

Remarks by Alan Boeckmann
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**Beyond Passive Compliance:
A Proactive Approach to Reducing Corruption**

Thank you, Keith, and good afternoon, ladies and gentlemen. What a great opportunity this is to address so many foot soldiers in the battle against unethical conduct. I know from Wendy Hallgren, who so ably represents Fluor at the E-C-O-A, about the high quality of this organization and its members. You are on the front lines on this issue, and while there may be times of frustration, I assure you that your corporate leadership relies on and truly appreciates your hard work and support.

It's certainly a pleasure to stand here and "preach to the choir." Like those of us at Fluor, I know you attach great importance to corporate ethics and compliance. You understand and appreciate the role that corporations play in this era of Federal Sentencing Guidelines and Sarbanes-Oxley. We must do everything possible to avoid ethical lapses and violations. But when these occur – and unfortunately sometimes they do – it is incumbent upon us to assess the circumstances of such lapses and violations and take the actions necessary to mitigate them in the future.

On a fundamental level, there are three ways that a company can approach ethics and compliance. One is the "letter-of-the-law" approach under which a company does the minimum that the law requires. A better approach, and this I think is where most large companies come down, is not only obeying the law, but implementing programs that measure up to and even go beyond.

But if we want to truly make a serious dent in unethical practices, it's going to take more than just passive compliance or a step beyond. This leads me to yet a third approach that I recommend to you today. I would like to suggest that the time has come to go beyond legal requirements, codes, guidelines and regulations and follow a policy of proactive involvement. I would contend that corporate social responsibility, or what we at Fluor call "global

responsibility,” is much more of a front-burner issue than it was just a handful of years ago. Let me be specific: Reputation increasingly affects our bottom line. Whether it’s Wall Street, the marketplace, our communities or the global competition for excellent employees, a corporate reputation characterized by responsible behavior is a business imperative. And make no mistake, failure to recognize this fact and act on it can have quite serious downside costs. So today I’m going to share an exciting initiative in which my company is involved that illustrates this third approach to ethical compliance.

First, some background. Fluor is among the world’s leading and largest engineering, procurement, construction and maintenance companies, with annual revenues of \$14 billion last year. Our more than 40,000 employees are located in 25 countries working out of 50 offices across six continents, serving clients in dozens of vital industries. On average, in any given year, we serve 600 clients on more than 1,000 projects in 85 different countries. In short, we’re big and widespread.

For almost a century, those who founded and built what is now Fluor Corporation have evidenced a strong social consciousness that helps explain the company’s duration and success. We strive to transcend laws and traditional practices and do business in socially, economically and environmentally responsible ways. We try to approach issues like ethics proactively and prefer not to be dragged kicking and screaming into compliance. We are always looking for new and better solutions to the problems that beset us.

Thus, when a problem is especially relevant to our business success or we identify an important gap that needs to be filled, we do not hesitate to accept a leadership role. Our current showcase example is Fluor’s leadership in combating global corruption, a huge issue in our industry. In raising corruption, I’m talking about the full gambit, everything from suitcases crammed with cash slipped quietly to third-world officials, to secret offshore bank accounts, favors to friends and family or perhaps an undisclosed business stake. Often, corruption involves payments to a party organization or to hired agents, business partners or other ostensibly independent third parties.

Some of these situations are almost unbelievable. I'm thinking of the executive traveling abroad with his wife. He went through customs first and saw his wife get pulled aside. Officials claimed that her immunizations were inadequate and displayed an over-sized needle filled with a strange liquid, which they threatened to use unless she paid them \$200. In another case, there were the employees who drove into a remote village in a developing country for dinner and soon learned that their car had been stolen. They were informed that they could get it back by paying \$2,000. Or, for \$5,000, they could be assured that such theft would not happen again.

Often, of course, corruption involves much larger matters and, as you know, is massive in scale. The World Bank estimates the total volume of bribes paid annually exceeds \$1 trillion – nearly twice Africa's gross domestic product. Transparency International estimates the amount lost due to bribery in government procurement worldwide at \$400 billion per year. And what's more, billions of dollars in development aid and foreign direct investment never reach their intended targets.

But, corruption even affects our national security. It often supports the repressive societies that breed discontent and terrorism, while depleting national wealth as scarce resources are directed toward lower-priority projects. It inhibits democracy and the rule of law, undermines trust in political systems, institutions and leadership, and encourages the exploitation of natural resources. And by the way, it is not limited to developing countries.

Finally, of course, there is bribery's substantial cost to business. Ethical companies pay dearly for refusing to engage in bribery and the unfair competition that results. It is hard to know exactly how much business is lost, but it's believed to be hundreds of billions of dollars. Then there is what happens these days to those who violate the law. Consider that:

- More prosecutions have occurred in the last 18 months than in the previous five years.
- Approximately 100 companies today have open FCPA investigations.
- Already this year, there have been at least eight settlements with the Department of Justice and Securities and Exchange Commission.

One company, a leading provider of products and services to the oil and natural gas industries, recently paid the largest-ever combined criminal and civil fines and disgorgement to resolve a criminal investigation by the Department of Justice and an enforcement action by the SEC: \$44 million. Talk about the need for risk mitigation.

Such penalties reflect the fact that public-sector agencies today are putting more resources toward addressing the problem of corruption. We've progressed from the days when some industrialized nations went so far as to allow companies to treat bribes as deductible business expenses. Other countries are beginning to get more serious and more aggressive in enforcing their anti-corruption laws as well. When the U.N. Convention was ratified last year, for example, it contained the first universal commitment to tough anti-corruption standards and is applicable not only to OECD countries but also to so-called "demand" countries – countries whose officials demand bribes from international firms.

All of this public sector activity is necessary and very helpful, but it is not sufficient. Any effective attack on corruption requires us to address the supply side as well as the demand side, and that requires involving global business. Corruption has been around and accepted for centuries, and many argue that it's not possible to stop it or even slow it down. However, my thinking was crystallized from the start. I had a four-word response to that view: Do not believe it!

When I became Fluor's CEO in 2001, I had already formed strong convictions on this subject. I was sick and tired of losing business to overseas competitors who played by different rules. The engineering & construction sector has an especially large exposure to corruption, and I was frustrated that our employees were pressured occasionally to pay up. I did not want our industry – and especially Fluor – to wind up as the "poster child" for world bribery.

When invited to chair the Engineering & Construction group at the World Economic Forum, I decided that this was the ideal opportunity to take on the anti-corruption challenge. Working collaboratively with various global groups, we created a multinational task force of participating companies from Europe, Asia, the Middle East and North America and adopted benchmark

“Business Principles” that address ethical conduct regarding bribes, facilitation payments, political contributions and gifts and charitable contributions and sponsorships.

Each signatory company agreed to maintain a zero-tolerance policy toward bribery and corruption and to develop or enhance their existing anti-corruption program to guide the behavior of their employees. The result was the Partnership Against Corruption Initiative, or PACI, which remains the only global anti-corruption initiative driven by the private sector. Today we have nearly 130 signatory companies from 39 nations, most from the global energy, mining and minerals, and engineering and construction industries. The most recent signatories include the Big Four accounting firms and Shell Oil. In total, these signatories represent more than \$600 billion in revenues and over two million employees worldwide.

Because we believe that companies should not only sign the principles but also act on them, PACI members have access to an array of useful services. These include practical tips and best practices, semi-annual task force meetings and a variety of communications materials. PACI is also developing a suite of training tools to help companies reduce their exposure to corruption. With leadership and guidance from Transparency International, a self-assessment document on adherence to anti-corruption principles and practices is in process and will soon be released. And finally, Transparency International, the broader PACI team and the Big Four accounting firms are all working on a system of third-party verification, which will ensure signatories translate their lofty words into concrete actions, adding to PACI’s credibility. Just last fall, Fluor served as the pilot to test this process. These are all useful products, prepared for companies like yours and people like you.

PACI also has been collaborating with Transparency International in an effort to convince the World Bank and regional development banks to require bidders on large contracts to demonstrate their anti-corruption credentials. We hope that one day every company will be required to submit anti-corruption policies with their bids on all development bank projects. PACI also played a supporting role in incorporating anti-corruption language into the U.N. Convention that I mentioned earlier.

We at Fluor are also taking our commitment to fighting global corruption further within our own industry. We are the lead donor and I serve as honorary chairman of a partnership led by the American Society of Civil Engineers to create and distribute a comprehensive anti-corruption training program targeted at employees and all those who design and build capital projects. Not only will this material be used to help professionals already in our industry but also with engineering students, so they are informed about real-world predicaments and are equipped to make the best decisions as they enter the work force. It is my belief that this program will pay enormous dividends as it comes on stream in the not-too-distant future.

I hope you agree that much of the activity I've just cited goes well beyond what the law requires or some form of check-the-box strategy. I also hope I can enlist your support. Consider what your organization is doing to combat corruption. Consider joining PACI, which you can do without being a member of the World Economic Forum. Attend task-force meetings; utilize the materials developed for signatories, and work with your industry associations. Check the World Economic Forum's Partnership Against Corruption Initiative website or call those of us intimately involved with the process. You can begin tomorrow by attending the concurrent session being held on anti-corruption at this conference. Or, better yet, you can begin today by taking with you the material available at the back of the room. Join the fight. We need you.

At the same time, I recognize that our issue – anti-corruption – may not be your issue. A retailer, for example, might decide to combat sweatshops and child-labor practices. As you know, there are many forms of unethical behavior. There are also many ways to proactively combat it. In World War II, during the Battle of the Bulge, General McAuliff gathered his soldiers and said: “Men, we are surrounded by the enemy. We have the greatest opportunity ever presented to an army. We can attack in any direction.” Find your issue, and get involved. Whatever your priority, attack in some direction.

At Fluor, we became believers some time ago, deciding that while the anti-corruption agenda was challenging, it was also an opportunity we needed to seize. We can't let the past history of corruption, or the difficulty of eradicating it, slow us down. We can't allow doubters to distract

us from the potential for real progress that exists. We can't hope that passive compliance is enough to stop corruption; it won't.

The anti-corruption environment is rapidly changing for the better. In fact, yesterday's tolerance for corruption is diminishing faster and more dramatically than is commonly appreciated, substantially changing the stakes for all concerned. I hope that today you have become at least beginning believers in this vital global cause.

And as with any other worthwhile goal, it ultimately comes down to leadership. The time arrives when, if you believe in something, you have to act. Some will try to talk you and your CEO out of it – perhaps the general counsel. Many of you are lawyers, I know, and part of a lawyer's job is to advise people like me to be careful. But while we want and need that advice, we cannot become immobilized by fear. I've heard it said many times: "Just obey the law," and "Keep your head down." Well I'm sorry, but sometimes you have to fight for what you believe – without being reckless, of course.

In situations like this, I recall the inspiring words of Christopher Reeve who, addressing a national convention from a wheelchair, said that, "So many of our dreams at first seem impossible. Then they seem improbable. And then, when we summon the will, they soon become inevitable." That's the spirit we need to adopt. That's the spirit of a proactive approach to anti-corruption and a host of other problems. I urge you to adopt it.

So, in closing, I thank you for your attention and once more for your good work in promoting corporate ethics and compliance. I also look forward to your comments and questions . . . even from the lawyers.