, VCCI training should be practical and actionable, and easily accessible in face-to-face training and online. VCCI should also act as a center for Collective Action, bringing together companies, government agencies, business associations and industry associations to make the business environment fairer. This activity, which is new to VCCI and in addition to its current activities, needs to be properly resourced and funded in order to have the necessary reach and impact.

The Government: We recommend that the Government develop and publish official guidance to help companies implement the 2018 Anti-Corruption Law. The guidance should be aimed at companies according to their size and ownership and should include advice on corporate governance and basic management principles. The Government should enhance its monitoring capacity by encouraging participation of the population and NGOs. We recommend the Government invest in the creative use of media to raise awareness of the new regulations, benefits and best practices of IC, and to share knowledge among companies and the population at large.

Conclusions

In conclusion, the continued growth of the Vietnamese economy requires a sustainable, stable and responsible business sector. Building solid IC systems contributes to company development and makes the business environment fairer for all actors. The development of market institutions in Vietnam requires both Government and the business sector to move forward together. Much is being done by the Government in reforming regulations and state capacities – not least the reform of the Anti-Corruption (AC) legislation.

Now, in the spirit of partnership and collective action, the business sector has an opportunity to make its contribution by committing itself to the best principles of corporate governance, establishing reliable IC systems, and, with the help of well-drafted CoCs, promoting a culture of integrity that will give Vietnamese companies a competitive edge, domestically, regionally and internationally, in the years and decades to come.

1. Introduction

1.1 Context of the Study

1. Corruption in the private sector has attracted considerable attention from the Government and the public in Vietnam. Studies have shown that business should play a critical role in combating corruption since companies are victims as well as facilitators of corruption (Nguyen et al., 2016; NEU-UNDP, 2017; WB, 2012). The new Revised Anti-Corruption Law, passed by the Vietnamese Parliament on 20th November 2018, and due to come into force in July 2019, A new section in the Law specifically regulates corruption in the private sector – an important addition to the previous version. The Law mentions specifically certain corruption typologies by name: embezzlement, taking bribes, offering and intermediating bribes by persons in positions and/or powers to settle affairs of businesses and organizations for personal gain (Article 2). Although the law is clearly directed at combating corruption in all its forms, it is clear from recent prosecutions that these aspects are amongst the top challenges facing Vietnamese business. It mentions in particular the importance of companies introducing IC systems and CoCs: *“Enterprises and business organizations should issue and implement their own code of conduct and control mechanism for preventing conflict of interests, curbing corruption and developing a healthy and incorruptible business culture”*². This suggests that lawmakers have recognized that the private sector’s ability to implement anti-corruption measures will go hand-in-hand with the Government’s efforts to build a business culture based on fair play and integrity. Furthermore, experience in other countries supports this view: robust internal controls, a clear code of conduct and well enforced compliance rules at the company level are generally viewed as tools to improve business efficiency, reduce costs, raise profitability. In successful companies, business integrity is often understood as a competitive advantage, not as a constraint on business. A national survey, the Provincial Competitiveness Index (PCI)³, provides substantial evidence of bribery throughout the economy. The PCI reports a score of informal payments on a scale from 1 (very prevalent) to 10 (not prevalent) at the company level. Figure 1 shows that the prevalence of such payments remained constant from 2011 to 2017. As shown in figure 2, between 51% and 65% of companies surveyed in the period 2011-2017 believed that their peers in the same industry paid bribes. There is a growing trend of companies using 10% or more of their revenue to make informal payments, an increase from 7% (2010) to more than 10% of surveyed companies in the period 2014 to 2017. Lastly, around 80% of companies believed the informal payments they made were “at an acceptable level”. Toward Transparency (2018a) surveyed companies in high-tech parks in Vietnam on bribery challenges. The survey showed that a significant proportion of companies, including big companies, still view bribery as a normal way of doing business

². Anti-Corruption Law No. 36/2018/QH14 dated 20 November 2018 of the National Assembly, Chapter VI: Prevention of corruption in enterprises and non-state organizations, Section 1, Article 79 (para. 1).

³. The Provincial Competitiveness Index (PCI) is funded by USAID and conducted by VCCI since 2005. The project annually surveys companies in Vietnam on various indicators of provincial governance and ranks provinces based on these indicators. Every year, up to 13000 companies respond to the surveys. For more information, please go to: <http://pcivietnam.org/>

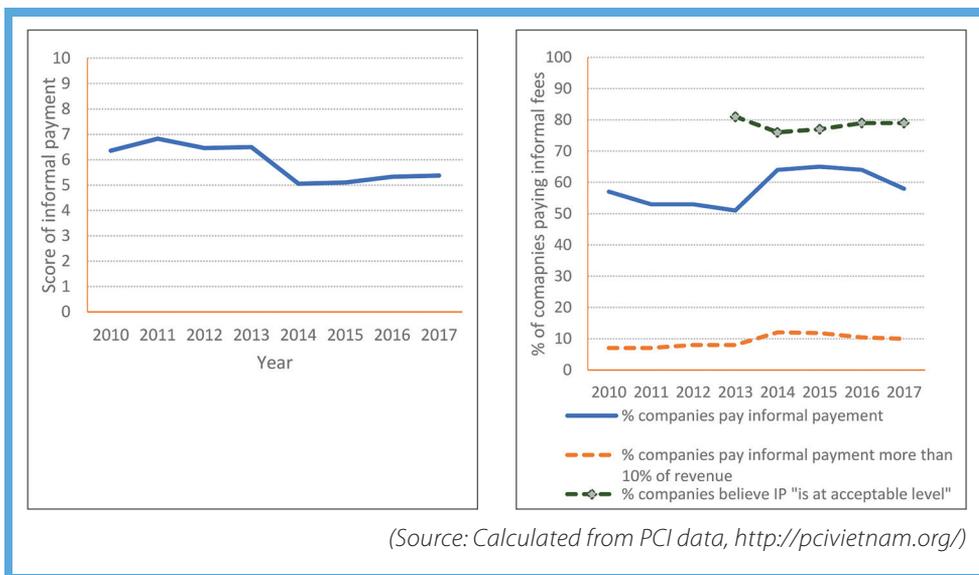


Figure 1: The average of informal payments incidence (scale 1 – 10 with 1 = high incidence of informal payments and 10 = low incidence)

Figure 2: Companies' bribery behavior and attitude (%)

- From the above evidence, three important inferences can be drawn about bribery in Vietnam. First, a significant proportion of companies in Vietnam are paying bribes as part of their regular business practices. This creates pressure for other companies to do the same in order to stay in the game (Nguyen et al. 2016). Over time, paying bribes becomes a norm rather than an exception. Secondly, paying bribes has become more widespread in recent years, contrary to the Government's efforts and the public's expectations. We observe increases in the proportion of companies paying bribes, in the size of the bribes and in the prevalence of informal payments. Finally, private companies in Vietnam have approached bribery more as a 'cost of doing business' than as an issue of "business integrity". A vast majority of bribe-paying companies believed the bribes they paid were "at an acceptable level". We do not have evidence of whether companies view bribery as an ethical or integrity issue, but other studies have found that companies consciously engage in major bribery scams and other illegal activity. (WB, 2012; APIM-UNDP, 2017; Nguyen et al., 2016).
- Up until the current study, we have had very little evidence about whether companies in Vietnam are interested in improving their business standards and whether they are actually doing something about it. Several studies (WB, 2012; 2015; Nguyen et al., 2014; TT, 2018b) have suggested that many companies in Vietnam have not yet implemented internationally recognized tools for more efficient control, risk management and compliance, such as IC systems or CoCs. Many studies on IC/CoC in Vietnam analysed IC/CoC of a particular company, such as Vietnam Electricity (Nguyen Thanh Thuy, 2017; Vu Thu Phung, 2016), Vietnam Post and Telecommunication (Ngo Tri Tue, 2004). Most of previous studies have focused on how to strengthen a company's IC (e.g., Nguyen Thanh Thuy, 2017), and how

IC could help companies to have better financial control (Ngo Tri Tue, 2004), stronger social responsibility (Bui Thi Minh Hai, 2012). Several studies have found positive relationships between companies' uses of IC and performance (e.g., Vu Thu Phụng, 2016; Chu Thị Thu Thủy, 2016; Dang Thuy Anh, 2017). In these studies, there is a wide variation between companies about the extent to which they believe that these tools can impact and benefit business performance. On the other, many companies may simply not know how best to develop and deploy these tools, given their relative lack of professional management experience

4. With financial support from the UK Prosperity Fund, the Government Inspectorate and VCCI have launched a Government-Business Integrity Initiative (GBII) to foster cooperation between the Vietnamese Government and the business community in fighting against corruption. The GBII aims to support the introduction of the new anti-corruption legislation in three main areas: providing training to companies, measuring the impact of the legislation, and reaching out to a wide public audience broadly connected with business. In the first component of GBII, VCCI has commissioned the current study to better understand how companies in Vietnam use IC and CoCs to enhance business performance and compliance.

1.2 Objectives and Methodology

5. This research has the following objectives:
 - Assess the current status of IC and CoCs in the business sector in Vietnam, for both domestic and foreign companies. To meet this objective, the researchers have collected data, and compared the application of IC and CoCs in companies of different ownership, size, and sector. Case studies have been used to illustrate what works and does not work.
 - Explore international experience and recommend how they can be adopted and adapted for Vietnam;
 - Analyze the impact of the new legislation on the business sector; and
 - Propose policy recommendations on building an integrity culture in the business sector in Vietnam.

1.3 Analytical Framework

6. For this research, we have used the Committee of Sponsoring Organizations of the Treadway Commission (COSO)⁴ definition of Internal Control: *"a process, effected by an entity's Board of Directors, management, and other staff, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."*

⁴. COSO is an independent, private sector initiative sponsored jointly by the following organizations: the American Accounting Association (AAA), the American Institute of Certified Public Accountants (AICPA), Financial Executives International (FEI), The Institute of Internal Auditors (IIA), and the Institute of Management Accountants (IMA). The 1992 Framework developed by COSO, which then was updated in 2013, has been used by many companies to evaluate the design and effectiveness of their internal controls. <https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf> (accessed Feb. 22nd, 2019). The frameworks form a robust conceptualization of internal control and are now used in firms around the world to guide risk management, which mandates public disclosures of significant internal control deficiencies. It is also widely used by scholars to study IC issues.

7. According to COSO, a company's IC system consists of the following pillars:
- **Control Environment:** The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. The Board of Directors and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct. CoCs fall under this pillar.
 - **Risk Assessment:** Risk assessment involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives, forming a basis for determining how risks should be managed.
 - **Control Activities:** Control activities are the actions established by the policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
 - **Information and Communication:** Communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day internal control activities. Communication enables staff to understand internal control responsibilities and their importance to the achievement of objectives.
 - **Monitoring Activities:** Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, are present and functioning.

Table 1 summarizes key principles in each component of the COSO's internal control framework.

Table 1: COSO's principles of internal control

CONTROL ENVIRONMENT	<ol style="list-style-type: none"> 1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority, and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
RISK ASSESSMENT	<ol style="list-style-type: none"> 6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
CONTROL ACTIVITIES	<ol style="list-style-type: none"> 10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
INFORMATION & COMMUNICATION	<ol style="list-style-type: none"> 13. Uses relevant information 14. Communicates internally 15. Communicates externally
MONITORING	<ol style="list-style-type: none"> 16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

(Source: McNally, 2013)⁵

⁵ The 2013 COSO Framework & SOX Compliance. COSO: https://www.coso.org/documents/COSO%20McNallyTransition%20Article-Final%20COSO%20Version%20Proof_5-31-13.pdf

8. In this study, a CoC is defined as “a set of guidelines that outline principles, rules, norms, responsibilities of and proper practices for company members.” The CoC is a special component of the overall IC system. A company’s CoC often includes the following elements:
- Core values of the company
 - Acceptable and unacceptable behavior
 - Responses to risk
 - Access to advice, guidance and/or instructions
9. This study assesses and compares companies’ awareness and implementation of both IC systems and CoCs according to company ownership, size, and sector. The study also investigates how the application of existing IC and CoCs impacts companies’ legal compliance and performance. Figure 3 illustrates the overall analytical framework of the study.

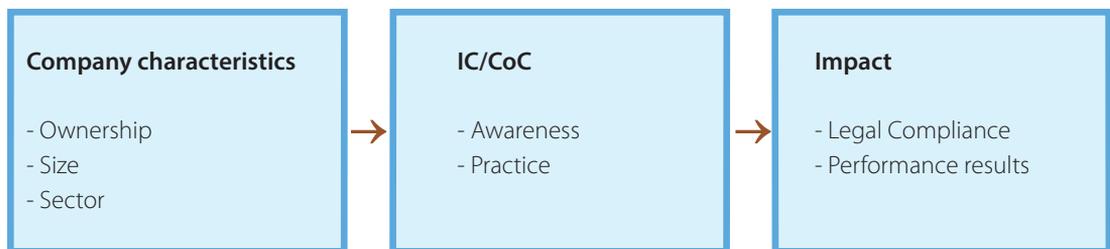


Figure 3: Analytical framework

1.4 Survey Methodology

10. The study uses a mixed methods design in order to enhance the reliability of the results. The methods are:
- A desk review of the current anti-corruption and IC- and CoC-related regulations in Vietnam, especially those relating to the business sector. Studies on related topics in Vietnam are reviewed to get initial insights on previous research and knowledge.
 - A desk-study of international practice and experience in IC and CoCs from selected countries.
 - Qualitative and quantitative surveys, drawing from the results of the desk research, with the aim of understanding how companies in Vietnam understand and use IC and CoCs in practice, and how the use of these measures influences companies’ business performance and compliance.
 - The breadth of the methodology allows for integrating information from various sources, comparing regulations and practices, and triangulating perspectives from different groups. This approach is particularly important for new and sensitive topics such as conflict of interest.

11. Focus group discussions: Eight focus group discussions were conducted with business leaders. Two of them were conducted in Hanoi prior to the survey research (October 2018) to gain initial insights on how companies in Vietnam understand and use IC and CoCs. The insights of these sessions were used to help in designing the survey. Further sessions were conducted in Hanoi and Ho Chi Minh City (HCMC) (December 2018 and January 2019). The objective of these focus group discussions was to test the survey results as well as to get companies' views on measures to enhance the use and effectiveness of IC and CoCs among companies in Vietnam. In total, about 40 companies participated in these discussions. They represented different types of ownership and size, but most were privately-owned SMEs. To get further insights from foreign multinational companies MNCs investing in Vietnam, the team interviewed two companies, one based in Hanoi, the other in HCMC.
12. Survey: A survey was specially designed for this research. The survey contained questions on:
 - Company profile and characteristics;
 - Evaluation of the company's interaction with state agencies and business partners;
 - The company's understanding and practical implementation of IC and CoCs; and
 - The company's recommendations on how best to support business in Vietnam in promoting effective use of IC and CoCs.

The respondents of the survey were companies in Vietnam with different ownership structure, size, key sector, and years of operation. Each company was sent one questionnaire and eligible respondents included a member of the Board of Directors, the Head of Finance, Sales, Business Development, Human Resources or managers of the Internal Control Department. The companies were selected randomly from available lists, including the General Statistics Office's enterprise survey, VCCI's training courses and the National Economics University Executive Masters Program. The team randomly selected a list of 800 companies and contacted them to verify their contact details and notify them about the survey. Companies responded to the survey either via online or by hard copy. Data collection was conducted from 25 October to 25 December 2018.

- For the online method, an email with instructions and a link to the survey was sent to each email address individually. Reminder emails were sent twice for those who had not responded or completed the survey with an interval of 3 days between each email.
- For hard copy version, the team sent the survey by post to the appropriate person of each company, and then followed up with telephone calls until the completed survey was sent back by post.

13. Data analysis: Data from different sources, i.e., desk review, focus group discussions, interviews, and survey, were combined and triangulated to generate key insights on the research questions. The survey data were analysed using descriptive statistics and basic group comparison and regression techniques.
14. Limitations of the field study: It proved quite difficult to survey actual application of IC and CoC measures since companies in each group of size, sector, and ownership structure had their own 'best practices'. Therefore, the study asked respondents to check whether they have the most common IC activities and their subjective assessments of the IC measures. Furthermore, the sample of 239 companies is relatively small. Despite these limitations, the study offers important insights into how IC and CoCs are understood and applied by companies in Vietnam, and how this affects companies' compliance with the law and capacity to operate with integrity in the market.

2. The Legal Framework and International Experience

2.1. The Legal Framework

Regulations on Internal Control

15. In Vietnam, the legal framework covering corporate governance standards and internal control systems has been established and regulated for a number of years by state authorities and companies. The concept of IC has appeared in several Laws, including: 2018 Law on Anti-corruption (36/2018/QH13), Law on Enterprise (68/2014/QH13), Law on Accounting (88/2015/QH13), Law on State Auditing (81/2015/QH13), Law on Securities (70/2006/QH11), and Law on Thrift practice and Waste combat (44/2013/QH13). This concept also appeared in a number of secondary legal documents as follows:
 - *Decrees*: Decree 87/2015/ND-CP on supervision of state capital investment in enterprises; Decree No. 71/2017/NĐ-CP dated 06 June 2017 on corporate governance of public companies, taking effect from 01/08/2017.
 - *Circulars*: Circular 121/2012/TT-BTC of the Ministry of Finance prescribing the company management applicable to public companies; Circular 44/2011/TT-NHNN dated 29/12/2011 of the State Bank of Vietnam provides for the internal control system and internal audit of credit institutions, foreign banks' branches; Circular 16/2011/TT-NHNN dated 17/8/2011 of the State Bank of Vietnam provides for internal control, internal audit systems of the State Bank of Vietnam; Circular No. 13/2018/TT-NHNN dated 18 May 2018 of the State Bank of Vietnam providing for the internal control system of commercial banks, foreign banks' branches; Circular No. 143/2001/QĐ-BTC of Minister of Finance dated 21/12/2001 on the enactment of the Vietnamese Standards on Auditing (VSA400); Circular No. 214/2012/TT-BTC of Minister of Finance dated 06

December 2012 enacting the Vietnamese Standards on Auditing, taking effect from 01/01/2014 (VSA315).

- *Decisions:* Decision 36/2006/QD-NHNN on the issuance of the Regulation on internal inspection, control of credit institutions; Decision 4398/2016/QD-TCHQ on the enactment of the Regulation on inspection and internal control in implementing customs procedures, inspections, and customs supervision.

For a more detailed description of these regulations, please refer to Appendix 1.

16. While the description of IC varies somewhat in these documents, a common definition is the development and implementation of mechanisms, policies, internal regulations in compliance with the provisions of laws to ensure operational effectiveness and efficiency, informational reliability, and legal compliances of the companies. In the Circular 214/2012/TT-BTC on Vietnamese Standards on Auditing (VSA315), the definition of IC was close to that of COSO and specified COSO's five pillars of IC.
17. The Law on Accounting (2015) and 2018 Law on Anti-corruption require companies of all types to set up IC systems to ensure efficient use of resources, reliable information provision (Law on Accounting, 2015), prevent conflict of interests, corrupt behavior, and build a sound business culture (Law on Anti-corruption, 2018). Other documents target specific sectors or groups of companies. For example, the Law on Securities (70/2006/QH11), and the Law on Thrift practice and Waste combat (44/2013/QH13) require IC to be set up in security companies and state-owned enterprises, respectively.
18. The requirement is clearest for public companies, companies with state-owned capital, and companies in the financial sector. For these companies, the regulations specify roles of key functions (such as Board of Directors, Internal Control Committees or other functional units) and internal auditors. For other types of companies, the requirement remains general and allows substantial discretion on how companies should set up their IC systems.
19. In summary, the current regulations have provided a general requirement for companies to set up IC systems. Companies in several special categories, such as those with state capital, in financial sector, or public companies, are required to follow the regulations on IC systems. For other companies, the requirements focus more on compliance, and are left to the discretion of the company about how IC should be set up.

Regulations on Code of Conducts

20. The 2018 Law on Anti-corruption provides clearly for CoCs in business. According to the legislation, companies and other economic organizations adopt CoCs to prevent conflicts of interest, acts of corruption and for the sake of a healthy and corruption-free business environment. In addition, the Law also requires public companies, credit institutions to implement measures of publicity and transparency; control conflicts of interests; identify

clearly the responsibilities of the heads and deputy heads of organization. The 2018 Law on Anti-Corruption also expands the scope of regulation by covering corrupt acts committed by persons in office in the non-state sector's businesses and organizations, which include: embezzling property; taking bribes; offering bribes, intermediating bribes by persons in positions and/or powers to settle affairs of businesses and organizations for personal gain.

21. Other than in this Law, CoCs in business are not addressed explicitly or systematically under the current legislation of Vietnam. The 2018 Law on Anti-corruption for the first time includes clear provisions for the introduction of CoCs, but as recommendations for the purpose of corruption prevention, not as mandatory rules that companies will be forced to comply with. There is also a lack of specific guidance for implementation. In the view of our research team, the legislation in time will require further reform, to include more detailed provisions about how the CoCs should be formulated and introduced in companies. This will enable the legislative authorities to further strengthen the legal basis for CoCs and develop incentives for their adoption and implementation by companies in Vietnam.

2.2. International Experience

Introduction

22. The purpose of this section is to review international experience in IC systems and codes of conduct with the aim of bringing relevant best practices to Vietnam. There is extensive Western literature on IC, both academic and of a practical nature. As this project focuses on fostering integrity and a "fair and corruption-free business culture", this section will focus on the anti-corruption aspects of IC, rather than attempt to embrace the whole concept.
23. The UK, along with the US, has been at the forefront of promoting international corporate governance, accounting and auditing standards, of which IC is a part. However, we should note that many other countries, such as France, have their own perfectly valid approaches. In our review of international best practice, our primary reference will be to UK company practice for the sake of convenience, rather than any kind of statement suggesting that the UK system is the best system or the only one. This can be justified by the fact that both the UK (and most developed economies) and Vietnam are signatories to many of the same international conventions regulating internal control, audit, accounting standards and anti-corruption.
24. In Vietnamese companies, just as in companies in other countries, there is a big difference in the capacity, understanding and resource that companies can put into risk, compliance and IC management. It depends on the size and type of company, as well as the market in which it is operating. In the 2018 Law on Anti-Corruption, this distinction is made clearly in Section 2 Chapter VI at articles 80 and 81, which identifies public companies,

credit institutions to be subject to a more intensive regulation and inspection regime. Clearly the expectations are higher for these companies than for smaller companies. In practice, this is the same internationally. The rules of complex IC are mostly applied - at least in any formal sense - in publicly quoted companies. Companies that are not quoted on the stock exchange are not subject to the same level of detailed scrutiny. In our research, we will be referring to companies of all sizes, but we will be careful to make the distinction, where appropriate, between the practice of larger companies and smaller ones.

What are the factors that underlie the use of Internal Control in international companies?

25. **The law:** While there has been widespread international standardization around internal audit, accounting, and risk management, largely based on US practice, it is important to note that each country has their own standards, rules, regulations and laws around Corporate Governance, accounting, reporting and risk management, developed and implemented according to domestic law. Taking COSO as an example, COSO principles and practice emerged from the United States and are closely bound in with US law. It is a standard that US companies use to evaluate their compliance with the Foreign Corrupt Practices Act (FCPA) and other legislation such as Sarbanes Oxley. Under US law, companies - especially those quoted on the stock exchange - are required to report a large amount of financial, management and governance information besides. Only a highly integrated system involving strategy to implementation at all levels of organization and relating to operations, reporting, and compliance, would be able to meet those reporting requirements. However, the UK is a good example of how countries have developed their own IC principles and practices⁶. The COSO standard, while providing an excellent framework and, despite its influence on international standards, is not widely recognized by name in the UK.
26. **The stakeholders:** The shape that IC has taken globally is also related to obligations towards shareholders. The Board, which in a company represents the shareholders' interests, will want to scrutinize accounts, but also ensure that the company is pursuing its clear objectives, and is supervising itself. IC allows this information to be provided. It also provides a level of assurance that the information provided is "objective" - in other words, the management has not tampered with the information. In most developed countries, there are laws and guidelines which determine standards of Corporate Governance. IC is the tool for implementing Corporate Governance in a company.

⁶ Outside the US, each country has their own laws and regulations on corporate governance, accounting standards and internal control. In the UK, for example, Internal Control: Guidance for Directors on the Combined Code (1999) also known as the "Turnbull Report" was a report drawn up with the London Stock Exchange for listed companies. The report informed directors of their obligations with regard to keeping good "internal controls" in their companies or having good audits and checks to ensure the quality of financial reporting and catch any fraud before it becomes a problem. Revised guidance was issued in 2005. The report was superseded by a further FRC guidance issued in September 2014.

27. **The risks:** There are many risks that need to be assessed in business. According to a timely report by COSO and WBCSD, Environmental, Social and Governance (ESG) risks (including corruption) have been increasing steadily. What happens when a company fails to manage their risks? Rolls Royce, a British company with a very strong reputation and an excellent brand, in 2017 had to pay a fines and compensation amounting to £671m⁷ for its involvement in bribery-related issues in several emerging markets over a number of years. At the center of the case was the use of local agents, intermediaries and consultants. While there were codes and procedures in place, some of the internal processes and accountability were unclear. Due diligence on local partners was not conducted, and the IC system failed, with catastrophic consequences for the company.
28. **Reputation and brand:** There are many examples of international companies' brands being devalued by behavior that was either illegal or lacking in integrity. A good example is that of Nike and other producers of footwear, who outsource product from countries in South Asia, including Vietnam. In the nineties, there were demonstrations and boycotts of Nike products in Western markets because of allegations of poor health and safety conditions, child labor, and slavery.⁸ Nowadays, having learnt from the experience, and also being subject to new legislation such as the Modern Slavery Act⁹, companies such as Nike have changed their business model, and things have improved, including the conditions in many supplier factories in the region. However, without a properly functioning IC system which assesses the reputational risk to the company of outsourcing from a particular supplier, the company would have no consistent or objective way of evaluating its suppliers or its risks.
29. **Size and type of ownership:** Highly complex integrated systems, such as the COSO framework are likely to be adopted by companies that are publicly owned - that are listed on a stock exchange or that are state-owned. Companies that are in private hands are likely to have some kind of IC system and may include elements of the COSO. But if they are not obliged to under law or their Corporate Governance code, they are unlikely to make a large investment in establishing as extensive a system as their counterparts that are publicly- or state-owned. Smaller companies are even less likely to have a full and complex IC. Having said that, it is likely that even the smallest companies will have some elements of IC. It is a truism that in international management practice, IC is usually proportionate with the size, risk profile and complexity of the business.

What are the benefits for companies in having a well-functioning IC system?

30. **Stakeholder satisfaction:** It follows that if a publicly-owned company has a well running IC system, at least from a regulatory standpoint, it will be able to satisfy its

⁷. *Fraud office narrows Rolls-Royce corruption probe, Financial Times, 7th January 2019*

⁸. <http://mallenbaker.net/article/clear-reflection/nike-and-child-labour-how-it-went-from-laggard-to-leader>

⁹. <http://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

major stakeholders - the Government/regulators, the shareholders, customers and consumers. Leading a life without legal challenges, without the financial, human, and morale costs of dealing with a bribery prosecution or a hostile civil society campaign, could be ranked as truly great benefits. However, the experience suggests that the cost of establishing such a system can be high and must be proportionate to the size and complexity of the business.

31. **Reduced risks:** Small companies that do not have a full IC system but do have a management team which is highly entrepreneurial, fast-moving and opportunistic, can have fantastic commercial success without necessarily having all the safeguards provided by IC. Such companies need to be wary of the tipping point when their rapid growth turns them into large companies, with more public visibility and obligations towards the regulator, their shareholders and their customers. Without well-functioning IC, they will continue to act as a small family-run company, while exposing themselves to regulatory risks that they did not even imagine when they set up the company. The new technology giants such as Facebook are a good example of this.
32. **Limitations to benefits of IC:** A full IC system does not guarantee 100% immunity from risk. The technology giants may or may not have had a fully functioning IC system, but many other companies currently in the news for corporate scandals certainly did - for example Volkswagen, Goldman Sachs, GSK, Danske Bank, Credit Suisse. There are many examples of companies that have extensive systems, including Ethical Codes and Codes of Conduct, to extensive teams of Internal Auditors and Compliance Officials, yet still things can go wrong, either because of a systemic failure or rogue employees. In the end, IC is just a tool. It does not replace individual judgement, ethics and responsibility at the very top of the company, nor constant monitoring and self-improvement. If those are absent, IC becomes an expensive tool for safeguarding nothing.

How do companies in other countries use IC and CoCs?

33. Using the COSO guidelines structure, we outline here some of the main features of how companies internationally implement IC systems for managing corruption risk. Under the first section, the Control Environment, we describe in detail how companies use the CoC, one of the most crucial elements of assuring the Control Environment.
34. *Control Environment*
 - At the heart of the Control Environment lies a Code of Ethics or Conduct. While the two terms – “ethics” and “conduct” - are often used interchangeably, there is in fact a difference between the two:
 - A Code of Ethics is a wide-ranging, non-specific set of general principles that enable employees to make independent judgements about the most appropriate course of action. It is in essence a statement of values, providing moral guidance to help the company make the right decision when facing ethical dilemmas or debatable situations

in business. Ethical codes are commonly used in the context of “professional ethics”.¹⁰

- By contrast, the CoC is a more detailed, specific set of moral and legal principles for the members of a company, which governs their employees’ actions on how to behave and do business with the other stakeholders¹¹. A widely-used definition of Code of Conduct CoC is the one given by the International Federation of Accountants in its 2007 International Good Practice Guidance - Defining and Developing an Effective Code of Conduct CoC for Organizations. According to the guidance, a Code of Conduct is the *“principles, values, standards, or rules of behavior that guide the decisions, procedures and systems of an organization in a way that (a) contributes to the welfare of its key stakeholders, and (b) respects the rights of all constituents affected by its operations.”*¹²
- Large MNCs may have both a Code of Ethics and a CoC, or just one of the two. Some companies may have a Code of Ethics which acts as a CoC, or vice versa. For example, on its web site, Shell publishes both “The Shell General Business Principles”, which is a Code of Ethics, and “Our Code of Conduct” under Our Values¹³ section, using the CoC to support its Code of Ethics. In order to give more detailed guidance for Principle Three: Business Integrity in “The Shell General Business Principles”, the company wrote a whole nine-page chapter “Managing Risk in Third Party and International Interactions” in its CoC, clarifying employees’ responsibility to ensure the integrity of Shell in any aspect of business. Johnson & Johnson publishes not only “Our Credo”¹⁴, which is a Code of Ethics, but CoC for different parts of the workforce and in various languages.
- Unlike the MNCs, a very limited number of SMEs have publicly available Codes of Conduct or Ethics. We studied 50 British SMEs and found that only 4 had a Code of Ethics or Company Regulations published on their website.
- Even if it is well-written, a CoC alone does not guarantee integrity. Johnson & Johnson is an example of an international company that arguably failed to live up to their CoC. In the period 2010-2011, it confronted lawsuits, negative reports and reputation loss because of alleged product defects¹⁵, which failed their stated commitment to responsibility in “Our Credo”. The German automotive company Volkswagen, a company with a CoC and a long-standing commitment to ethical conduct, faced a severe emission scandal in 2015. According to the United States Environmental Protection Agency, Volkswagen had intentionally programmed their diesel engines to activate their emissions controls only during laboratory

¹⁰. <https://www.whistleblowersecurity.com/code-of-ethics-and-code-of-conduct-whats-the-difference/>

¹¹. <https://www.whistleblowersecurity.com/code-of-ethics-and-code-of-conduct-whats-the-difference/>

¹². https://www.ifac.org/system/files/publications/files/Defining-and-Developing-an-Effective-Code-of-Conduct-for-Orgs_0.pdf

¹³. <https://www.shell.com/about-us/our-values.html>

¹⁴. <https://www.jnj.com/credo/>

¹⁵. <https://www.ethicsage.com/2011/12/what-ever-happened-to-ethics-at-johnson-johnson.html>

emissions testing which caused the vehicles' NOx output to meet US standards during regulatory testing but in reality, to emit up to 40 times more NOx in real-world driving. In contrast, there are many examples of companies without Codes but still behave with integrity. So, having a CoC does not automatically ensure that a company behaves well or badly.

35. *Risk Assessment*

- There are a large number of corruption risks that a company faces. Risk management is basically the basic minimum to prevent exposure. The risks in question can include solicitation by public officials, actual bribery, conflicts of interest and many others. And in case any of these take place, there is the very real risk of legal proceedings being taken against the company, with all the negative consequences mentioned earlier.
- Companies can take steps to assess the risk and take preventative measures. These include:
 - o Country risk assessment
 - o Market risk assessment
 - o Supply chain mapping
 - o Due diligence of business partners
- International companies have access to public resources, or analysis provided by the relevant business or professional associations. In some cases, they commission market studies. Markets vary in the inherent risk they contain. For example, the large oil and natural resource markets, linked as they are to government ownership and strategic national interests, pose one set of risks. Fisheries or forestry, highly regulated markets, are exposed to the risk of trafficking and bribery at customs. Footwear and clothing, although much improved, have risks around labor standards, child labor, and health and safety.
- As part of understanding the market, international companies assess the risks of third-party suppliers or distributors at various stages of the supply chain. In choosing whom to work with, it is considered essential, as part of risk management, to conduct a due diligence on the direct partners and also the indirect partners that are at further distance in the supply chain. This can be done by use of public records and some desk research on the internet. A local partner's reputation can often quickly be assessed. For bigger deals or investments, companies will often hire specialist risk management companies. Much of that research will be to look into the companies and the individuals record of fraud, corruption, convictions and conflicts of interest.

36. Control Activities

- The policies and procedures, rules and regulations of the company may take several forms, but most companies have something which cements these into a contractual form. For example, the contract between the company and the employee contains clauses which emphasize certain rules of behavior based on the CoC of the company. Increasingly companies include an anti-corruption clause in their contracts. Many companies have a company handbook which outlines the detailed rules by which an employee is expected to abide. The handbook may be referred to in the employee's contract.
- The policies and procedures that are implemented in a company touch on every aspect of life in the company, not just human resources. In the anti-corruption sphere, this includes IT systems which constantly analyze financial, sales and marketing data to pick up out-of-the-ordinary behavior; internal audit systems and staff who review the data generated and detect any behavior that does not conform with the rules; and a compliance department, which ensures that the rules are being followed, and takes action when they are not.
- The IT systems within companies are becoming increasingly sophisticated and are central to maintaining an adequate control environment. Many companies, and especially banks and companies in the financial services, which are subject to high levels of scrutiny from the public authorities, are investing heavily into "fintech" and "regtech" which enable them to manage their regulatory obligations. According to EY's Global Forensic Data Analytics Survey, the other major risk faced by companies, also closely related to corruption, is protection from hacking, data theft or misuse¹⁶. This commitment to the use of technology for compliance is spreading to all areas of industry and business, as the regulatory environment gets tougher and the risks of fraud greater.
- Nowadays, IT plays a far more important role. With faster processing speeds, and the ability to review a mass of data, IT systems can conduct the analysis that was previously done by humans. Previously, companies might have had the capacity analyze numerical data from financial reports. Now, new generation "data analytics" can pinpoint key words from employees' emails that could indicate suspicious activity. The new technologies can also detect data leaks and theft, one of the most serious threats to which companies are exposed. For the future, artificial intelligence, blockchain, robotic process automation and advanced data analytics are just some of the new possibilities being explored. These will revolutionize how every aspect of business operates, and the compliance function will be no exception.

¹⁶. EY Global Forensic Data Analytics Survey, 2018, https://www.ey.com/en_gl/assurance/how-can-you-disrupt-risk-in-an-era-of-digital-transformation

37. *Information and Communication*

- In terms of the ongoing challenge of keeping all employees mindful of the rules, companies spend a large amount of time, money and effort in publicizing the rules through internal seminars, peer-to-peer and team meetings, poster campaigns and other methods. Companies like Johnson & Johnson have “The Credo” ever-present in the lives of employees. It could be printed on the back of business cards, or the first thing the employee sees on their intranet home page when they switch on their computer. Many companies spare no expense to remind their employees of the ethical principles of the company. Pens, key-rings, T-shirts, mobile apps, hard disks drives - anywhere the message can be printed will be used. As such the communication of the codes of ethics or Code of Conduct can be as intense as the communication of the brand. In fact, the ethical foundation and the brand are both essential components of the corporate culture. That culture does not exist unless or until it is fully communicated.
- Compliance training is a critical part of communications. For example, companies like GE make it obligatory for employees to attend a training session on compliance (not just anti-corruption) and to sign a copy of the CoC, “The Spirit and the Letter”. In other words, the commitment to the CoC has the force of a quasi-contractual obligation. Even without the sign-off, compliance training is often obligatory. For the compliance department, supported by Human Resources, this can be a complex logistical exercise. For MNCs operating in many countries of the world, the message needs to be translated into the local language of each country and the local trainers need to be trained.
- The challenges go beyond language differences. In countries where business and corporate culture and traditions are very different to what is common in the country of the headquarters, a standard “translate and present” approach is unlikely to be effective. Some degree of localization will be required, if only to provide some kind of explanation. The training should contain plenty of live “case studies” or examples from the country and industry where the training is happening. The participants must feel that this is relevant to their work. Further ethical examples can be provided from everyday life outside work. In many ASEAN countries, gifts and entertaining is a natural part of doing business and has no implication of wrong-doing. In fact, many people in these countries would be mystified about how you could ever do business without inviting someone. The training has to bridge this gap by clear explanations and comparisons of the two “systems”. In Eastern countries, there would need to be training about how to politely refuse a gift or dinner invitation.
- Many MNCs have invested into systems to encourage feedback from employees about concerns they may have with the compliance system, the rules and regulations, and above all the behavior of other employees. Systemically, feedback is received through an open relationship between employer and employee, the manager and his or her subordinate. Information therefore flows upwards and sideways as well as from top to bottom. When it

comes to individual complaints or concerns, companies set up a whistleblowing system. It is, at least in theory, a safe way for employees to report misbehavior by managers and other employees, while being sure that they are themselves protected from reprisals by the company or individuals concerned. In practice, it is a complex part of management and needs careful preparation in design and setting up. Despite the complexities, whistleblowing is considered by practitioners in MNCs as one of the most reliable ways to reduce corruption risk.

- The final point to make on information and communications is that in many international companies, the techniques used within the company are also used for third party suppliers and distributors. The expression of the policies and rules through contractual obligations, the CoC, or the employee handbook are not limited to employees. In effect, distributors, agents and other third parties are engaged on a contractual basis which includes similar clauses to those signed by employees. The ICC's template Anti-corruption clause in third party contracts is a good example¹⁷. As part of their contractual agreements with a company, third parties may be obliged to sign this clause which is included in their contract, attend training sessions on business integrity, and to sign the company's Code of Conduct.

38. *Monitoring*

- Companies with rigorous IC will constantly inspect and monitor their system. The internal investigations should not only reveal the details of a potential case of fraud or corruption. It should be able to answer a series of questions about the system itself: Why did the system not identify the problem before? Are there gaps or deficiencies in the IC system? Is the employee or third-party training or communications strategy effective? Is the whistleblowing system working?
- When a case is discovered, the company needs to decide how to handle it. In the US and the UK, there are clear incentives for companies that self-report. A company might be granted a Non-Prosecution Agreement (NPA) or a Deferred Prosecution Agreement (DPA) which gives the company a chance to earn a reduced punishment if they fully cooperate with the authorities by self-reporting criminal behavior and fully cooperating during the investigation. The company's obligations to report such incidents go beyond reporting to the national fraud or anti-corruption authorities. In keeping with the multi-stakeholder approach underpinning the Internal Control system described earlier, the company needs to share the information with shareholders and investors, the stock exchange authorities, other stakeholders, such as the press, employees and consumers. Where crimes are suspected or have been committed in other countries, the company may need to self-report to the enforcement authorities of other governments.

¹⁷. <https://iccwbo.org/publication/icc-anti-corruption-clause/>

How are companies encouraged to use IC systems?

39. **The law:** The strongest incentive to obey the law is the law itself. The government plays a critical role. It publishes its laws and very often issues guidance.¹⁸ Large companies will have the in-house legal resource to study these guidelines and comply with them in detail. Smaller companies will be advised by external advisers such as their accountant. A government's website, publications, seminars throughout the country, can be extensive. The UK Government's public information about the law, guidance and expert advice for business is a good example.¹⁹ To facilitate the compliance of thousands of small companies, the governments in such countries try to provide the legislation in clear, unambiguous language, making it easily available through different media (on-line, publications, training) and above all enforce it.
40. **Professional service providers:** In most countries, the legal and accountancy professions spend a large amount of energy and money in encouraging companies to upgrade their management systems to better comply with new regulations. The large number of seminars, trainings and brochures, as well as sponsorship of major business conferences and symposia, is also the way for the professional services companies to introduce their services to companies. The training provision, linked as it is to marketing of services, is often offered free-of-charge.
41. **Business associations and professional bodies:** Business associations and professional bodies play an important role. These are usually corporate membership organizations and one of the conditions of membership is to abide by the rules of the organization - including ethical rules. Companies which do not respect the rules, could, at least in theory, see their membership suspended or even cancelled. Since the reasons for joining a business association in the first place include to be seen amongst peers or perceived as a player in a particular profession or sector, exclusion of this nature could be highly damaging to the company's reputation. Business organizations and professional bodies often provide their members with a large amount of practical guidance and training²⁰. A good example of guidance is that produced by the French business association MEDEF in relation to the recent introduction of the Spain II anti-corruption legislation. Training topics include everything from basic management skills to advanced business systems such as Internal Control, internal audit and risk management. Anti-corruption or ethical business training are often on the agenda. Training materials are also provided on the business association's website.

¹⁸. Examples include the anti-corruption legislation of the FCPA in the United States and the Bribery Act in the UK.

¹⁹. Examples of British Government support: Department of International Trade website (<https://www.great.gov.uk/advice/manage-legal-and-ethical-compliance/helping-companies-do-business-with-integrity/>), Business Anti-Corruption (<https://www.business-anti-corruption.com/>), Business Integrity Initiatives (<https://www.great.gov.uk/advice/manage-legal-and-ethical-compliance/understand-business-risk-in-overseas-markets/>)

²⁰. For example, the leading French business association, MEDEF, published a practical guide to the new anti-corruption legislation "Sapin II". Guide pratique : dispositif anticorruption de la Loi Sapin II. <https://www.medef.com/fr/content/guide-pratique-dispositif-anticorruption-de-la-loi-sapin-ii>

42. **International organizations:** International governmental organizations with a vested interest in issues related to IC such as corporate governance, transparency, anti-corruption, health and safety, labor standards, are active in promoting the issues to the global business communities both through their member states' governments and directly. They organize a myriad of conferences, seminars, workshops, studies and publications which are widely distributed, sometimes just in English, sometimes in other languages. Examples of organizations that produce such materials include UNODC, UNDP, UNGC, OECD, World Bank, the G20 and others.
43. **International NGOs:** There are international private organizations or non-governmental organizations (NGOs) which exist to promote responsible business practices to companies around the world. They provide advice online and through meetings both to their corporate membership and to a wider audience beyond. For example, COSO is an example of services in IC. In the case of anti-corruption, the following organizations provide valuable advice to business: Partnering Against Corruption Initiative (PACI), World Business Council for Sustainable Development (WBCSD), Transparency International (TI), IBLF Global, Business for Social Responsibility (BSR), International Chamber of Commerce (ICC).
44. **Advanced adherence to standards:** Many companies want to demonstrate a higher level of commitment to the best international management standards in IC and can do so by voluntarily subscribing to an international standard. There are several institutions that issue such standards such as ISO, AA, BSI. For example, ISO 31000 standard deals with risk management, ISO 37001 with AC. This is a considerable investment by the company, requiring a wholesale review of internal processes, and many hours of consultancy and training.
45. **Media:** Finally, we should mention that educational and training establishments and the media play a critical role in encouraging adoption of the advanced management techniques including IC. Influential in spreading the word about the benefits of IC are business schools, business journals and periodicals, and commercial conferences. These all provide platforms for the sharing of expertise and knowledge in this area.

3. Findings from Field Research

3.1 Sample characteristics

46. The companies in this sample, on average, have been in operation for 13.4 years and have more than 730 employees. Most of the surveyed companies (62%) are domestic private companies, working in trading and service industries (50%), and have revenues below VND100bn. Table 2 presents the profile of the sample, in comparison to the General Statistics Office of Vietnam (GSO) enterprise survey sample (2016). In most criteria, our sample coincides with the GSO sample, indicating a good level of representativeness.

Table 2: Sample profile

	Number of responses	% of the whole sample (N= 239)	GSO enterprise survey 2015 (454,368 companies)
Ownership			
1. State owned enterprise (no foreign capital)	47	19.7	0.31
2. Fully local private enterprise	142	59.4	97.08
3. Multinational company (foreign capital)	43	18.0	2.62
4. No answer	7	2.9	
Type			
1. Private enterprise	2	.8	10.05
2. Limited liability enterprise	83	34.7	63.63
3. One-member limited liability enterprise	38	15.9	2.52
4. Joint stock enterprise	105	43.9	20.40
5. Partnership enterprise	2	.8	0.13
6. No answer	9	3.8	
Key sector			
1. Manufacture	38	15.9	16.42
2. Commerce and Service	116	48.5	50.85
3. Construction, real estate	30	12.6	30.36
4. Others	48	20.1	2.37
5. No answer	7	2.9	
Revenue 2017			
1. Under VND3bn	40	16.7	
2. From VND 3bn to under VND50bn	82	34.3	
3. From VND50bn to under VND100bn	20	8.4	
4. From VND100bn to under VND200bn	18	7.5	
5. From VND200bn to under VND300bn	9	3.8	
6. Above VND300bn	58	24.3	
7. No answer	12	5	

47. One note about how to read the graphs in the analysis below: when answering specific questions, some respondents did not know the answers and chose not to respond. In such cases, we calculated the percentages based on both the whole sample (239 companies) and on the responded sample (the actual number of companies which responded to the question). The solid bars present percentages on the whole sample, while the patterned bars present percentages on responded sample.

3.2 Awareness and Use of IC and CoC

Awareness of IC and CoC

48. Most of the surveyed companies had heard of, or discussed, issues related to IC (70% of the whole sample). However, many companies did not have an adequate understanding of IC. Only 60% of the companies selected the most accepted definitions of the terms (option 3) (see Figure 4). About 11.3% of respondents believed it was the work of internal auditors/internal control committees, and another 8% believed it was about the reliability of financial statement only (Figure 4).

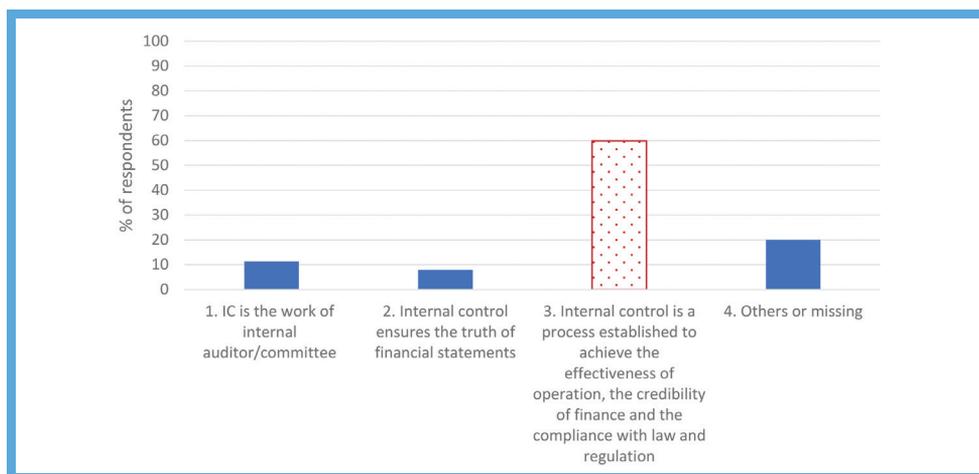


Figure 4: Companies' understanding of IC (% of whole sample)

49. Similarly, 62% of the surveyed companies had heard of, or discussed, issues relating to CoCs, and close to 67% of the companies believed that CoCs are necessary for their companies. However, only 50% of companies selected the most accepted definition of the term (option 2) (Figure 5). Many companies (14%) believed CoC is a summary of rules that are most used by companies/organizations or did not select or offer any definition (31%). These data suggest there is a big need to help companies improve their knowledge of IC and CoCs.

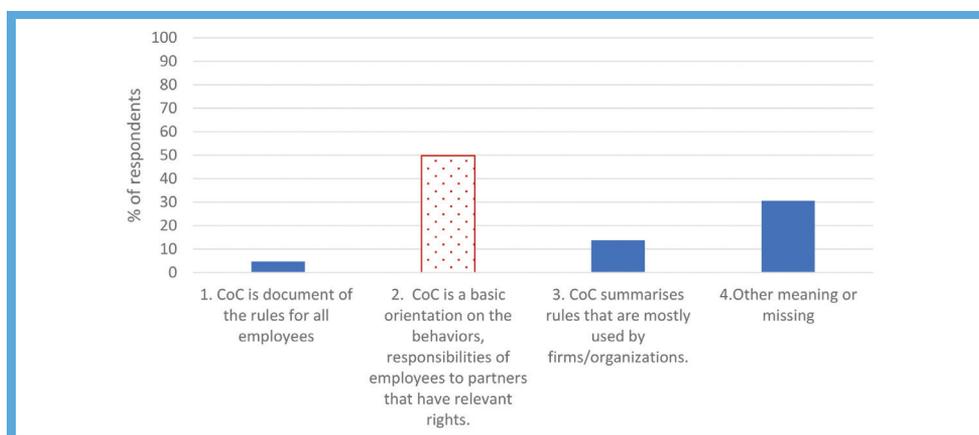
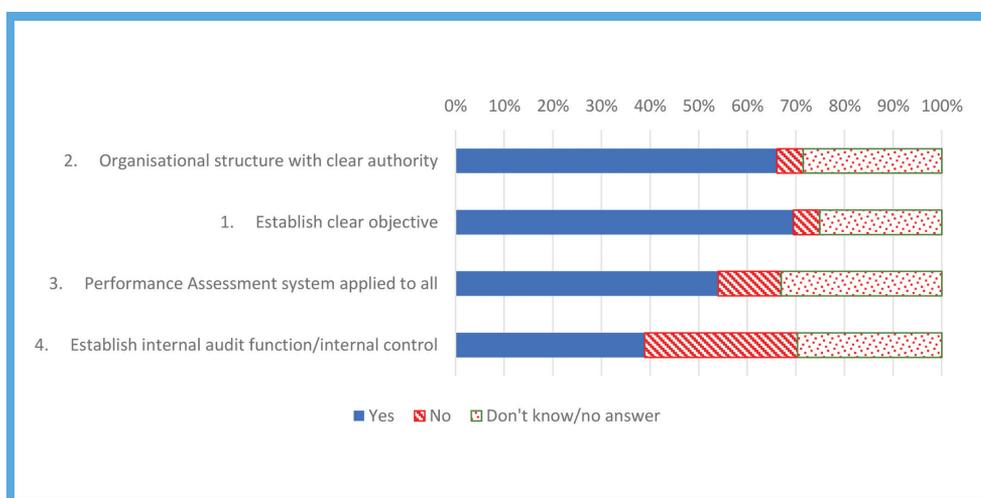


Figure 5: Companies' awareness of CoC (% of whole sample)

IC in Practice

50. **Control Environment:** Companies were asked to report whether they used common criteria to create a robust control environment (Figure 6). As shown in Figure 6, around 66–70% of the companies reported that they had clear objectives as well as organizational and management structures. However, only 54% of the companies had a performance assessment system that applied to every position. This is a notable weakness since it is potentially connected to the high proportion of companies that have irregularities in human resource management practices. The existence of internal audit or IC departments may be relevant only to big companies, and indeed only 39% of the surveyed companies had such departments. The fact that 25–33% of the respondents who answered either “No” or “Don’t know” to the first three criteria (i.e., clear objectives, clear structure and authority, and performance assessment system) suggests significant room for improvement in the control environment of the companies.



*Figure 6: Application of measures in Control Environment
(% of companies in the whole sample)*

51. Respondents were also asked to give their subjective assessment of the control environment on various criteria (Figure 7). 30–32% of respondents chose not to answer the questions for various reasons. About 55% of the whole sample believed that their staff understood their tasks and responsibilities and that the governing body genuinely called management decisions into question. More alarmingly, only 49% of the whole sample believed the staff demonstrated commitment to honesty and ethical values and only 31% of the whole sample believed the managers “have not been overworked”. About 36% of the whole sample reported a great deal of variation in control and management of tasks. In short, companies in Vietnam have weaknesses in establishing clear objectives and management structures, and, more alarmingly, in nurturing values of honesty and balancing their employees’ workload.

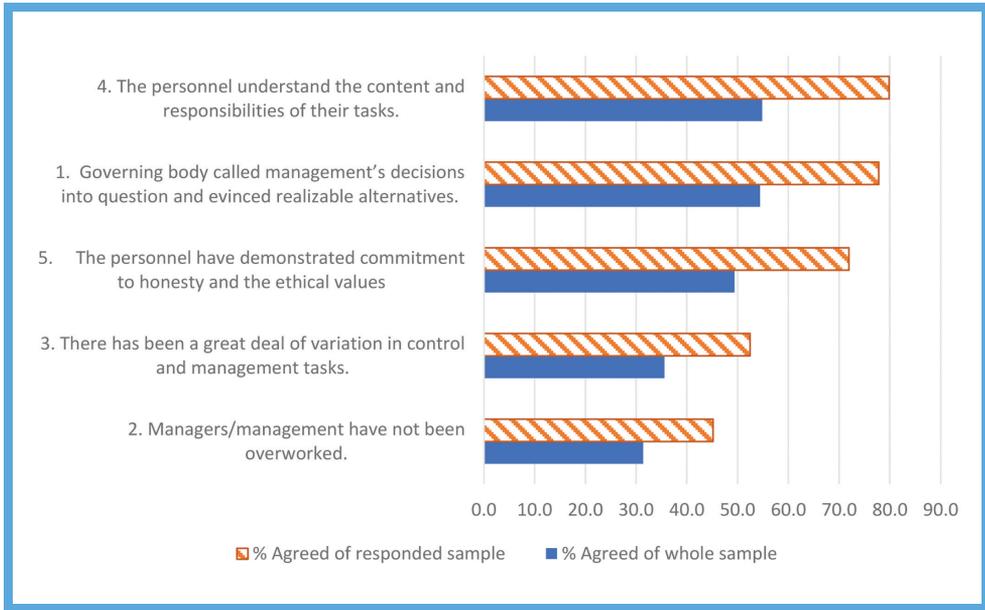


Figure 7: Companies' evaluation of their control environment (% agreed in the whole sample and in responded sample)

"Leaders need to be committed to internal control. Sometimes leaders did not follow policy, especially in dealing with public officials. For example, leaders agreed for us to pay petty bribes to get things done. That undermined everything they said about policy compliance" (Focus Group participant – private company middle manager)

52. **Risk assessment:** When asked about common risk assessment measures, fewer than 50% of the companies in the whole sample believed that their companies maintained a risk awareness mechanism and just over 57% reported that their companies had safeguards against risks (Figure 8). This is clearly an area that needs to be improved among companies in Vietnam.

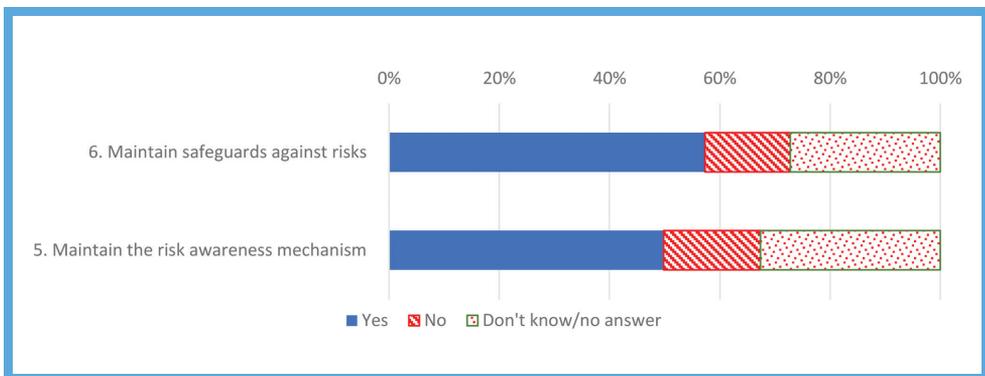


Figure 8: Application of measures in risk assessment (% of companies in the whole sample)

53. Respondents' subjective evaluations further confirmed that risk assessment is a significant weakness of companies in Vietnam. For each question, around 30% of companies chose not to answer. As presented in Figure 9, close to 56% of surveyed companies believed their companies' risk analysis and management could have been more efficient. Only just over half of all companies (52%) believed that their companies' goals have credible measures and that managers were aware of the risks and risk management methods. More concerning, only 47% of the whole sample believed their management actively evaluated risks, and only 43% of the companies carried out risk analysis in the previous year. Together, these results suggest that risk management is a critical weakness that companies in Vietnam need to address should they want to prosper in the long run.

"Just as most Vietnamese companies, we focus on controlling the results, rather than the process. Our risk management is quite limited." (Focus Group participant – private company manager)

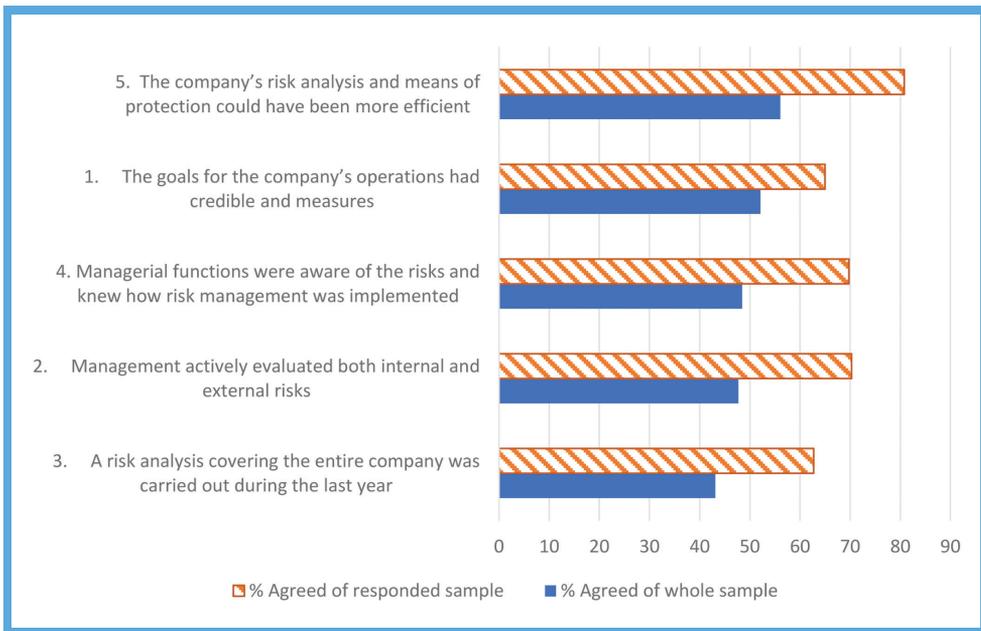


Figure 9: Companies' evaluation of their risk assessment (% agreed in the whole sample in in responeded sample)

Box 1: Risks and risk management in forestry product processing companies in the North of Vietnam

Dr. Dinh Thi Kim Xuyen and colleagues (2018) conducted a study of risk management of forestry product processing companies in the North of Vietnam. The authors combined a case study and a survey where 175 forestry product processing companies were interviewed²¹.

A major risk facing these companies, according to the study, was the legality of the original source of their timber materials. The companies' export markets were the US, European countries, and Australia. These countries have strict regulations on timber cutting and logging. Many of the studied companies violated these requirements. Although the Vietnamese Government had banned "temporary import to re-export" forestry products, statistics showed that some Vietnamese companies continued to export timber products that had originally been imported. In 2015, these companies exported 1800 m³ *Xyliaxylcarpa* wood with a value of 1.2 M USD. These exports violated the Vietnamese law.

Another risk facing Vietnamese forestry product processing companies was that their timber materials may have come from protected forests. While the authors could not trace the violation, an evaluation of final products suggested that many timber materials came from illegal timber cutting.

Another violation was the use of unclear origin of timber. In 2015, about 3000 m³ of timber products were exported to the US, but their origin may come from Laos and Cambodia. This violated the regulation on the transparent origin of the timber. These companies could not present evidence to show the origin of the timber when they were inspected.

This case study suggests that companies with a short-term orientation, an opportunistic approach, and disrespect for regulations are facing tremendous legal and reputational risks of non-compliance. To manage these risks, fundamental changes in management philosophy and companies' strategies are needed. The companies need to have a long-term view, take social and legal responsibility for their behavior, and design an IC system to ensure better compliance and risk management.

²¹. Dinh Thi Kim Xuyen et al. 2018. *Research and recommendations on risk management of forest product processing companies in Northern of Vietnam. Ministerial Level Research Project. Ministry of Industry and Trade, Hanoi, Vietnam.*

54. **Controlling activities:** Respondents were asked to report whether their companies applied common measures of controlling activities (Figure 10). The two most frequently applied measures were “encourage employees to identify problems and propose solutions” (64%) and “establish and perform CoC” (63%). These two measures are ‘soft’ in that they are more people- and value-oriented and do not require significant technical knowledge. Two very important measures, including “establishment of examination mechanisms” and “present financial statements in details to management”, were used by only 53% and 50% of the companies, respectively. These measures were more technical which required a good understanding of the concepts and processes. The use of hotlines or independent auditors depended on many factors, such as company size. These measures were applied by only 35% and 39% of the companies respectively (see Figure 10).

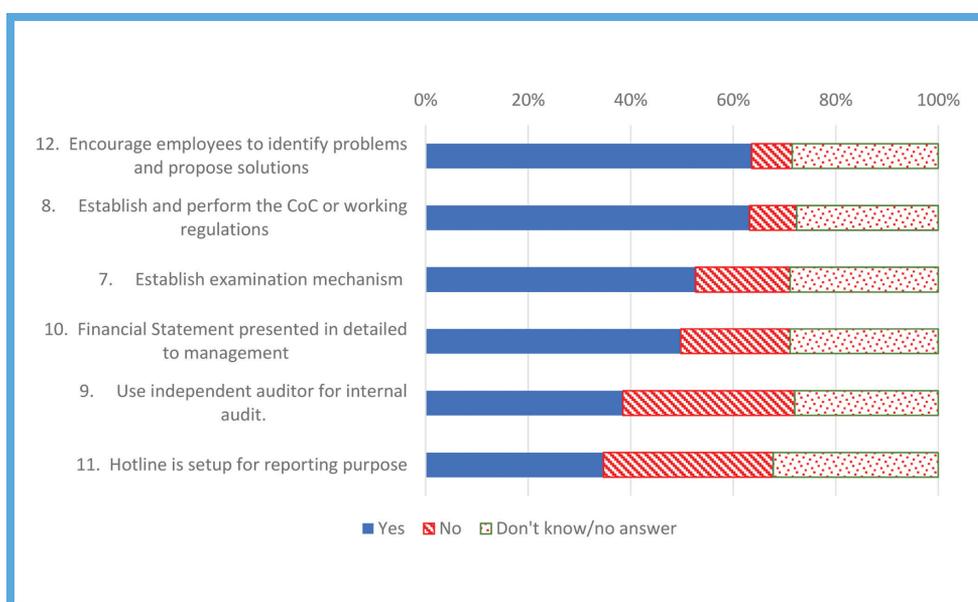


Figure 10: Application of controlling activities (% of companies in the whole sample)

55. When they were asked to evaluate the controlling activities of their companies, 50-57% of all respondents reported the use of four measures in their companies. Less than half of respondents (49.5%) believed their companies had updated job descriptions for all staff, while 57% thought that special attention had been paid to special demands in defining the tasks. Job design and description remained a weakness among companies. Similarly, detecting and dealing with exceptional and undesirable issues in a timely manner were not well addressed. Thus, more than half of all respondents believed their companies' IC could have been improved. Again, there is a big need for capacity building on IC. It is worth noting that for each question, around 30% of respondents did not answer. Therefore, the percentage of companies answering 'Yes' (around 70-80%) in the responded sample was higher than in the total sample (Figure 11).

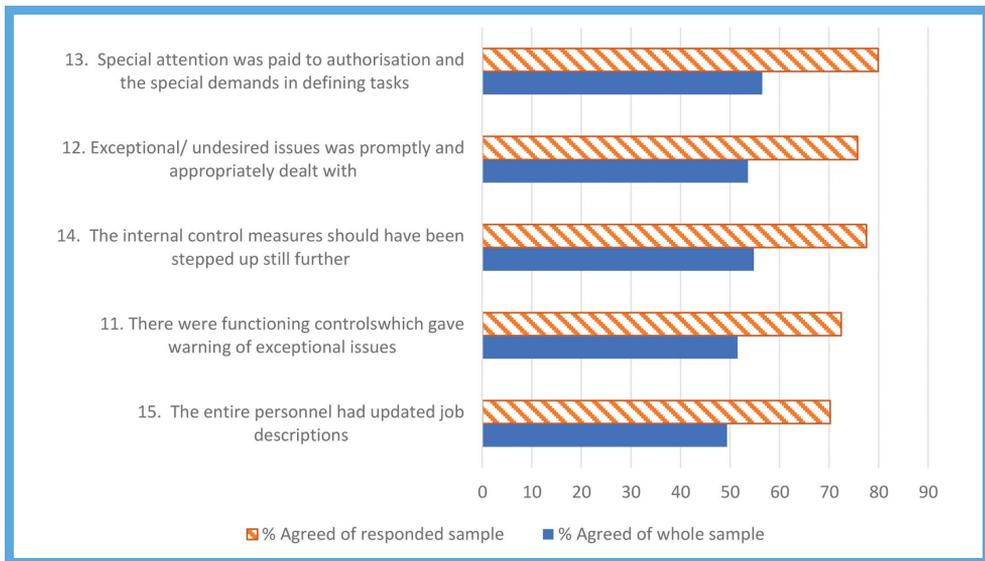


Figure 11: Companies' evaluations of their controlling activities (% agreed in the whole sample in responded sample)

"We are a medium-sized private company with more than 200 employees and about VND500bn revenue per year. Several years ago, we established a centralized internal control department, but failed. The unit could not get cooperation from other departments. Everyone thought IC would monitor their jobs, and thus they tried to block information and/or avoid working with the IC department. We have now dissolved the department and require each department to do their own IC." (Focus Group participant – Manager private company)

56. **Information and communication:** Information and communication appear to be one of weakest areas in companies' internal control systems. While 59% of all respondents reported that their companies had policies and implementation procedures for business operations, only half of respondents believed their employees were trained or informed about the policies. Worst, only 43% of all respondents said their companies had measures to strengthen employees' awareness of the internal controls. Without strong information and communication, even good policies and systems will not be followed.

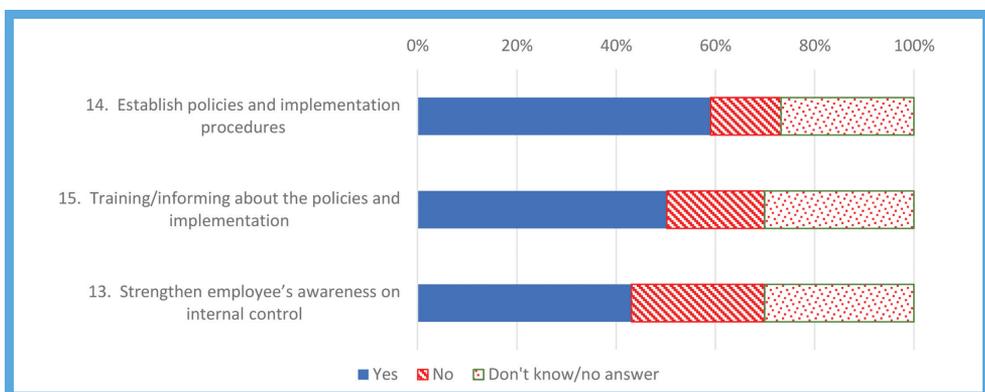


Figure 12: Application of information system (% of companies in the whole sample)

57. The respondents' subjective evaluation further confirms the weakness in information and communication. Only about half of all respondents believed that information flowed well to support operation (51%) and that there was sufficient coordination between functions (50%). Less than half of the whole sample reported that managers (47%) and employees (41%) could access necessary information pertaining to their tasks. About 30% of respondents skipped the questions.

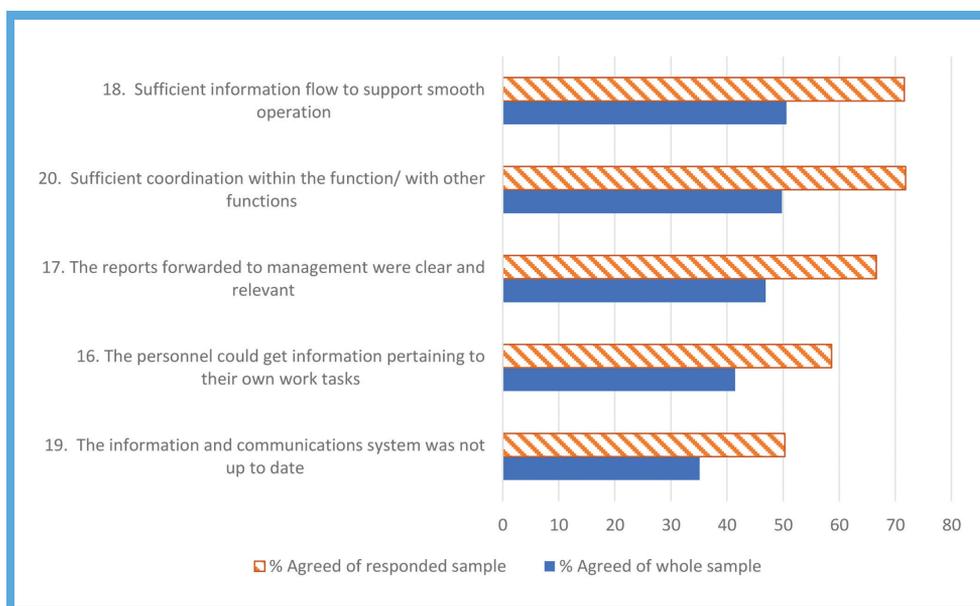


Figure 13: Companies' evaluation of their information system
(% agreed in the whole sample in in responded sample)

"Our employees have 'casual' habits [tuy tien]. They want to follow their habits and experiences and are very reluctant to follow procedures." (Focus Group participant – private company manager)

"Our employees sometimes feel insulted or hurt when they got monitored or inspected. They need to understand that these are routine control procedures, but it takes some time for them to cooperate." (Focus Group participant – private company manager)

"We lack technical infrastructure to store and keep track of our operations. Our transactions and operations are stored in paper form, which cannot be retrieved easily for inspection or analysis." (Focus Group participant – private company manager)

58. **Monitoring and control:** Three common measures in monitoring and control were used by less than half of the surveyed companies (Figure 14). Only 43% of the total sample acknowledged that they had a monitoring plan, while the number for supervisors' suitable competence and authorization was 47%. This suggests that monitoring competencies, including planning, are in need of development among companies in Vietnam.

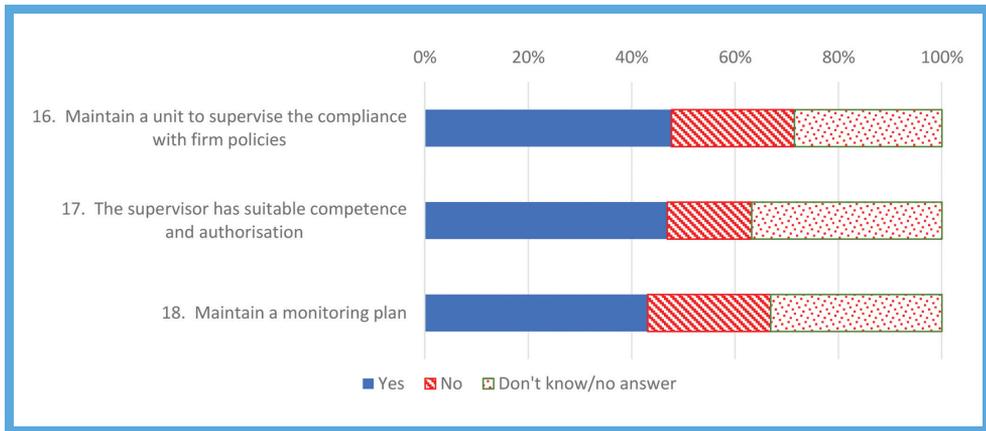


Figure 14: Application of information system (% of companies in the whole sample)

59. Respondents' assessments of monitoring and control also indicated weaknesses (Figure 15). Less than half of the total sample acknowledged the use of the first four common measures. About 29% believed that their managers did not request accounts of the accomplishment of control measures in previous year.

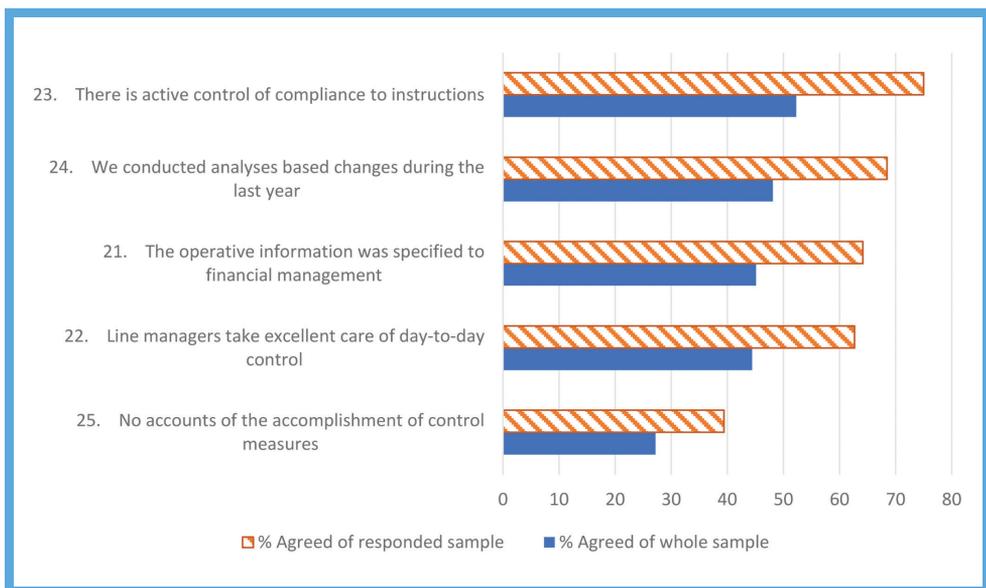


Figure 15: Companies' evaluations of their monitoring and control (% agreed in the whole sample in in responded sample)

60. In summary, the study reveals weaknesses in almost all aspects of IC among companies in Vietnam. Notably, companies are quite weak in risk assessment, information and communication, and monitoring. Technical skills in IC, such as financial management and internal inspection, were also weak. These results point to a great need for IC capacity building and training for companies in Vietnam.

CoC in Practice

61. Respondents were asked whether their companies had mission statements and core values. 52 and 56% of the total sample answered “Yes”, and 17% and 14% of the total sample said “No” to mission statements and core values, respectively. About 30% of the companies did not respond to the questions.
62. Those who believed their companies had mission statements and core values went on to indicate how these statements were presented. Figure 16 shows the most common methods to present missions, statements and core values. For mission statements, the most frequently used methods were publishing in reports/website (56%) and presenting during training (52%). For core values, 50-52% of companies used the first three methods (reports/websites, meetings, and training). There were still about 16% of the companies which believed such issues should be implicit and that people should draw their own conclusions about their meanings for themselves.

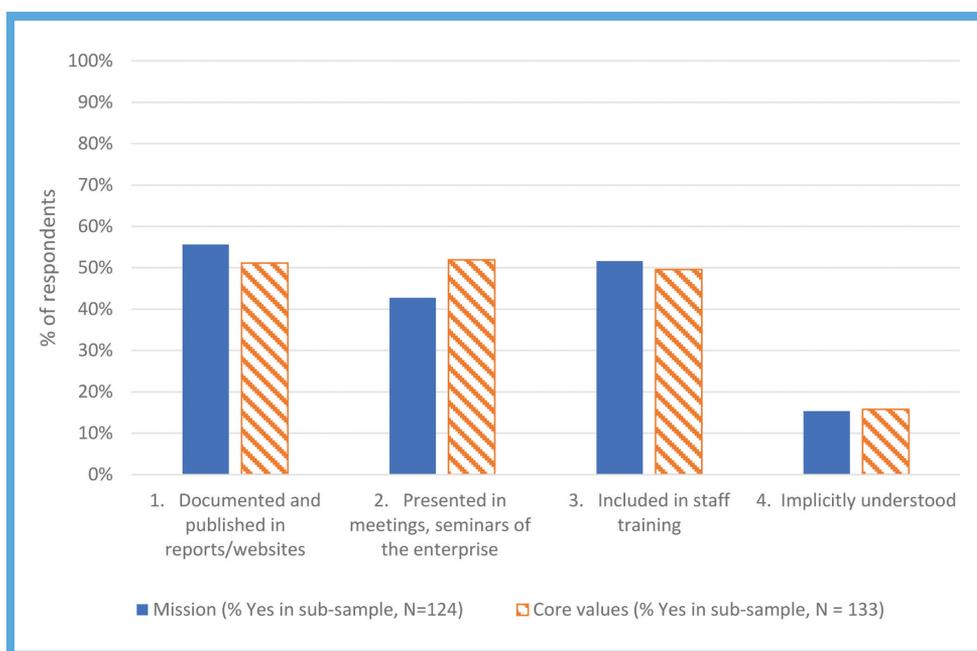


Figure 16: Presentations of company missions and core values

63. With the current methods of presentation, only one-fifth of the companies in the sample believed that more than 80% of their employees could correctly reiterate the missions and core values. About half of the companies believed that more than 60% of their employees could repeat the missions and/or core values (Figure 17).

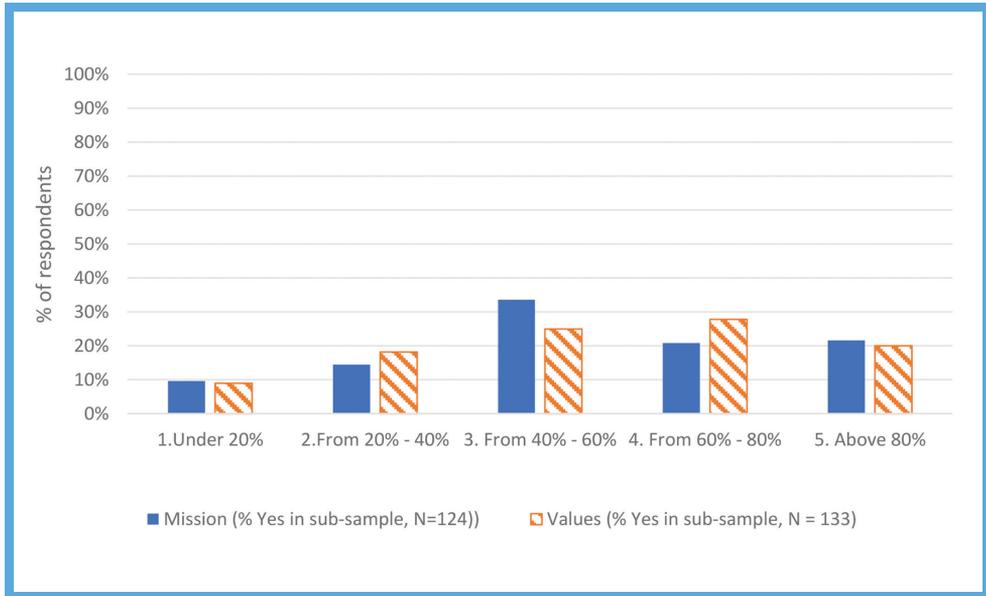


Figure 17: Understanding of company missions and core values

64. Respondents were asked if their companies have the CoC as guidance to cover behavior in different sets of interactions. 77-80% of the companies believed they had guidance for behavior internally, interaction with external business partners and customers. Only 59% believed they had guidance for interaction with the public sector (See Table 3). Only around half of companies believed they had guidance for the most important issues, including encouraged/discouraged behavior, conflicts of interests and violations, and/or procedures/persons to report to when dealing with high risk situations (See Table 4).

Table 3: Does your company have a Code of Conduct (or working regulations) for the following cases?

Interactions	% Yes
Behavior internally	80%
Behavior with partners in the public sector	56%
Behavior with business partners	77%
Behavior with customers and others	77%

Table 4: Does your company have guidance on Code of Conduct which includes the following issues?

Issues	Mean
Acceptable/encouraged behaviors	52%
Unacceptable/discouraged behaviors	53%
Conflicts of interest, violations	51%
Prevention, detection and handling of conflicts of interest, violations.	50%
Procedures/compliance and compliance control unit	55%

65. The respondents were asked if there was guidance to cover at least one issue in Table 4, and what percentage of employees comply with it. Five options were provided, ranging from under 20% to above 80%. From 15% to 25% of the companies selected each option (Figure 18). It can be calculated from the data that on average only 45% of the companies believed that more than 60% of their employees comply with the guidelines.

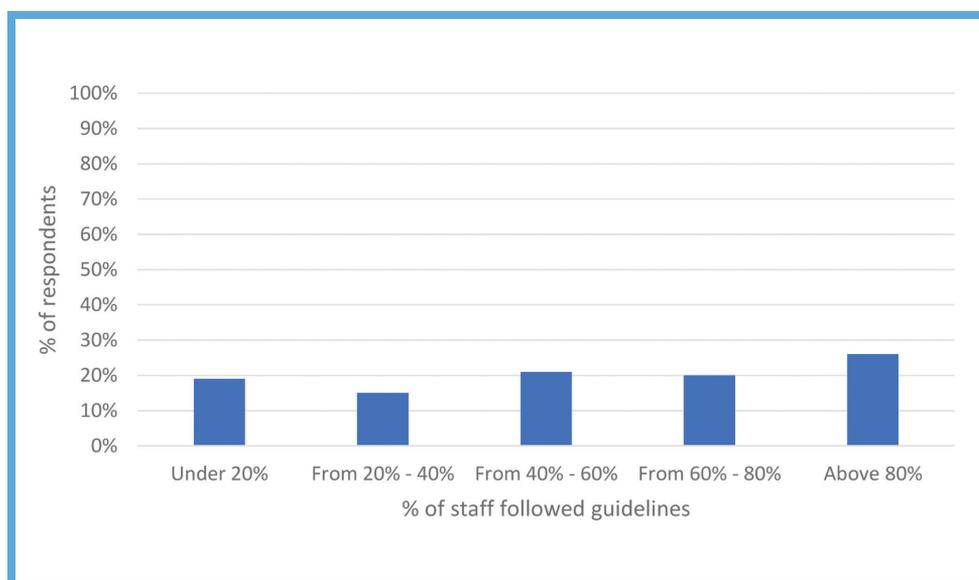
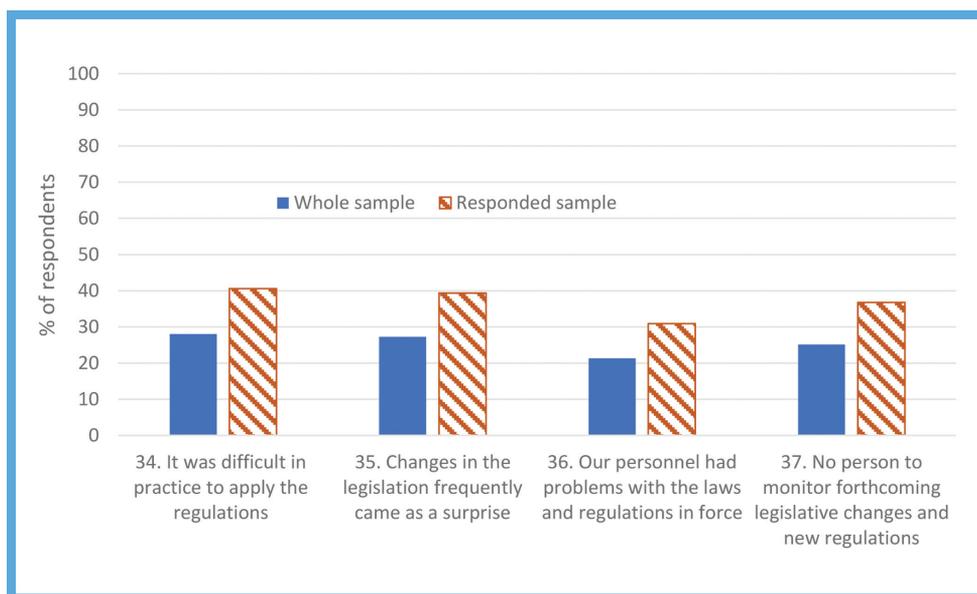


Figure 18: If there is a guidance for at least one of the above issues, what is the percentage of employees who comply with this?

3.3 Compliance issues

Interaction with state agencies

66. The companies were asked about their perspectives on challenges in following the legislation. From 21-28% of the whole sample acknowledged challenges in dealing with legislation (Figure 19). About 27% of companies believed that some laws are hard to apply and/or they change in a surprising manner. About one-fifth of the total surveyed companies acknowledged that their staff had problems with the legislation. 30% of the companies did not respond to the questions.



*Figure 19: Challenges in compliance with legislation
(% agreed in whole and responded samples)*

67. The survey revealed that more than one-third of the companies (34%) committed some violation of regulations during 2017 – 2018. The violations could be late tax payment or collection, administrative, civil or criminal violations, among others. This high proportion of violations indicates a serious issue in legal compliance by companies in Vietnam. From companies' perspective, one important reason for non-compliance is the poor level of development of the legal system in Vietnam. Figure 20 shows that a very low percentage of surveyed companies believed that the regulations were clear and accessible (39%), were implemented in a consistent and transparent manner (44%), and that administrative procedures were straightforward and transparent (29%).

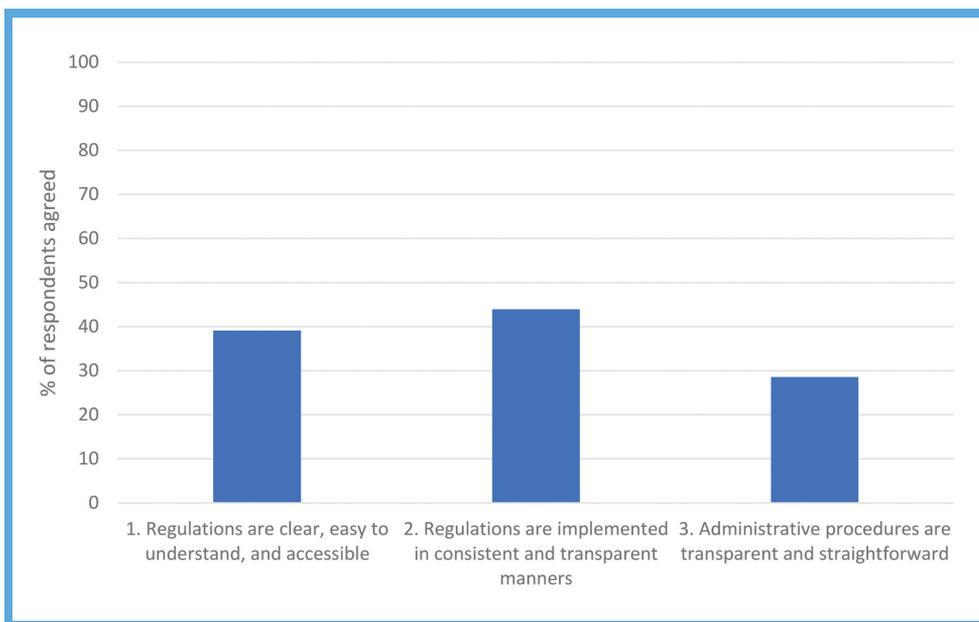


Figure 20: Companies' perspectives on regulations (% of companies agreed)

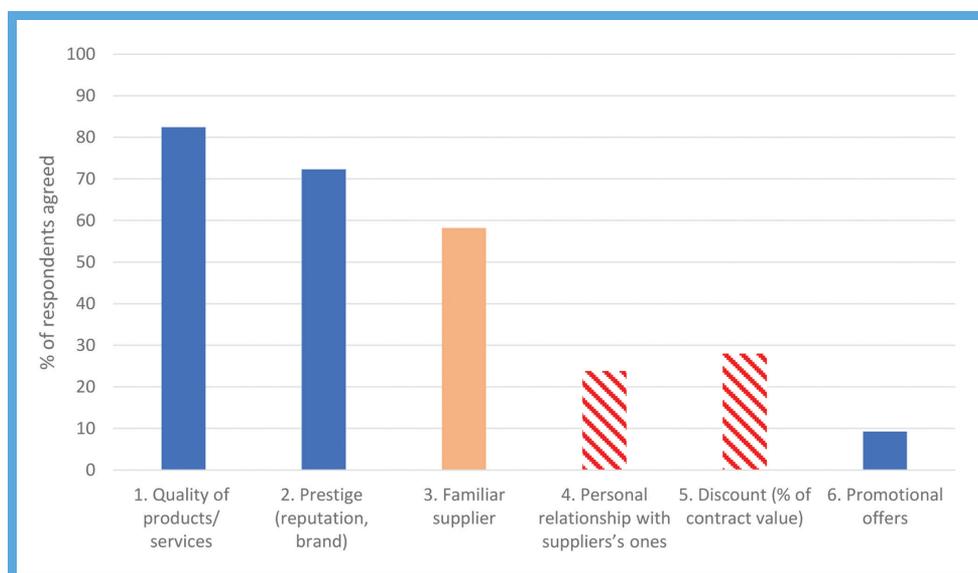
"Periodically we got inspected by government officials. We feel that there is almost no difference for companies that follow the regulations and those that do not. We followed the regulations well, but we were still fined. I felt they had to fulfil their "penalty-collection" target." (Focus Group participant – senior manager, private company)

68. Making informal payments to state officials appeared to be a normal practice among companies in Vietnam. The following survey results support this point:
- 63% of companies who had some legal violations during 2017-2018 made informal payments to solve the problems. This accounted for about 22% of the whole sample.
 - 74% of the whole sample believed companies in the same industry made some informal payments during 2017 – 2018. This percentage is higher than the 65% in the PCI survey. However, like the PCI, about 10% of the companies believed companies in the same industry made informal payments of more than 10% of revenue.
 - Close to 57% of the surveyed companies agreed that making informal payments brought better results to working with public officials, while only 11% disagreed. The remaining 32% did not express any opinion.

B2B interaction

69. Personal relationships play an important role in B2B interaction. While product quality and suppliers' reputations were recognized as the most important criteria for partner selection, familiar partners and strong personal relationships remain significant (Figure 21).

70. Discounts and informal commissions are popular criteria in partner selection. However, these criteria contain a high risk of integrity violation. 28% of companies believed discounts are important or very important and the same percentage of companies reported that companies in the same industries offer informal commissions at various levels.



*Figure 21: Importance of partner selection criteria
(% of companies believed criterion is important and very important)*

71. Informal payments, disguised in various forms, were used by around 25-30% of the companies in dealing with their business partners. When asked about how frequently the company offers special incentives to customers' contact persons or managers/contract negotiators, 29 % of the sample believed they do it sometimes, while another 23% believed they do it frequently and very frequently. The most frequently used incentives include sending monetary and non-monetary gifts and inviting partners' contact persons to meals. Similarly, 25% of the whole sample (and 47% of responded companies) reported that they offered monetary or non-monetary gifts to bank officers when they made them a loan.

"We had a policy that if an architect links us to a construction project, he/she could get 5% commission. We then discovered that we had to pay commissions on all projects, while many projects did not need these incentive payments. Our employees invented them. We now control such incentive payments more closely." (Focus Group participant. Senior manager, private company)

72. Competitive tendering – a standard measure in partner selection worldwide – is not used frequently by a big proportion of Vietnamese companies. In the sample, one third (31%) of the companies reported that they have never used competitive tendering, while another 18% said they rarely used it. Only 20% of the companies reported that they always or

frequently used this measure. Focus group participants suggested several reasons for this, including small size of the contracts, unavailability of quality tenders, and unreliable tenders' capacity, among others.

"Competitive tendering is not always the best method in Vietnam. Sometimes we do not have enough qualified bidders to do it. Besides, the tender procedures can be tampered with, resulting in the less qualified bidder winning." (Focus Group participant, Senior Manager, SOE)

"Competitive tendering is nice in theory. But in practice, especially in public construction projects, there is only one bidder. I do not know why." (Focus Group participant, Senior Manager, SOE).

73. Respondents were asked whether they followed purchasing and sales practices, and if yes, whether they "knew clearly" of incidents of irregularities in purchasing and sales. Only one-third of respondents followed purchasing practices in the industry, and about half of the companies followed sales practices (responded sample in Figures 22 and 23). Among those following these practices, significant numbers of respondents reported that they "knew clearly", i.e., were involved in, witnessed, or had specific information about, some irregular incidents. Specifically, 10-12% of the whole sample (equivalent to 33-37% of those who followed the practices) "knew clearly" of such incidents as "purchase order is not in keeping with requirements", "purchase order is poor quality", or "quotations were biased" (Figure 22). Similarly, 11-16% of the whole sample (equivalent to 24-34% of those who followed practices) "knew clearly" of such irregular incidents in sales as "incorrect sales invoice", "sales are not in accordance with company policy", or "goods delivered do not match contract" (Figure 23). This evidence suggests that irregularities in purchasing and sales happen, and that stronger IC is needed.



Figure 22: Irregularities in purchasing (% of companies knew the incidents clearly)

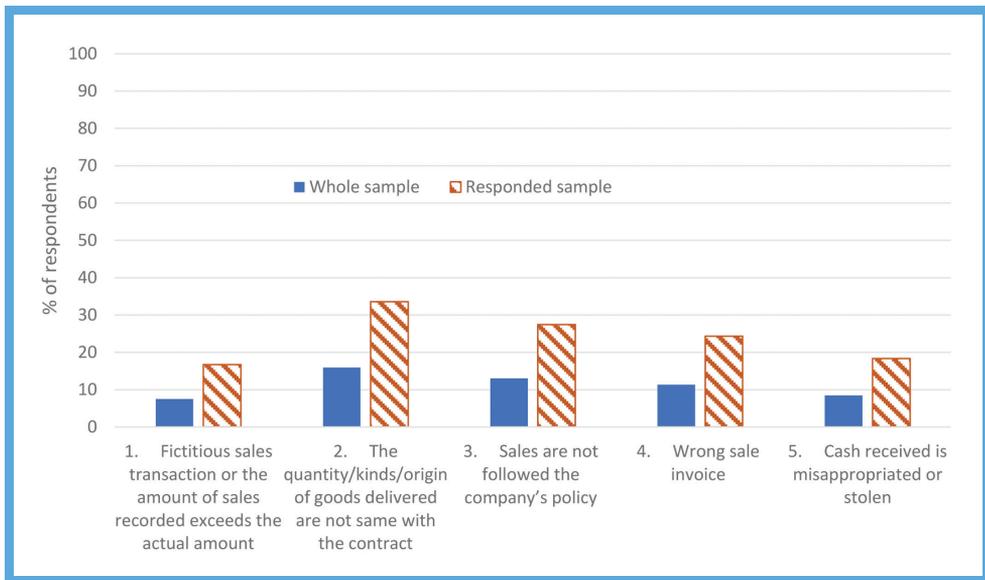


Figure 23: Irregularities in sales (% of companies knew the incidents clearly)

74. As in the case of purchasing and sales, respondents were asked about their knowledge of irregular incidents in human resource management. In contrast to purchasing and sales, about 80% of respondents followed human resource practices, and a much higher percentage of the companies reported irregular incidents. Specifically, around 27-38% of the whole sample (equivalent to 36-50% of those that followed the human resources practices) “knew clearly” of such incidents as “Does not follow regulations in payment to employees”, “Not in accordance with labor law in contract signing and implementation”, and “Employment based on relationship rather than competence”. (Figure 24).

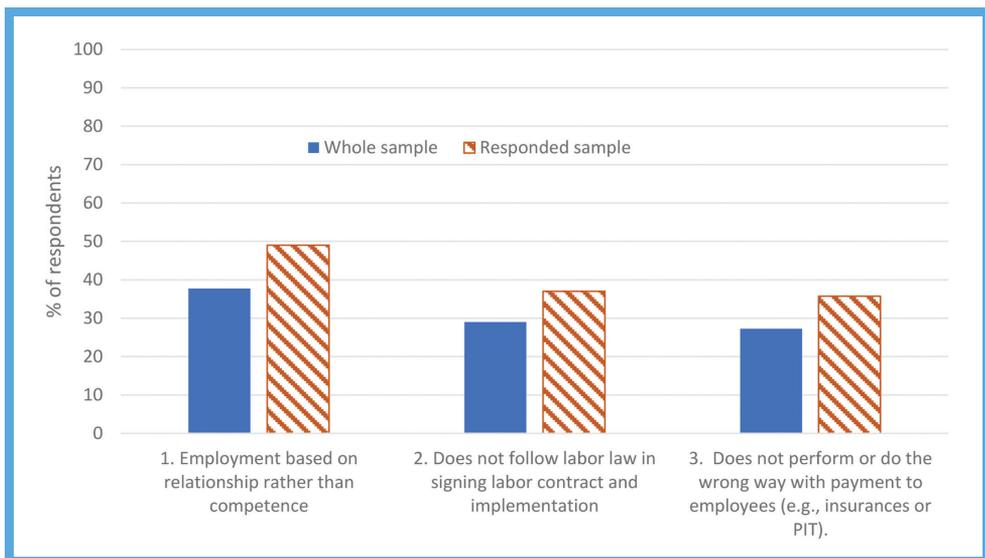


Figure 24: Irregularities in human resource management

75. In summary, the study reveals that companies in Vietnam are exposing themselves to a high risk of non-compliance to both regulations and company policies. Only one-fourth to less than a half of the surveyed companies showed confidence in the regulations' contents and implementation. Informal payments to public officials remain a popular means for companies to obtain public services and administrative decisions. The risks of non-compliance are also present in B2B interactions, notably in purchasing, sales, and bank financing. The most alarming area is in human resources where from 30% to 40% of the whole sample reported some irregularities. This high frequency of non-compliance suggest that companies in Vietnam are in serious need of developing and implementing effective IC systems.

3.4 Comparing companies with different ownership structures and sizes

76. To examine whether companies with different ownership structures differ in their application of internal control measures and in legal compliance, we calculated the average scores for five IC pillars and for compliance issues. We then compared these scores among state-owned enterprises (SOEs), domestic private companies (Private), and multinational companies (MNCs). Table 5 summarizes the results. In general, SOEs appear to be strongest and domestic private companies the weakest in the application of IC measures. However, the only two areas where the differences were significant ($p < .1$) were Risk Assessment and Control Activities. In these two areas, private companies were clearly weaker than the other two types of companies.

*Table 5: Comparing IC pillars by ownership
(scale from 1 -5, with 1 is the weakest and 5 is the strongest)*

	SOE	Private	MNC
Control Environment	3.58	3.39	3.51
Risk Assessment	3.49	3.27	3.44
Control Activities	3.56	3.37	3.57
Information and Communication	3.50	3.44	3.55
Monitoring	3.66	3.47	3.50

77. One notable difference among companies with different ownership was in their human resources management practices (Figure 25). According to the results, SOEs used relationship-based employment most frequently. Domestic private companies, on the other hand, were the most guilty of violation on contract signing and implementation as well as benefit payment to employees.

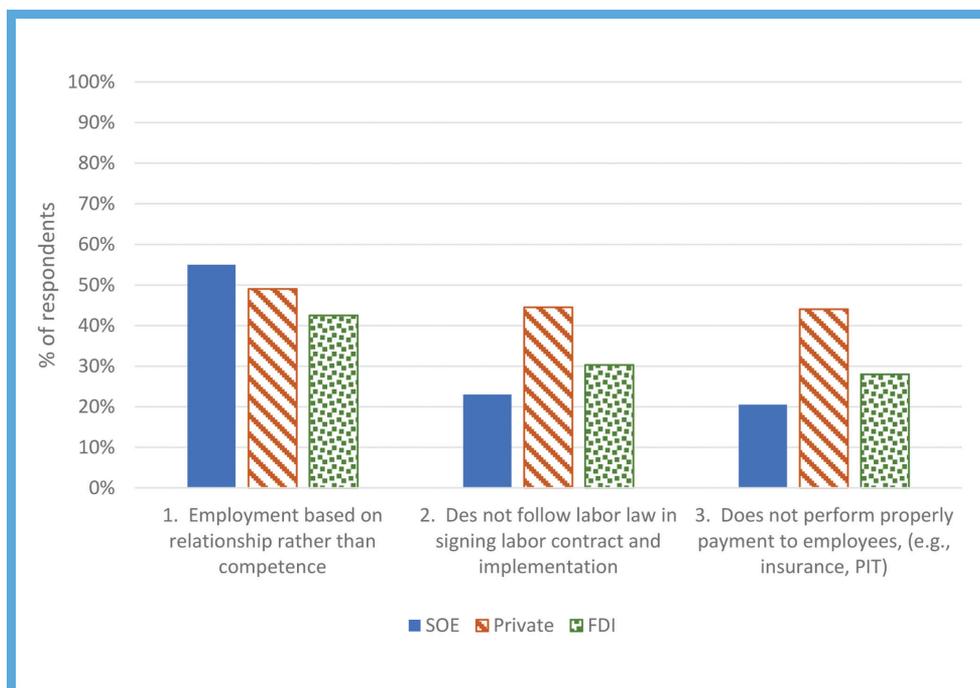


Figure 25: Comparing human resources practices by ownership
(% of companies knew clearly the practices)

78. Companies with different ownership were then compared according to their legal compliance based on three indicators (Table 6). The results show that MNCs are strongest in legal compliance since they had the lowest percentage of companies reporting violations (28% versus 34% for SOEs and 41% for private companies), lowest percentage of informal payments in revenue (1.7%) and highest score of legal compliance (3.22 of 5). By contrast, SOEs got lowest scores on legal compliance - a point which deserves more discussion.

Table 6: Comparing legal compliance by ownership

	SOE	Private	MNC
Probability of regulation violations during 2017 - 2018	34%	41%	28%
Informal payments in revenue during 2017 – 2018 (%)	1.8%	3.8%	1.7%
Legal compliance (on a scale from 1-5 with 5 as strongest compliance)	2.77	2.91	3.22

Some participants offer explanations for SOEs' low score on IC.

"If you look on the surface, SOEs have everything the textbooks say about IC. In reality, the use of IC measures is quite artificial. For example, the Internal Control committee members are assigned based on certain power structures. Some members are from head office or the holding company and do not know anything about our company's operations" (Focus Group participant – SOE manager)

"Inspections are mostly conducted after the facts. I felt that many times the inspections were compromised. Inspectors and the inspected negotiated and agreed on what to report. Consequently, the problems accumulated up to a point that the company could collapse as we saw in some big SOEs in the past years." (Focus Group participant – SOE manager)

79. Companies were then compared according to their IC practices based on size (small, medium, and big companies)²². One observation is that medium companies appeared to be strongest in their IC, although the difference was statistically insignificant. Table 7 shows that the IC scores were highest for medium companies in four of the five COSO pillars. Perhaps medium companies have more resources than small companies and fewer issues than big companies in managing their IC.

*Table 7: Comparing IC pillars by size
(scale from 1 -5, with 1 is the weakest and 5 is the strongest)*

	Small	Medium	Big
Control Environment	3.42	3.58	3.47
Risk Assessment	3.32	3.42	3.40
Control Activities	3.41	3.59	3.44
Information and Communication	3.49	3.44	3.46
Monitoring	3.47	3.63	3.51

80. A comparison on human resources practices revealed an interesting result. Medium companies used relationship-based employment least frequently (33%), while small and big companies used it quite frequently (51–52%). The other two practices - violation of contract signing implementation and failure to properly pay employee benefits – were used most frequently by small companies, followed by medium and big companies.

²². We categorized companies by size based on Decree 39/2018/NĐ-CP, dated 11 /3 /2018.

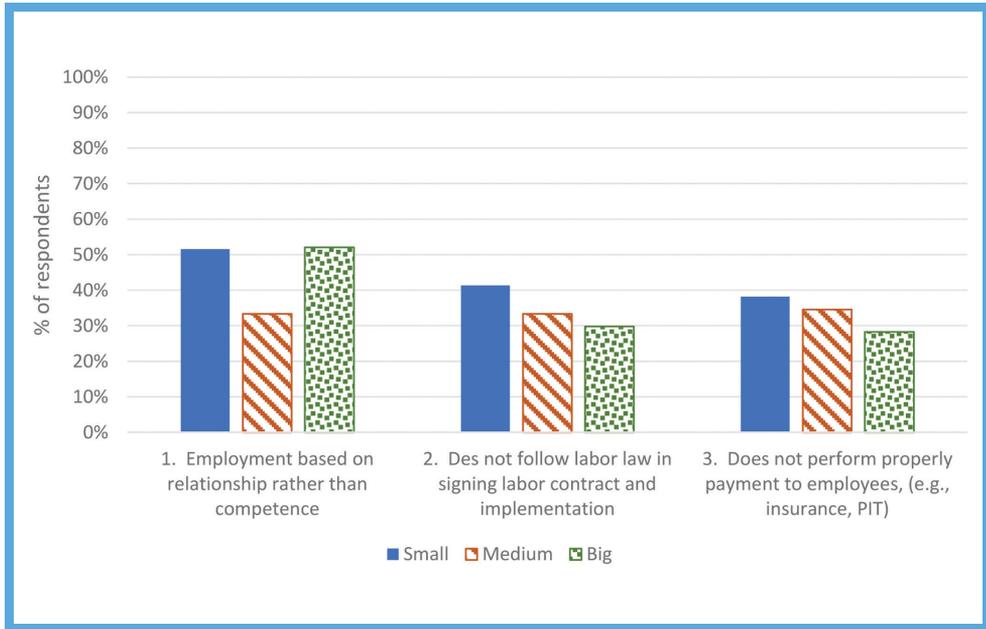


Figure 26: Comparing human resources practices by size
(% of companies knew clearly the practices)

81. The comparison of practices in legal compliance showed that big companies were least strong (Table 8). Respondents from big companies observed violations most frequently (39%) and got lowest scores on legal compliance. The low percentage of informal payments was understandable since their revenue was often quite big. However, the comparison between medium and small companies revealed that medium companies received fewer observed violations (25% versus 39%), a higher score on legal compliance (3.1 vs 2.8) and made a higher percentage of informal payments compared to revenue.

Table 8: Comparing legal compliance by size

	Small	Medium	Big
Probability of regulation violations during 2017 - 2018	39%	25%	39%
Informal payments in revenue during 2017 – 2018 (%)	3.5%	4.2%	1.5%
Legal compliance (on a scale from 1-5 with 5 is the strongest compliance)	2.8	3.1	3.1

82. In summary, small private companies tend to be weakest in all five pillars of IC and most prone to violations of the law. However, big SOEs appear to be frequent users of relationship-based employment which is likely to produce conflicts of interests and low competence.

3.5 Linking IC with Legal Compliance

83. The remaining question is whether companies with stronger IC are better in legal compliance. We first calculated the scores of the five IC pillars for each company based on their activities and legal violation (Yes/No). We then ran a logistic regression analysis that linked company characteristics and each of the IC pillars to violations of the law²³. The results show that Control Environment, Information & Communication, and Monitoring help reduce violations (Table 9 and Figure 27).

Table 9: Logistic regression models on company characteristics, IC pillars, and legal violations (Wald coefficient)

	Model 1	Model 2	Model 3	Model 4	Model 5
Years in operation	.34	.34	.14	.30	.19
Ownership (MNCs)	.02	.05	.05	.22	.08
Ownership (Private companies)	.19	.84	.16	.11	.22
Size (Medium)	1.27	1.52	1.16	.55	.66
Size (Big)	1.15	.86	1.02	1.16	1.46
Sector (Manufacturing)	.02	.05	.02	.01	.01
Sector (Service)	.02	.18	.22	.36	.17
Control Environment	-7.82**				
Risk Assessment		-.94			
Control Activities			-2.22		
Information & Communication				-10.12***	
Monitoring					-5.190*
Nagelkerke R2	.110	.061	.063	.129	.083

a) $p < .1$; *) $p < .05$; **) $p < .01$; ***) $p < .001$

²³. Since the sample size was small and five IC pillars were correlated to each other, we enter each pillar into the model separately.

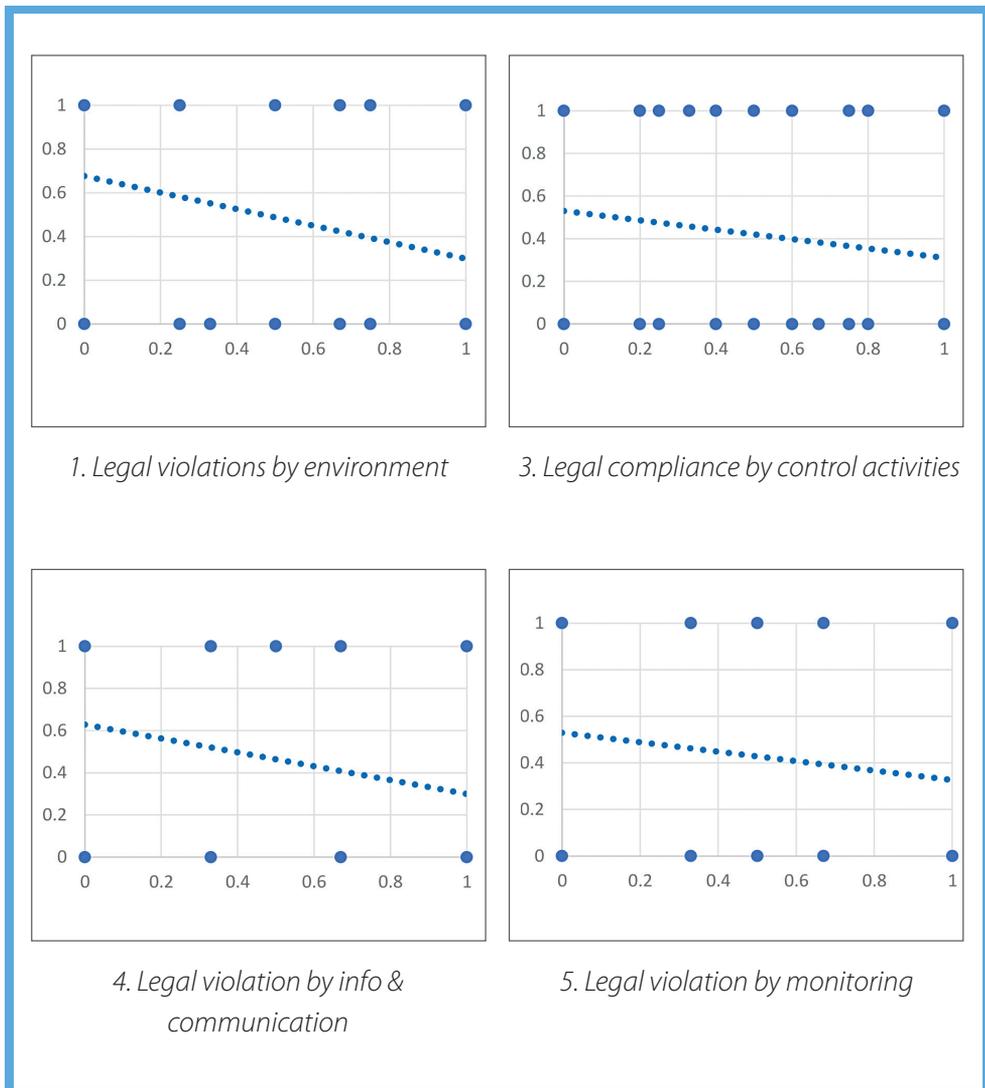


Figure 27: Scatter plots of IC pillars with legal violations

84. We also ran multiple regression linking these IC scores with legal compliance based on the company's own evaluation. The regression models consistently showed a higher score in legal compliance for MNCs and private companies than for SOEs. Company size and sector did not seem to have a significant correlation with a company's capacity to comply with the law. Two IC pillars, namely Control Environment and Monitoring had a positive and significant relationship with legal compliance.

Table 10: Multiple Regression models on company characteristics, IC pillars, and legal compliance

	Model 1	Model 2	Model 3	Model 4	Model 5
Years in operation	-.01	-.01	.01	.01	.01
Ownership (MNCs)	.27*	.23*	.26*	.27*	.28*
Ownership (Private companies)	.25*	.21	.26*	.26*	.27*
Size (Medium)	.12	.15	.15	.10	.10
Size (Big)	.12	.15	.15	.12	.10
Sector (Manufacturing)	.09	.08	.08	.09	.08
Sector (Service)	.13	.07	.10	.10	.11
Control Environment	.16a				
Risk Assessment		.02			
Control Activities			.15		
Information & Communication				.13	
Monitoring					.17a
Adjusted R2	.044	.017	.038	.038	.042
F Model	1.805a	1.294	1.705	1.703	1.736a

a) $p < .1$; * $p < .05$; ** $p < .01$; *** $p < .001$

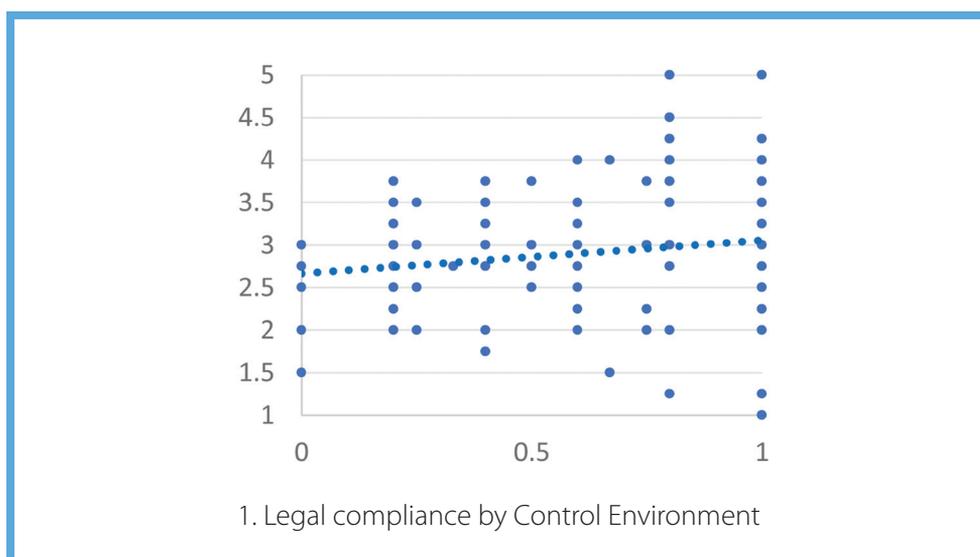


Figure 28: Scatter plots of IC pillars with legal compliance

85. In summary, the results confirm that companies with stronger IC have a lower tendency to violate the law. Of the five pillars, Information & Communication and Monitoring have the most impact in reducing violations. The survey data also suggests that SOEs are weaker in legal compliance than MNCs and private sector peers.

4. Recommendations and Conclusion

86. Recommendations to private companies:

- *Shift companies' business philosophy from "quick profit" to "longer-term sustainability".* This requires companies to develop long-term strategies that respect regulations, business standards, and ethical codes. It is critical for companies to recognize that short-term, opportunistic business practices may bring in "quick profits" in certain circumstances but they contain high risks of violations. Breaking the law can be very costly, either in terms of formal fines or informal payment. Ethical violations are also costly in term of reputational damage. These costs, in the long-term, may in practice outweigh any benefit of "quick profit".
- *Establish an appropriate IC system in each company.* Private companies should seriously consider establishing an appropriate IC system. It should be designed to fit with a company's needs and capacity. Most importantly, it requires strong commitment from the company's leaders and staff to following honest, ethical and transparent business practices.
- *Increase awareness and understanding among top management.* A significant proportion of companies in the survey were not aware of, or did not understand, IC and CoC concepts, processes, and impact. Many managers, especially from SMEs, believed a good IC system would require a large investment which may be beyond the company's means. We recommend companies to consider sending their top management on training courses to have a better understanding of the benefits which IC and CoC can bring to company operations, and of what is needed to develop a robust IC system. VCCI's forthcoming training courses on these topics should be a good option. While training courses are good for enhancing understandings, in some cases, more detailed coaching or consulting support may be necessary to help companies develop their own IC systems.
- *Spread the advice and information about the benefits of IC systems through the supply chain.* We encourage large and medium-sized companies that are already successfully implementing IC systems to provide advice and encouragement to their business partners and customers to help spread the benefits throughout the economy. Advanced practitioners should be willing to become role models for other companies.

- *Collective action with other companies for integrity practices.* Individual companies may find it hard to follow some “clean” business practices, such as making informal payments to customers or tax officers. To overcome this, companies in the same region or industrial sector could agree to respect a “no-bribe” regime. This requires a great effort and commitment from leading companies in a particular region or sector. It will also need strong leadership from business associations (such as VCCI) and government agencies (such as custom offices).

87. Recommendations to SOEs

- *Put existing IC systems into practices.* The priority for SOEs is to put their existing IC systems into practice. The survey showed that SOEs have a good understanding of IC and CoCs and have already established certain IC processes. The problem is that these processes have not been well implemented, putting SOEs at a high risk of violating the law. SOEs do not seem to be very motivated to raise the standard of implementation of their existing IC systems. They can be encouraged to do more either through equitization or stronger monitoring from the Government agencies that are charged with overseeing their work.
- *Turn SOE management into a “real business” system rather than the current mix of state and private business management.* SOEs are companies. However, their management systems contain many characteristics of state agencies, especially around human resources, for example promotion criteria and procedures. Some state officials may be assigned to lead SOEs without being fully prepared for these jobs. As a result, some SOEs are run along the lines of a state agency, with the existing IC systems never being properly implemented.
- *Turn human resources management into a meritocracy.* As the survey shows, despite their leading role in the economy, SOEs still use relationship-based employment techniques quite heavily. This is a critical weakness in the SOEs’ management system that needs to be addressed. A merit-based employment system should be put in place in each SOE, and appropriate drivers and incentives introduced to make sure that it is properly implemented. Until SOEs are significantly equitized, it is unlikely that we should expect a real change.

88. Recommendations to VCCI

- *Position VCCI as a central hub for promoting integrity in the business community.* VCCI should act as a central hub for distributing advice and training to companies and other business associations, creating, coordinating and licensing the training. VCCI’s business integrity website, www.kdlc.vn, recently set up as part of the Government-Business Integrity Initiative, should be the focal point of this effort online. The website, in addition to providing the training materials, a toolkit and other materials, should

have a section on legal updates, where to get advice, and a Q&A section to provide specific advice to companies' questions. Such enhanced activity will need to be fully and properly resourced.

- *Provide group training to companies.* Training should be provided by VCCI both directly to companies, and through other channels in order to be sure to reach the maximum number of companies. The training program should be made available to other providers such as management trainers, business schools, qualified accountancy and legal companies, business, industrial and professional associations. Training materials should be licensed to these other users and accompanied by train-the-trainer modules. In order to use the materials, the other training providers should pass some kind of quality certification or registration process. The training should include case studies of good and bad practices taken from real live situations in Vietnam. There should be monitoring and assessment of the impact of the training on the participants
- *Set up a simple advisory service to support individual companies and advanced training opportunities to support the highest standards.* A low-cost advisory service should be provided to companies that require advice on setting up CoCs, and other basic compliance knowledge. VCCI and/or consultancy service providers should make available an advanced training program leading to qualifying Vietnamese companies in a voluntary standard such as ISO 37001. VCCI should make a template CoC available to companies through the training, the multiple channels mentioned above, and through the business integrity website, www.kdlc.vn.
- *Promote responsible business practices through collective action.* VCCI should act as a Center for Collective Action, bringing together companies, government agencies, business associations and industry associations to make the business environment fairer. In particular, VCCI should work very closely with business and industry associations which can be an important channel to gain access to SMEs in specific industries. VCCI should conduct regular surveys of companies and their opinions about the anti-corruption legislation, its enforcement and impact on the business life of the country.

89. Recommendations to Government

- *Adopt guidance for the 2018 AC Law.* The Government needs to develop guidance for companies to implement the newly issued AC Law. The guidance should include guidelines on corporate governance, as well as practical tools and advice on where to get help. The Government should even consider introducing a corporate governance code as a stand-alone piece of legislation or in a future version of the revised Law on Anti-corruption.

- *Enhance monitoring and enforcement capacity.* The Government should consider measures to enhance its capacity to monitor and supervise company compliance. One measure is to encourage monitoring from the public as well as NGOs. Another measure is to arrange a whistleblowing facility where violations are reported in a timely fashion. Strengthening enforcement of regulations is also a critical for creating a fairer business environment.
- *Create incentives for compliance.* The Government should consider developing incentives for companies that obtain international standards such as ISO 37001:2016, or that can demonstrate a strong commitment to business integrity. Based on international experience, there are many other incentives that can be used to stimulate and encourage business integrity such as access to public contracts on condition of robust compliance systems. The Government, working with VCCI, should devise an “incentives strategy” as part of GBII.
- *Increase dialogue.* The Government should encourage, organize and participate in a regular stakeholder dialogue between Government agencies and business, including SMEs, to understand the needs and challenges facing companies in complying with the legislation. Such public-private policy dialogues could be coordinated by VCCI.
- *Use of media to promote application of IC and CoCs among companies.* The Government should invest in raising awareness of the benefits of business integrity to a broader audience through public events such as business-government workshops and roundtables, multi-media articles, TV and online public relations. Laws and guidance should be made available on the Government’s websites.

90. **Conclusions**

- Sustainable development of the economy requires a sustainable business sector. Building a solid IC system helps companies to be more effective, have more reliable financial information and reports, comply better with the regulations and abide by accepted ethical values. Such an approach contributes to the fight against corruption in the business sector and throughout the economy and society.
- Developing and putting in use of a solid IC system requires a strong commitment from leaders, especially those running the country’s largest companies, both SOEs and private. The commitment will come first from leaders shifting their companies’ business philosophy from “quick profit” to “longer-term sustainability”; and secondly, in building a culture of integrity, both within their companies and throughout their supply chains.
- In conclusion, the continued growth of the Vietnamese economy requires a sustainable,

stable and responsible business sector. Building solid IC systems contributes to company development and makes the business environment fairer for all actors. The development of market institutions in Vietnam requires both the Government and the business sector to move forward together. Much is being done by the Government in reforming regulations and state capacities – not least the reform of the AC legislation. Now, in the spirit of partnership and collective action, the business sector has an opportunity to make its contribution by committing itself to the best principles of corporate governance, establishing reliable IC systems, and, with the help of well-drafted CoCs, promoting a culture of integrity that will give Vietnamese companies a competitive edge, domestically, regionally and internationally, in the years and decades to come.

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6. Appendices

Appendix 1: Legal documents on Internal Control

Legal document	Key regulations
Laws	
Anti-corruption Law No.36/2018/QH14 dated 20 November 2018, taking effect from 01/07/2019.	Enterprises and economic organizations should <i>"issue and implement their own code of conduct and control mechanism for preventing conflict of interests, curbing corruption and developing a healthy and incorruptible business culture"</i>
Law on Enterprises No. 68/2014/QH13 dated 26 November 2014, taking effect from 01/07/2015	Provides for the responsibilities and obligations of the Supervisory Board in supervising, assessing the effectiveness and validity of systems of internal control, internal audit, risk management and early warning of the company
Article 39, Law on Accounting No. 88/2015/QH13 dated 20 November 2015, taking effect from 01/01/2017	<i>"Internal control means the development and implementation, within accounting units, of mechanisms, policies, processes, internal regulations in compliance with the provisions of laws to ensure the prevention, detection and timely handling of risks and meet the set requirements."</i> The Law also requires accounting units to establish internal control systems to ensure that their assets are protected from improper and inefficient use and that transactions are approved intra vires and fully recorded as the basis for making and presenting truthful and reasonable financial statements
The Law on State Audit No. 81/2015/QH13 dated 24 June 2015, taking effect from 01/01/2016.	In the process of auditing, a state auditor has to <i>"conduct a survey and collect information on the internal control system, financial situation and other information relating to the audited entity; evaluate the internal control system of, and gathered information on, the audited entity so as to determine the audit objectives, contents and scope and appropriate methods."</i>
Law on Thrift practice and waste combat No. 44/2013/QH13 dated 26/11/2013, taking effect from 01/07/2014.	The head of state-owned enterprises is responsible for organizing internal inspection, control, undertaking self-inspection, review and reporting financial supervision for the purpose of timely detection of wrongdoings in the management and use of capital and funds of enterprises
Secondary legislation	
Decree No. 87/2015/NĐ-CP Dated 06 October 2015 on supervision of state capital investment in enterprises; financial supervision, (Article 12)	Provides for the responsibility of enterprises in assigning tasks and mandates among their divisions; developing collaboration mechanisms among divisions, especially those with functions of supervision and internal control; conducting internal financial supervision
Decree No. 71/2017/NĐ-CP dated 06 June 2017 on corporate governance of public companies, taking effect from 01/08/2017	Provides guidelines on corporate governance of public companies, also has clear guidance on the rights and obligations of a controller in carrying out internal control assignments in public companies

Legal document	Key regulations
Secondary legislation	
Circular 121/2012/TT-BTC dated 26 July 2012 of Minister of Finance (Article 33)	Prescribing the company management applicable to public companies, addresses the responsibility of the Supervisory Board in reviewing the company's reports on internal control system before they are submitted to the Management Board for approval
Circular 44/2011/TT-NHNN dated 29/12/2011 of the State Bank of Vietnam	Provides for the internal control system and internal audit of credit institutions, foreign banks' branches as follows: <i>"Internal control system means a set of mechanisms, policies, procedures, internal regulations, organizational structure of entities, which are implemented for the purpose of prevention, detection, timely handling of risk and meeting the requirements already set by the entities."</i>
Circular 16/2011/TT-NHNN dated 17/8/2011 of the State Bank of Vietnam	Provides for internal control, internal audit systems of the State Bank of Vietnam. Accordingly, the <i>"internal control system of the State Bank means a combination of mechanisms, policies, procedures, internal regulations, organizational structure of entities under the State Bank, which are set up in accordance with the provisions of laws and implemented to ensure that the resources are managed and used lawfully, effectively, cost efficiently, for the purpose of prevention, detection and timely handling of fraud, errors; provide accurate information to be used in decision-making; ensure that the set objectives are obtained."</i>
Circular No. 13/2018/TT-NHNN of the State Bank of Vietnam	<i>"Internal control means the inspection, supervision of individuals, units in implementing mechanisms, policies, internal regulations, standards of professional ethics and the culture of control to control conflicts of interest, control risks, ensuring the operation of commercial banks and foreign banks' branches to achieve the set objectives and comply with the provisions of laws."</i>
Decision No. 36/2006/QĐ-NHNN of the Governor of the State Bank of Vietnam on the issuance of Regulation on internal inspection, control of credit institution	<i>"Internal inspection, control system means a combination of mechanisms, policies, procedures, internal provisions, organizational structure of a credit institution which are set up in line with provisions of current laws and are implemented in order to ensure the prevention, detection, timely handling of risks and obtain the objectives set by the credit institution."</i>

Appendix 2: Questionnaire on business practices in Vietnam

The Vietnam Chamber of Commerce and Industry (VCCI), in cooperation with TDI and IBLF Global, is undertaking research on business practices in Vietnam. This study focuses on the relationship of the company with state authorities as well as other business partners, and how the company manages its internal governance mechanisms. The results of the study will form the basis for proposing solutions to government agencies, VCCI and companies for improvements in regulatory policy and practice in order to achieve enhanced growth, profitability and investment attractiveness.

All information provided by the individual companies responding to this questionnaire will be kept confidential and anonymous. We undertake to use the information for research purposes only. The best respondents are members of Management Board, Internal Control Board, heads of Finance, Accounting, Business Development, Sales, Human Resource Management Departments.

To answer the questions, please click on the link below, then provide information or choose the

appropriate option of each question. You will need about 15 minutes to complete this questionnaire.

Upon the completion of the questionnaire, we would like to send you a book as gift – please kindly choose the book and provide us your mailing address. If you have questions, please contact Ms Hoang Thanh Le, mobile: 0936681386, email: leht@tdi.com.vn.

Please kindly complete the questionnaire by November 20, 2018.

Thank you for your cooperation!

PART I: GENERAL INFORMATION ABOUT THE ENTERPRISE

Q1. What year is your enterprise established?

Q2. Your enterprise is (*choose 1 option only*)

1. State owned enterprise (no foreign capital)
2. Fully local private enterprise
3. Foreign invested enterprise

Q3. What type is your enterprise? (*choose 1 option only*)

1. Private enterprise
2. Limited liability enterprise
3. One-member limited liability enterprise
4. Joint stock enterprise
5. Partnership enterprise

Q4. How many employees did you have in 10/2018 (*temporary staff under 3-month service excluded*)? (person)

Q5. What main sector are you in (*the sector that brings the highest proportion of revenue*)? (*choose one 1 option only*)

1. Manufacture
2. Commerce and Service
3. Construction, real estate
4. Others

Q6. What is the turnover of your business in 2017?

1. Under 3 billion VND
2. From 3 billion to under 50 billion VND
3. From 50 billion to under 100 billion VND
4. From 100 billion to under 200 billion VND
5. From 200 billion to under 300 billion VND
6. Above 300 billion VND

Q7. What is the structure of the turnover of your enterprise in 2017 (*in percentage*)?

	2017
1. Local market	
2. Direct export	
3. Indirect export (through distributors or agents in Vietnam)	
Total	100%

Q8. Can you please let us know some information about your Director (CEO)?

- a. Gender
 1. Male 2. Female
- b. Age:
 1. Under 30 2. 31 - 45 3. 46 - 60 4. Above 60
- c. Highest education:
 1. Graduate/post graduate 2. Junior College 3. High school 4. Other
- d. Party member:
 0. No 1. Yes

PART II: RELATIONSHIP WITH STATE AUTHORITIES AND BUSINESS PARTNERS

RELATIONSHIP WITH STATE AUTHORITIES

Q9. Please provide your opinion on the following statements when dealing with government agencies? (*one option per statement only*)

Statement	1. Absolutely disagree	2. Disagree	3. Neutral	4. Agree	5. Absolutely agree
1. The law covering business activities is very clear, understandable, feasible and easy to access					
2. The law covering business activities is implemented and enforced in a consistent, transparent and effective manner					
3. The administrative procedures for enterprises working with state agencies are simple, transparent and open					
4. In order to run my business, making unofficial payments to government officials is effective					

Q14. Please provide your opinion about the importance of each below factors to the decisions of **supplier** selection of your enterprise? (*choose one option per factor only*)

Factors	1. Absolutely un-important	2. Un-important	3. Medium	4. Important	5. Very important
a. Quality of products/ services					
b. Prestige (reputation, brand)					
c. Familiar supplier					
d. The familiar individual relationship between company's staff and suppliers' ones					
e. Discount percentage on total contract value of supplier					
f. Promotional offers					
g. Other (<i>pls. specify</i>).....					

Q15. Does your enterprise have special incentives for business managers/contract negotiators of your **customers** (*buyer*)? (*choose one option only*)

1. Never (*skip to Q16*)
2. Infrequently
3. Occasionally
4. Frequently
5. Very frequently

Q15a. What are these incentives? (*multiple options*)

1. Gifts as money
2. Physical gifts
3. Invite to meals)
4. Invite to travel
5. Give employment opportunities to customers' relatives
6. Other (*pls. specify*)

Q16. In your opinion, how much is the commission and/or preferential (unofficial) **enterprises in the same industry** pay to their partners compared with total contract value? (*choose one option only*)

1. Under 5%
2. From 5% - under 10%
3. From 10% - under 15%
4. From 15% - under 20%
5. Above 20%

Q17. Which of the following do you **know clearly** on PROCUREMENT process of other similar enterprises in same industry in year 2017 and 2018?

Situation	0. No	1. Yes
1. Purchase order is not suitable with current demand (e.g. not required, duplicate, not fit with target, more than needed)		
2. Purchase order has poor quality and/or over-expensive price		
3. Bias quotation due to intervention (e.g.: anonymous profile, or fake profile)		
4. The quantity, quality, kinds, and warranty conditions of goods received are not the same with order		
5. Fictitious or unmarked purchasing documents		
6. Early payment; payment without authorization or fictitious payment		

SALES

Q18. Which of the following incidents do you **know clearly** on SALES process of other similar enterprises in same industry in year 2017 and 2018?

Situation	0. No	1. Yes
1. Fictitious sales transaction or the amount of sales recorded exceeds the actual amount		
2. The quantity/kinds/origin of goods delivered are not same with the commitment in sale contract		
3. Sales are not followed the company's policy on early payment, discount percentage, warranty, etc.		
4. Wrong sale invoice (e.g.: real sales but not invoiced; or invoices for the non-real sales; or the amount recorded in invoice is not the same with amount of payment)		
5. Cash received is misappropriated or stolen		

BORROWINGS

Q19. Which of the following is your borrowing resources in 2017 and 2018? (multiple options)

- State commercial bank

2. Foreign commercial bank
3. Other commercial bank
4. Vietnam bank for social policies
5. Other resources (*pls. specify*)
6. No borrowing (*skip to Q21*)

Q20. When making borrowing from above resources, ***did your company give any gift or money to the bank officer?*** (*choose one option only*)

1. Frequent
2. It depends on specific cases
3. Never

HUMAN RESOURCES (HR)

Q21. Do you know clearly any of the following incidents on HR MANAGEMENT process of other similar enterprises in industry in 2017 and 2018?

Situation	0. No	1. Yes
1. The enterprise makes employment based on relationship rather than competence		
2. The enterprise does not follow labor law in signing labor contract and implementation		
3. The enterprise does not perform or do the wrong way with payment to employees, which including <i>social insurance, health insurance, unemployment insurance and personal income taxes.</i>		

PART III: ENTERPRISE MANAGEMENT PRACTICE

Q22. Have you ever heard or discussed on “internal control” in your enterprise?

0. Never
1. Yes, we have

Q23. What do you understand by “internal control”? (*choose the answer that you think the best*)

1. Internal control is the work of internal auditor/internal control committee
2. Internal control is activity to ensure the truth and fairness of financial statements
3. Internal control is a process established to achieve the effectiveness of operation, the credibility of finance and the compliance with law and regulation
4. Other meanings (*pls. specify*):

Q24. Which of the following did you perform in your enterprise to control the operation in 2017 and 2018?

	0. No	1. Yes	9. Don't know
A. MANAGERIAL ENVIRONMENT			
1. Establish clear objective			
2. Organizational structure with clear authority for each component			
3. Performance Assessment system applied to each position			
4. Establish internal audit function/internal control function			
B. RISKS			
5. Maintain the risk awareness mechanism in operation (e.g.: assessment of changes in business environment, market, foreign exchange, employee competence, etc.)			
6. Maintain safeguards against risks (e.g. protection of warehouse, purchasing asset insurance, dividing right to access the information system, bonus for fraud detector, etc.)			
C. CONTROL ACTIVITIES			
7. Establish examination mechanism (periodical or sudden)			
8. Establish and perform the Code of Conduct or working regulations to employees			
9. Use independent auditor to perform internal audit.			
10. Financial Statement should be presented in detailed to management			
11. Hotline is setup for reporting purpose			
12. Encourage employees to identify problems and propose solutions for improvement			
D. INFORMATION SYSTEM			
13. Strengthen employee's awareness on internal control (e.g. training on internal control)			
14. Establish policies and implementation procedures in enterprise (e.g.: procurement, investment, etc.)			
15. Training/informing about the policies and implementation procedures (e.g.: procurement, investment, etc.)			
E. MONITORING AND CONTROL			
16. Maintain a department to supervise the compliance with the enterprise's procedures and rules			
17. The supervisor has suitable competence and authorization			
18. Maintain a monitoring plan			

ASSESSMENT ON INTERNAL CONTROL SYSTEM

Q25a. Please rate your agreement on the following statements on management activities (CONTROL ENVIRONMENT AND RISK ASSESSMENT)

Activities	1. Absolutely disagree	2. Disagree	3. Neutral	4. Agree	5. Absolutely agree
1. Governing body/board genuinely called management's decisions into question and evinced realizable alternatives. (COEN1)					
2. Managers/management have not been overworked. (COEN2)					
3. There has been a great deal of variation in control and management tasks. (COEN3)					
4. The staff understand the content and responsibilities of their tasks. (COEN4)					
5. The staff have demonstrated commitment to honesty and the ethical values of the company through their conduct. (COEN5)					
6. The goals for the company's operations had credible and, in my opinion, reasonable measures. (RISK1)					
7. Management actively evaluated both internal and external risks likely to prevent the achievement of goals. (RISK2)					
8. A risk analysis covering the entire company was carried out during the last year. (RISK3)					
9. Those in managerial functions were aware of the risks of their areas of responsibility and knew how risk management was implemented. (RISK4)					
10. In my opinion the company's risk analysis and means of protection could have been more efficient. (RISK5)					

Q25b. Please rate your agreement on the following statements on management activities (CONTROL ACTIVITIES, COMMUNICATION AND INFORMATION)

Activities	1. Absolutely disagree	2. Disagree	3. Neutral	4. Agree	5. Absolutely agree
11. There were functioning controls in the company's processes which gave warning whenever something exceptional occurred. (COAC1)					
12. As soon as something exceptional and undesired was noticed it was promptly and appropriately dealt with. (COAC2)					
13. In the definition of tasks special attention was paid to authorisation and the special demands of tasks. (COAC3)					
14. In my opinion the internal control measures should have been stepped up still further. (COAC4)					
15. The entire staff had job descriptions and those have been updated and adjusted regularly (COAC5)					
16. The staff had no problems in obtaining information pertaining to their own work tasks. (INFO1)					
17. The reports forwarded to management were sufficiently clear and contained relevant information from the management perspective. (INFO2)					
18. Sufficient information moved between the different divisions of the company so that the smooth uninterrupted running of operation could be ensured (e.g. from sales to manufacture). (INFO3)					
19. Our company's information and communications system was not quite up to date with respect to functions. (INFO4)					
20. The work was efficiently coordinated within the function and also with other functions. (INFO5)					

Q25c. Please rate your agreement on the following statements on management activities (MONITORING, EFFECTIVENESS AND COMPLIANCE)

Activities	1. Absolutely disagree	2. Disagree	3. Neutral	4. Agree	5. Absolutely agree
21. The operative information used in management was specified to the systems information of financial management. (MONI1)					
22. Line managers take excellent care of day-to-day control. (MONI2)					
23. There is active control of how the staff obey the operating instructions issued. (MONI3)					
24. We conducted analyses based (customer satisfaction, job satisfaction, efficiency) changes during the last year. (MONI4)					
25. Management has not in the last year requested accounts of the accomplishment of control measures. (MONI5)					
26. With a reasonable effort the efficiency of operations could have been further improved. (EFFI1)					
27. There are possibly in operations problems which, if removed, would have resulted in a better input - output ratio (EFFI2)					
28. There are no stages in the processes where I have any doubts about efficiency (EFFI3)					
29. In some functions resources might have been more efficiently deployed. (EFFI4)					
30. I did not completely trust the reports by financial management and sometimes had to check the information I received. (RELI1)					

2. From 20% - 40%
3. From 40% - 60%
4. From 60% - 80%
5. Above 80%

Q31. Does your enterprise have the Code of Conduct (or working regulations) for the following cases? If no, do you think that it's necessary be trained or guided about developing the Code of Conduct?

Code of Conduct	Yes or no?		If no/ don't know, is training/ guidance necessary?	
	1. Yes	0. No/ Don't know	1. Yes	0. No/ Don't know
1. Behaviors in internal enterprise				
2. Behavior with partners in public sector				
3. Behavior with business partners				
4. Behavior with customers and others				

Q32. Does your enterprise have guidance on Code of Conduct including below issues? If not, do you think that it's necessary to have the documents covering those issues?

Issues	Yes or no?		If no/ don't know, is training/ guidance necessary?	
	1. Yes	0. No/ Don't know	1. Yes	0. No/ Don't know
1. Acceptable/ encouraged behaviors				
2. Unacceptable/condemned behaviors				
3. Conflict of interest, violation situations				
4. Prevention, detectation and handling with conflict of interest, violations.				
5. Procedures/ compliance and compliance control unit				

Q32b. If there is a guidance for at least one above issue, how many percentage of employees comply with this?

1. Under 20%
2. From 20% - 40%
3. From 40% - 60%
4. From 60% - 80%
5. Above 80%

PART V: DIFFICULTIES AND SOLUTIONS TO SUPPORT THE CODE OF CONDUCT AND INTERNAL CONTROL

Q33. Do you meet below difficulties in implementing the Code of Conduct and internal control?

Difficulties	1. Absolutely disagree	2. Disagree	3. Neutral	4. Agree	5. Absolutely agree
1. The legal environment is not completed so it's difficult to apply standards					
2. The compliance to standards can lead to competitive disadvantage					
3. Habit and discretion of employees are quite popular in the enterprise					
4. Head of departments and employees hesitantly work and cooperate with internal auditors					
5. Enterprise does not know how to establish and implement these measures effectively					
6. Managers/management haven't paid much attention/ performed seriously the Code of Conduct					
7. Staff don't really understand the Code of Conduct to apply to their job					
8. Code of Conduct compliance assessment has not yet included in the performance review					
9. The Code of Conduct is formalistic, inappropriate, and lacks of implementation methods.					

Q34. Which of the following supports can help your business improve its governance effectiveness (*multiple options*)?

Supports	1. Very unsupportive	2. Unsupportive	4. Supportive	4. Supportive	5. Very supportive
1. Organize internal discussions and survey among representatives of staff in developing the Code of Conduct					
2. Develop and disseminate a model Handbook on Internal Control and Code of Conduct for all types of enterprises					
3. Organize training courses on Internal Control and Code of Conduct for all types of enterprises					
4. Organize seminars, experience sharing activities on professional management					
5. Managers/management take lead in the implementation of the code of conduct					
6. Compliance assessment is a required factor in the performance review.					
7. Others (<i>pls. specify</i>):					

Thank you for your cooperation!

