ANALYSIS OF COMPANIES' BEHAVIOUR IN SMOOTHING CONFLICTS OF INTEREST

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ABSTRACT: *Within corporations and large entities, some internal policies and practices are typically designed and regulated to prevent and resolve conflicts of interest. Multinational entities, especially those listed on the stock exchange market, elaborate codes of ethics or internal standards that guide all persons who have contact with the entity, including collaborators. Through this paper, we aim to identify the behaviour of the above-mentioned entities on an international level, regarding the conflict of interest and it's risks. The results presented are based on a quantitative and qualitative analysis of a sample of 177 multinational entities around the world. In order to achieve the purpose of this research, we took into account over 321 guides, manuals, standards and conflicts of interest policies that were made public by the entities in the selected sample.*

KEY WORDS: *conflict of interests, risk management, management, companies' behavior, code of ethics.*

JEL CLASSIFICATIONS: *D01.*

1. INTRODUCTION

The phrase conflict of interest is associated in particular with terms such as fraud or tax evasion, but according to some opinion it can only evolve in fraud and tax evasion if the conflict of interest is not effectively managed. However, non-identification and recognition of conflicts of interest may lead to risks that are closely linked to the reputation of the entity and the loss of public confidence; moreover, a decision based on a conflict of interest is in most cases vulnerable and can be challenged in judgment. However, it is worth mentioning that there are situations in which allowing the manifestation of conflict of interest brings a benefit to the entity, over the scenario in which it would have been prevented.

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Thompson D.F. (2009) argues that the emergence of conflict of interest is due to a set of circumstances that are responsible for creating a substantial risk that the professional judgment of a person of primary interest is influenced by a secondary interest. This definition is included in the Report on Conflict of Interest developed by the United Kingdom Audit Office and is in line with international audit standards. The Romanian legislation defines conflict of interest as the situation or circumstance in which the direct or indirect personal interest of a contracted person is contrary to the public interest in such a way that it affects or might affect its independence and impartiality in taking decisions or objectively fulfilling the duties of the person.

In addition to the above mentioned, Di Carlo E. and Testarmata S. (2012) define two subcategories of conflict of interest: apparent conflict of interests and possible conflict of interest as: a situation in which a secondary interest of one agent seems to intervene with the primary interest, respectively the situation in which a secondary interest has the possibility to tend to influence a primary interest.

Therefore, we consider the conflict of interest to be classified according to the entities affected by its manifestation in: Conflict of interests on the public environment and conflict of interest on the entity's internal environment. We define the first type of conflict of interest as the accumulation of intrinsic and extrinsic conditions that trigger an action to obtain a benefit, which is in detriment of a third parties' interest, anyone except the employing entity. The second type, the conflict of interest regarding the interest of the employing entity, we consider to be the accumulation of the intrinsic and extrinsic conditions that lead to the manifestation of an action for the purpose of obtaining a personal or professional benefit, which can affect positively or negatively the employing entity.

1. RESEARCH METHODOLOGY

The process underlying this research is primarily aimed at identifying the risks posed by the conflict-of-interest behaviour of multinational organizations. The approaches that we have taken to achieve this results are: fundamental research, based on the theoretical documentation and critical analysis, carried out with the help of the professional experience and the previously accumulated knowledge from the field of ethics of behaviour and internal control; comparative research, between international frameworks in which conflict of interest is manifested; causal research based on qualitative analysis of multinational practices and policies; empirical research based on a combination of quantitative and qualitative analysis of the predetermined sample set for research.

The first stage of the research aimed specifically at identifying the practices and policies of entities, on conflict of interest, at an international level. The proposed objective was achieved through the process of documentation and comparative analysis of the existing framework at national, European and global level.

The second stage aimed at presenting organizational practices and policies on conflict of interest resolution and prevention. This objective was achieved through the analysis of the information resulting from the documentation process.

Finally, the third stage aimed specifically at identifying practices and policies to smooth the conflicts of interest used by multinational organizations. The empirical study, that stood at the foundation of our efforts to identify practices and policies to mitigate conflicts of interest used by multinational organizations, was achieved through the quantitative and qualitative analysis of 177 entities selected from the 540 multinational list of Forbes International, the main selection criteria being financial indices: turnover, profits and total assets, and the disclosure of their conflict of interest policies on the public domain, such as government sites or sites of the entities being analyse.

2. PRACTICES AND POLICIES REGARDING THE CONFLICT OF PUBLIC INTEREST

Mozgovaya L.A. and Kotov A.N. (2013) mentions that in the corporations' system of relationships there is a complex system on multiple levels of conflict in a broad sense. From this point of view, corporate entities are divided into the following relationship groups: shareholders, managers, employees, suppliers, customers, state institutions. We believe that this classification is very appropriate one, from the perspective of the conflict of interests, which is why we have created the following classification:

- Conflict of interests at a superior level - this refers strictly to the manifestation of a conflict of interest in the relationship between shareholders and management. For example, situations where management takes decisions in favour of the entity but to the detriment of shareholders and vice versa. A concrete case in Romania could be to offer sponsorships to a foundation in the legal amount, from profit, to reduce the tax set on profits, which is in the detriment of distributing these amounts as dividends.
- Conflict of interests at an inferior level - this refers strictly to the manifestation of a conflict of interest in the management relationship and the executive employees. These may include any decision taken by management or an employee that may be to the detriment of one party but in favour of the entity.
- Conflict of interests at the public level - here we are strictly referring to the manifestation of a conflict of interest in the management or the employees relationship with a third party that comes in contact with the entity, suppliers, clients, creditors, other debtors, state institutions, international institutions, and so on.

Likewise to Peralta S. et al. (2006) opinion, we consider that the manifestation of conflict of interest has a greater impact on corporate entities which have subsidiaries at international level. We especially think that due to their ability to transfer profits and manipulate the outcome of subsidiaries so that the tax burden is as small as possible, in the taxation systems in which the group operates.

At European Union level, there are directives and regulations that address the issue of conflict of interest but not in its totality. Such a rule is, for example, Regulation 596/2014 on market abuse that legally states the conflict of interest, but only in particular for entities that produce statistics for investment recommendations.

From our professional experience, we have noticed two situations in which the conflict of interests is strongly associated with the decision-making process, namely: in the case of affiliated transactions and in the case of shareholder loans. Therefore, we have resorted to analyzing these two situations at an international level to observe the level of risk it presents.

In a report prepared at the request of the Organization for Economic Cooperation and Development, Lupţi L. (2004) mentions that transactions between affiliated parties do not necessarily lead to a conflict of interest, but in many cases depending on the transaction, they may results in this phenomenon. On the other hand, it is underlined that the conflict of interest is not limited to affiliated parties. Lalić, S. and Dragičević, B. (2014) argue that about 70% of world trade takes place between affiliated entities.

Therefore, we consider relevant the comparative analysis of the legal framework in which the conflict of interest is present in the case of transactions between related parties, especially at an international level. In order to carry out this analysis, I proceeded to the elaboration of Table 3.1. The structure of the table being focused on two broad concepts that we have found as international practices and which, according to our professional experience and literature, are strongly correlated with the conflict of interest in the case of transactions between affiliated parties, namely: the principle of market value and price transfer and the consolidated tax base.

Table 3.1. Comparative analysis of the conflict of interest framework for affiliate transactions

	National setting	Other European countries	Other countries in the world
	Market Value and Price transfer Principles		
Legislative framework	In Romania, in commercial or financial transactions between affiliated parties, if the nature or characteristic of the transactions made, differ from those that would have occurred with another independent entity, any amount of profit that would have been realized by one party may be included in the profit tax base. According to the legislation, Romanian Low 207/2015, it is necessary to carry out the price transfer dossier, which is used as evidence for the tax authorities.	At European level in June 2006, the European Council adopted the Code of Conduct on Price Transfer. Entities in the Member States are obliged to apply both the code and the national legislation. There are also avoiding double-taxation regulations such as Directive 2011/96 / EU on the common tax regime applicable to mother companies and their subsidiaries in different Member States.	At international level, the Organization for Economic Cooperation and Development has contributed to the international harmonization process by providing a Guide for Price Transfer for Multinational Enterprises and Tax Administrations updated in 2017.
	Fiscal consolidation		
	At present, in Romania, the legislator encourages the creation of groups of companies, but profit tax determination is not acceptable based on tax consolidation system. This gives the group the opportunity to manipulate financial results	In 2011, the European Commission drew up a proposal to implement a consolidated tax base, by this proposing a single set of rules for the whole Europe. The proposal was re-launched in 2016 but was not approved by	In the USA and Canada there is a form of fiscal consolidation called formal distribution. Formal distribution is a method of allocating the profits of an entity or a group to a particular tax jurisdiction in

	within the group through the European Council. transactions and transfers.	which the entity is taxable, and by this there rest of the entities of the group are not taxed separately.

Source: Made by the authors based on information from the documentation process

According to a theory developed by Hyde and Choe (2005) in practice, two types of price transfers are used: the taxable price transfer, used to obtain the most favorable tax result and the incentive price transfer, used to provide appropriate incentives for off-shore assets. As can be seen in Table 3.1., at international level, many steps have been taken to reduce the risk of conflicts of interest.

Ronald Davies (2013) supports the option of creating a common consolidated tax base that, in his view, would stop the phenomenon of manipulating the results of entities in a group using the transfer pricing mechanism. Although in the US and Canada the system is being implemented, in Europe there are still difficulties in this regard. Looking at the rest of the world, we believe that another solution should be identified to reduce the risk of conflict of interest.

Currently, we have identified two situations of affiliated parties' loans that are related to the conflict of interest and are being conducted at an international level, addressed in Table 3.2, namely: shareholders crediting the entity or shareholders loan and the entity loaning to the directors.

Table 3.2. Comparative analysis of the legal framework for the related parties' loan

	At an national level	At an European level	Worldwide
	Shareholders Loan		
Legislative framework	In Romania according to the present legislation, shareholders and associates are allowed to credit the entity by charging related interest with restrictions only in the case of cash payments, in which case the legislation permits transactions amounting to a maximum of 10,000 RON (national currency) between individuals and commercial entities in the case of loan.	There are no directives at EU level with precise specifications in this regard. Rules similar to those in Romania are also found in France. Meanwhile other states are legislating this case in the code of insolvency, for example England and Germany, where an associate loan is only accepted as to save the entity from bankruptcy.	In China, the loaning of the entity is often seen by tax authorities as a capital contribution which is not recoverable so fast as a firm loan, in order for it to be qualified as a loan, the entity has to provide a mortgage to the shareholder to secure the loan.
	Loaning to the administrator or directors		

Currently, the Romanian legislation, Law 31/90, only regulates the administrator's loan by the entity. Under the law, loans to the administrator are forbidden unless their due amount is less than € 5,000 and if the lending terms are not different from the terms of credit to others or are not an exception to the entity's current activity.	There are no directives at EU level on this issue. In England, loans may be granted to directors with the approval of the General Assembly. In Denmark, credits to directors or associates are recognized as wage entitlements or dividends and taxes are charged correspondingly.	In the US, granting a loan to one of the shareholders is permitted provided that the interest rate is above the monthly rate set by the federation. If the interest is below the required level, the loan is given the name of "below market level loan" and becomes taxable.

Source: Made by the authors based on information from the documentation process

In Romania, the legal framework is more permissive in terms of loaning the entity and lending to its directors than to other countries in Europe or the world. In Romania it has become a trend for the money invested in the establishment of an entity to be considered credit provided by the associate and to be subsequently recovered as to cover absence of money from the treasury. In the literature, we have noticed this inclination to address only the situation of a shareholder loan if the entity is in a poor financial state or in the event of bankruptcy. Also in Romanian it is allowed to grant interest-bearing loans between affiliated parties, stating that: if the borrower is a non-resident, the related taxes for non-residents are charged. These practices are found internationally with certain conditions related to the interest rate and the justification for the need of the loan.

3. Internal policies and procedures regarding the conflict of interest

The scientific literature presents methods of identifying conflicts of interest relevant especially to the person who is the subject of this phenomenon. As follows a series of manuals and guides have been produced, but such techniques are also used to make codes of ethics of multinational entities for employees and management, this being more or less detailed. The general consideration is that under certain circumstances the act of declaring the potential or actual conflict is sufficient to adequately mitigate or manage the conflict of interest.

Most of these entities mention in the code of ethics practices to prevent conflict of interests, but there are entities that approve to the existence of conflict of interest under certain conditions such as presenting the situation in a transparent way to all affected parties. The principle used is that the existence of a conflict of interest is not inappropriate, illegal or immoral, but its non-identification and non-resolution are.

According to a manual made by the Institute of Medicine there are two models of conflict of interest management, namely: the prohibition model, which specifically defines conflict of interest rules and the consequences of their violation; the model of disclosure and evaluation, which is taking into account guidelines mentioned in the previous paragraph.

In a study conducted by Di Carlo E. and Testarmata S. (2012) on a sample of 297 entities in Italy, the most commonly used method for preventing conflict of interest was to develop codes of ethics. The same study also claims that the most commonly used methods of implementing the code of ethics ware: publishing it on the company's website, delivering the printed format to the dedicated people, and organizing courses and trainings, the latter being considered the most effective practice.

Analyzing the problem from a different perspective, in present times there are recruitment systems that analyze the values and beliefs of a potential employee when completing a questionnaire, and therefore employers can deduct from the beginning whether a particular person is likely to act inappropriately in a conflict of interests matter.

In England, the Sales and Supply Institute proposes a series of practices that are advisable to conflict prevention management, of which we considered the following to be relevant:

- Understanding the operational system of the supplier and offering their own opinions in order to guide and resolve situations, where improvements are necessary or appropriate to their own needs;
- Transparency of the supply and sales process before all involved parties, including suppliers and customers, without disclosing confidential information to third parties involved.

According to a study by Hilscher J. and Şişli-Ciamarra E. (2013), the presence among the board of directors of a creditor of the same entity is strongly associated with an unfavorable situation of transactional equity, favorable market creditor responses and a reduction in value of the entity concerned. It also provides evidence consistent with the assumption that conflicts of interest may lead to asset transfers from shareholders to creditors within the board of directors.

Due to this we considered it relevant to classify the conflict of interest according to the related risks, stating that the number of risks is not limited to those mentioned in this classification:

- Financial conflict of interests: refers to the risk of financial loss that the entity may suffer, it can be more easily identified in comparison to the other categories, but the underlying reasons may not be the most influential;
- Professional Conflict of interests: refers to the risk that the trust and image of the entity in the collaborators and clients view may suffer;
- Informational Conflict of Interest: refers to the risk of loss of informational confidentiality.

4. CASE STUDY ON THE DOMESTIC PRACTICES AND PROCEDURES OF MULTINATIONALS

In order to have a clearer picture of what the international conflict resolution behavior means and how it is manifesting, we appealed to the analysis of a sample of 177 global entities, chosen on the basis of three financial criteria; turnover, registered profit and total assets and the condition to have disclose public codes and policies on

conflicting interests. The distribution of the sample by geographical area can be seen in Figure 5.1.

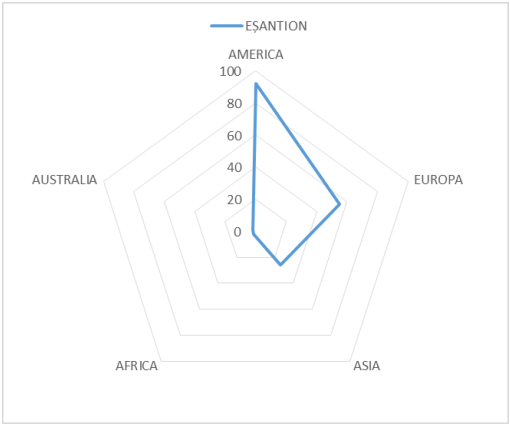

Figure 5.1 Batch distribution based on geographic areas

The first step in analyzing the sample was to identify subjects who published relevant conflict of interest information and whether they were updated over the past two years. Note that for the purpose of data processing, we used the IBM SPSS Statistics 25 program, and the Cronbach Alpha coefficient was equal to 2.88, certifying the consistency of the sample as an excellent one. We also mention that each subject of the sample has in some cases presented multiple manuals and guides on conflicts of interest practices and procedures, each of which is intended for a different category: employees, management, board of directors and collaborators. The analysis was extended to all identified conflicts of interest information, with a total of 321 manuals, policies and guides analyzed.

A second step in our research has been to identify the type of conflict management model used by each subject and whether there is a correlation between it and the staff responsible for conflict resolution and management of conflicts of interest.

The analysis resulted, according to Table 5.1. processed by the SPSS Statistics 25 program, that 47.5% use the prohibition model by clearly specifying what is allowed and what is not allowed, in some cases with the indication that any employee who is unable to decide whether or not he is in a conflict of interest situation to address his superior or a named person. The 51.4% left use the disclosure model, referred to in the manuals sometimes as Whistleblower policy, in which case concrete examples of potential conflicts of interest are shown, so that the employees will understand what it signifies and so that they are motivated at any time if they realize that they are in a conflict of interests situation or are in uncertainty that they are, to address the person responsible.

Table 5.1. Analysis of the sample composition according to the management model

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	,00	2	1,1	1,1	1,1
	1,00	84	47,5	47,5	48,6
	2,00	91	51,4	51,4	100,0

	Total	177	100,0	100,0

Source: Generated by the SPSS Statistics Program 25

In the research, we found that some of the subjects created special compartments for the management of compliance of employee behavior with the code of ethics, some assigning this task to management, and others did not mentioning who is responsible for this task. Therefore, we considered the SPSS verification of the correlation between the model used and the existence of a special compartment dedicated to the compliance of the employees' behavior with the code of ethics. According to Table 5.2, as can be seen, the bivariate correlation is 0.37 greater than the recommended limit of 0.01, therefore it is significant. We find that subjects using the prohibition model tend not to mention who is responsible for the task of managing employee behavior compliance with the code of ethics, and those using the disclosure model assign this responsibility to management and the Compliance Bureau at an equal level.

Table 5.2. Bivariate correlation between the model used and the department responsible for managing the behaviour of employees in the code of ethics

		Model used	Responsible
VAR00009	Pearson Correlation	1	,372**
	Sig. (2-tailed)		,000
	N	177	177
VAR00008	Pearson Correlation	,372**	1
	Sig. (2-tailed)	,000	
	N	177	177

**. Correlation is significant at the 0.01 level (2-tailed).

Further, depending on the existence and completeness of the conflict of interest regulations dedicated to this categories: board of directors, employees and collaborators, and the last update made for this regulations, a score of 1 to 3 was assigned, representing the level of the management of conflict of interests. And in the next step, possible correlations between the score and the financial position of the entity were analyzed to see whether the financial situation affects the conflict management aspect. The analysis resulted without significant correlations, therefore we believe that the financial situation does not directly affect the existence and completeness of the conflict of interest ethics and procedure codes.

In addition to the quantitative analysis, we present the following practices identified in conflict of interest codes and practices that have been noted and considered relevant to the study:

- Some codes specifically mention the fact that it is forbidden to grant loans to employees and executives employed, to avoid conflicts of interest;
- Some entities specifically tell maximum allowable values for gifts accepted from collaborators;
- A significant number of entities state in the Code that if conflict of interest cannot be avoided, it should be treated fairly while others state that in some cases, if possible, the person concerned will be required to cancel or remedy some actions;
- For boards of directors, conflicts of interest are not reported to the compliance bureau. They have to report the conflict of interest either to the general assembly or to the chair of the Corporate Governance and Social Responsibility Counsel;

- Certain entities such as Bank Rakyot, British American Tabaco and Brookfiels are annually requesting their employees' reports on the conflict of interest from the previous year;
- Citic Securities mentions the use of the Chinese wall method to prevent conflict of interest, which is to restrict the flow of information from one department to another, in particular due to the financial and confidential quality of the information. Restrictions including physical (geographic location) and digital restrictions, employees are not allowed to communicate by e-mail.
- Dai-ichi Life have created special roles for monitoring conflict of interests, they are called group monitors, and the person who is in this role has an obligation to report any apparent or possible conflict of interest;
- Some entities such as Boeing have presented questionnaires by completing of which employees can see whether they are or not in a conflict of interests;
- Most entities in the conflict of interests section have a sub-chapter on political propaganda, emphasizing the need for apolitical behavior at work;
- There are entities such as Charles Schwab, which made special conflict of interests standards for certain positions such as Investment Adviser and Financial Officer.

Following the qualitative analysis of the above mentioned codes, manuals and procedures, we identified the following risks, which are advisable to be considered in the future:

- Risk of non-identification:
  - Considering the Chinese wall model used by some companies, we express a reservation on the guaranteed functionality of the conflict of interest method, and we want to emphasize that the isolation of departments can lead to a difficult identification of conflicts of interest by the management or department responsible;
  - Most entities rely totally or to a certain extent on self-identification and self-declaration in the event of a conflict of interests by employees, in our opinion this method is not guaranteed and needs a solution to complement it.
- Risk of noncompliance:
  - Considering that employees complete some questionnaires and reports at the end of the year, the risk that they are not in line with reality is very high due to the lack of a verification and control system;
  - Also, due to the limitation of this study, we emphasize the possibility that the practices and procedures elaborated in ethics codes and guides may not be implemented in the entities is very high, due to the fact that there is no evidence of this process.
- Conflict risk:
  - Because of the Whistleblower policy, there are risks of creating conflicts between employees. Considering that each of them has to declare apparent conflicts of interest, without the need for evidence to underpin their claims;
- Risk of no conformation:
  - By observing the prohibition model in ethical codes, we have identified a very harsh and rigid language and that it contains all the interdictions that employees have in their personal lives and the consequences that they might suffer in

violation of these regulations. We believe that such an approach is inefficient especially for young and non-conforming employees.

5. CONCLUSIONS

We conclude that there is currently no certainty that existing practices ensure transparency and disclosure of conflicts of interest. Consequently, the entities behavior of conflict resolution is difficult to track and test, but from the analysis we identified the following types of risks that arise from current practices:

- According to the analysis of scientific literature: financial risk, professional risk, risk of confidentiality of information
- According to the analysis of the study sample: the risk of non-identification, the risk of noncompliance, the risk of conflict and the risk of no conformation.

However, we would like to mention that this list is limited to the sample studied and the information obtained from the analysis process and we do not consider that the risks of conflict of interest are limited to it.

In our opinion, it is recommended that entities adopt a clear policy of transparent disclosure of interests, or conflicts of interest, of any person inside it. This transparency practice can be most useful in preventing conflict-of-interest risks.

Currently, due to inappropriate practices and partial compliance with international codes, European Union regulations and state institutions' recommendations, it is difficult to analyze to what extent the existing legal framework on Conflict of Interest at European and global level should be improved. In addition to this study, in the future we take in consideration to conduct an analysis of the situation of entities in Romania and their behavior regarding the management and resolution of the conflict of interest.

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