



The Fourth Pillar of Bluwashing: Corruption

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Abstract

Corruption is a global issue that has been around within the public sector since before the Roman era, and it has tremendously dictated the business sector to ensure that business works in a firm's favour. Still, bribery and exploitation are utilised to ensure that a corporation stands out from its competitors by securing the best deals. Still, there are various ethical concerns due to the forcefulness of this act. Therefore, this paper explores the risks of corruptive tendencies and how to reduce bribery by looking into other countries' strategies.

Keywords: UN, corruption, bribery, monetary, reputation, risks.

Introduction

Corruptive business tendencies have been around since the start of businesses and pose several opposing pushbacks in reputation, legalities and finances if caught in the act (Pitt & Abratt, 1986). The obtaining of favours and payoffs to gain special treatment and rights has been around since before the public sector and is prominent in every culture globally (Noonan et al., 1984). It has been noted that many governments and businesses depend upon corruptive tendencies to secure a superior public positioning, even if the criticism is involved. Therefore, tainted measures have been used daily by larger governing bodies that control some individuals and stabilise the economy.

There are several definitions of corruption dependent on an individual's actual views of this topic. For example, Jain (2001, p.73) defines corruption as an "act in which the power of the public office is used for personal gain in a manner that contravenes the rules of the game". Whereas Svensson (2005, p. 20) states that corruption is "the misuse of public office for private gain". Although both are similar in general, both contain different stances regarding personal and business gains. Put simply; all definitions refer back to the 'misuse of power to gain something. Regarding corporations and corruption, several activities such as fraud, securities and commodities fraud, intellectual property fraud and money laundering, categories of white-collar crimes, are listed.

Although many countries, if not all, have laws in place that are meant to prevent corruption, many senior managers feel that corruption is not as big of a deal as it seems. Cuervo-Cazurra (2016) highlighted that many managers see corruption as a form of business progression when outsmarting competitors and advancing further ahead of the game. Therefore, playing a balancing act of good and evil on the scales and seeing the competitive outcome as more prominent than the downfall the action would have on the company's reputation.

On the contrary, corruption is against the law for many reasons, and one major one is that the crimes of the powerful are harmful in some ways. When

someone in power simply puts their interests before their people, there is no proper balance. However, there is not an abundance of research within the area of corruption, so the actual effects of this problem are still not known completely (Svensson, 2005). With a lack of research comes a query into why this area truly is not researched enough due to the economic impacts it may present.

Measures of Corruption

Due to the illegal nature of corruption, it is relatively hard to measure and therefore poses several issues. The first challenge that corruption opposes is that those involved in a corruptive relationship are not likely to admit it (Cuervo-Cazurra, 2016). For example, not many individuals in management positions will state that they bribed another to ensure a contract or partnership was obtained. Therefore, crimes under corruption are not often reported unless pieces of information are leaked accidentally to others about this illegal issue due to the social acceptability of this problem (Bahoo et al., 2020).

Another challenge that the measurement of corruption brings is when a corruption case only reflects one side of the story. For example, how a bribe was conducted will never be genuinely revealed straightaway and parties deemed as being 'in the wrong' might be the victim of the bribe (Cuervo-Cazurra, 2016). Therefore, bias can get into the way of measuring corruption cases and impairing the case further.

The outcome of both of these challenges is the commonly used indicator established by Transparency International and the World Bank. Transparency International, a non-governmental organisation in Germany, has used a ranking system to order countries depending on their level of aggregate information regarding corruption. The World Bank has also followed suit and done this as well. However, one main issue, here again, is that bribery often occurs in complete secrecy; therefore, the accurate level of country corruption will never be known (Cuervo-Cazurra, 2016). Further, these systems are not highly effective as many countries

have the technology and legal loopholes to ensure that they are covered during these illegal transactions.

Why Should Companies Care?

Legal Risks

According to GOV (2021), "It is illegal to offer, promise, give, request, agree, receive or accept bribes - an anti-bribery policy can help protect your business. You should have an anti-bribery policy if there is a risk that someone who works for you or on your behalf might be exposed to bribery. Your anti-bribery policy should be appropriate to the level of risk your business faces. Your policy should include your approach to reducing and controlling the risks of bribery, rules about accepting gifts, hospitality or donations, guidance on how to conduct your business, e.g. negotiating contracts, rules on avoiding or stopping conflicts of interest." On the contrary, the United States Department of Justice (2017) declared that "The Foreign Corrupt Practices Act of 1977, as amended, 15 U.S.C. §§ 78dd-1, et seq. ("FCPA"), was enacted to make it unlawful for certain classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business"

Norton Rose Fulbright states the following as the key legal issues that may arise during corruption allegations. For instance, a "business will often face competing for civil and criminal law risks when an allegation of corruption is made in relation to a third party. On the one hand, suspending payments may breach the terms of the contract with the third party and lead to a civil claim; on the other hand, there is a risk that if the business continues to make payments, it will be putting the third party in funds to pay bribes for which the business could be criminally liable under the UK Bribery Act 2010 or analogous legislation - and which could in turn raise money laundering issues. As a result, the business will need to consider early on any self-reporting requirements under applicable financial regulation or money laundering legislation - and whether it will want to seek consent to deal in potentially tainted funds to

provide itself with a defence to money laundering offences" (Cowley and Reeves, 2017).

From the above-stated laws in both the UK and the US, it is evident that corruption is a highly illegal activity to indulge in. As the third paragraph states, there are complex legal actions attached to the act of bribery or corruption. There is no denying that corruption still exists. Still, it is only possible because the state is involved in these malpractices, allowing multi-billion corporations to cover up their corruption tracks without any legal actions being taken against them.

Reputational Risks

According to BLL Consulting, "Corruption, perhaps more than anything, risks irreparably damaging a hard-earned reputation. While reputation risk due to corruption goes along with other risks (especially ESG risks), reputation damage typically arises when a company pretends to have proper anti-corruption measures in place and gets caught in a corruption scandal it is ill-equipped to deal with" (Tassé, 2020).

The following is the position on reputational risks involved in corruption by Reuters Events "Reputation risk is 'an amplifier risk that layers on or attaches to other risks – especially environmental, social and governance (ESG) risks – adding negative or positive implications to the materiality, duration or expansion of the other risks on the affected organization, person, product or service".

Reputation damage typically arises when a company pretends to have proper anti-corruption measures in place but gets caught in a corruption scandal. As a result, the company incurs fines and suffers business losses, such as plummeting stock market prices. For example, last year, the French industrial group Alstom agreed to pay a record \$772.3m fine for bribing officials to win power and transportation projects from state-owned entities worldwide. The corollary to such risks is the reputation opportunities associated with corruption – where a company has proper anti-corruption programmes and detectors in place that systematically investigate and report corruption incidents, when necessary, to the

authorities. In this case, companies both meet their stakeholders' expectations and enhance their reputation and business value.

As corruption and bribery have been discussed for decades, it is vital to understand that the reputational risks involved with such crime are soaring high, to the point that it can affect the trading of a publicly traded company. Naturally, no one wants to be "publicly" associated with corporations that participate in corrupt activities. However, Reuters Events state that corruption challenges can be turned into reputation opportunities by doing the following, "There are many different opportunities for bribery and corruption in the oil and gas industry, each of them with related reputation consequences. Being prepared for corruption risks means protecting or even enhancing the company's reputation (Blanc, 2021).

Firstly, the central role of government agencies in overseeing virtually all aspects of the oil and gas sector presents multiple risks and opportunities for bribery and corruption. Second, as governments at all levels grant or deny rights to oil and gas companies, businesses have a chance to improve their reputation by implementing an effective and predictable due diligence coordination and execution protocol that understands the role of the government. In practice, this means coordination of the business's legal, compliance, finance, project, and business development aspects.

Secondly, the complex, extensive, diversified oil and gas supply chains mean that the sector is well exposed to third-party corruption. To mitigate these risks, companies should implement well-defined policies and effective platforms to proactively manage and oversee third parties in all aspects of the business.

Third, oil and gas companies are prone to suffering reputational losses from environmental, health and safety (EHS) corruption-related incidents. So again, there is an opportunity to enhance reputation by putting robust auditing, and other EHS controls in place.

Finally, community relations at the local level can be fraught with human rights, labour rights, security and corruption issues. To mitigate these risks, businesses should develop comprehensive community engagement strategies that work in parallel with their corporate anti-corruption policies".

What Can Companies Do?

The establishment of good corporate governance has finally been accepted as a crucial area in ensuring a firm secures stable economic development. However, many companies still carry out corrupt actions with motivations to ensure their firm stands out from other competitors (Goudie & Stasavage, 1997). This is one of the main motivations that started the issue of bribery and other corrupt tendencies many generations ago. With the clear change in governance practices over recent years, there has been less room for corporation leaders to carry out corrupt actions due to their being a growing public understanding on corruption within the economic landscape globally.

One place that has experienced great anti-corruption practices in Bangladesh where they have exercised many studies and experiments into good policies and theories to incorporate into firms to prevent corruption (Azim et al., 2017). This study was produced after the World Bank (1996, p.14) stated that "corruption thrives where there is discretion and monopoly, accountability is weak, and public servants are poorly paid. These are the main causes of public corruption in Bangladesh". With Bangladesh being one of the top places for corruption to derive from, the "Sixteen Decisions" were established within an experiment to help aid the tackle of corruption (Grameen Bank, 2015). All sixteen guidelines helped the organization in question feel a sense of community and personal integrity. This study showed promising results as corruptive tendencies were reduced significantly and financial performance was optimised.

Another critical example is Italy, as their anti-corruption model is robust and truly disciplinary. Many firms have applied the corporate corruption prevention code which outlines the transparency of plans to ensure that there is no direct way to carry out bribery (Lombardi et al., 2019). This prevention code

is also law in Italy though Law 190/2012, article 1, co, 8. Therefore, there is a model available that will readily prevent any form of corruptive activity as reports will need to be passed through a businesses chain discussing any plans that may contain corruptive actions.

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