Private Sector
Topic Guide

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What are private sector corruption and integrity assessments?
We define private sector corruption and integrity assessments as those tools which aim to:
(a) identify the extent of corruption and/or corruption risks in/for the private sector, and/or
(b) identify gaps in private sector anti-corruption systems and their enforcement.

The scope of assessments ranges from those which examine the private sector as a whole - often comparing across countries - to those which look at a specific national and/or sectoral context[1], down to those which undertake the analysis at the level of individual firms.

Purpose and context of the assessments
The most common purposes of assessments include:

- To compare the state of the 'business environment' across countries and/or across time. Many of these tools include an assessment of the corruption risks for private investors based on a country's institutional and political context[2].
- To assess the extent and forms of corruption within the private sector, including fraud and bribery, sometimes in the context of foreign investment[3].
- To assess companies' anti-corruption policies and practices with a view to raising awareness and advocating for change at firm level[4].

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[1] The financial service sector is one prominent example included here. Most other sectoral tools, however, are covered in other topic guides.

[2] E.g. World Bank – Enterprise Surveys, World Bank - Business Environment and Enterprise Performance Survey (BEEPS), World Bank – Doing Business, World Bank - Business Environment Snapshots, WEF - Global Competitiveness Report, OECD – Risk Awareness for Multinational Enterprises in Weak Governance Zones

[3] E.g. TI – Bribe Payers Index, Social Weather Stations – Surveys of Enterprises on Corruption, PWC - Economic Crime Survey, Business Against Crime South Africa and GTZ - Research Report on Corruption in the South African Private Sector, CMI - Corruption in International Business Transactions: The Perspective of Norwegian Firms)

[4] E.g. Transparencia por Colombia - Second Survey of Anti-Bribery Measures in Colombian Businesses, TI Norway - Survey on Values, Code of Conduct and Anti-corruption Programmes in the 25 Largest Companies Listed at the Norwegian Stock Exchange, TI Norway - Survey among Norwegian Companies

- <u>To assess business attitudes to corruption</u> including business actors' understanding of what constitutes bribery and corruption, their knowledge of anti-bribery legislation, and their views on the effectiveness of anti-corruption efforts in the private sector[5].

Assessment approaches

The principle approaches to private sector assessments can be broadly divided into those which focus on *corruption*[6] and those which focus on *anti-corruption*. The former are most commonly used for sector or country level analysis, whilst the latter generally take the individual company as the principle unit of analysis.

(1) <u>Corruption</u>:

- *Business environment assessments (sometimes called business or investment climate assessments)* often include at least one indicator relating to corruption. They are based on surveys and/or key informant interviews around obstacles to doing business, sometimes complemented by hard data on laws and regulations that govern the private sector. In some cases data from multiple sources is aggregated to form an internationally comparable index[7].
- *Business experience and perception surveys* can be used to record perceptions and experiences of business actors with regards to private sector involvement in corrupt practices.[8] Although not strictly an assessment of the private sector, they are also used to gather data on perceptions of the private sector about corruption in the public sector[9], with a focus on those areas where interaction between the public and private spheres is most prone to corruption (e.g. procurement, regulation, taxation, customs, lobbying etc)[10]

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about Corruption, TI - TRAC 2, TI and RWI - Promoting Revenue Transparency, KPMG-Global Anti-Bribery Survey, PWC- Confronting Corruption: The Business Case for an Effective Anti-corruption Programme, E&Y- Global Fraud Survey, TI-NZ – As Good as we are Perceived, EIRS - Corporate Codes of Business Ethics: an International Survey of Bribery and Ethical Standards in Companies, The Conference Board - Resisting Corruption: How Company Programs Are Changing, Ethisphere - World's Most Ethical Companies, TI France - Prévention de la Corruption : Où en Sont les Grandes Entreprises Françaises?, TI Czech Republic - Who Benefits from What? The Two-fold Perception of Corruption in the Czech Business Sector

[5] E.g. The Association of Chartered Certified Accountants - Bribery and corruption: the impact on UK SMEs, KPMG-Global Anti-Bribery Survey, KPMG- Overseas Bribery and Corruption Survey, PWC - Economic Crime Survey, Control Risks – International Business Attitudes to Corruption, TI – Anti-corruption in International Business Questionnaire

[6] In addition to the approaches described here, another way to measure private sector corruption is to focus on specific industry sectors (e.g. construction, extractive industries, education). However these sectoral tools are covered by other topic guides and thus not included here.

[7] E.g. World Bank – Enterprise Surveys, World Bank – Doing Business, World Bank - Business Environment Snapshots

[8] E.g. TI – Bribe Payers Index, CMI - Corruption in International Business Transactions: The Perspective of Norwegian Firms

[9] Other topic guides which discuss the link between public-private corruption include those on political corruption, public procurement and public integrity

[10] E.g. CIET Bolivia - Bolivia: Perception of the Private Sector on Corruption in Public Services, Social Weather Stations – Surveys of Enterprises on Corruption, Kenya Anti-corruption Commission - National Enterprise Survey on Corruption, Economic Institute of Cambodia - Assessment of Corruption in Cambodia's Private Sector, Transparencia Brazil and Kroll - National Enterprise Survey on Corruption

(2) <u>Anti-corruption:</u>

- *Business surveys and reviews of official company data* are sometimes used to assess the effectiveness of companies' anti-corruption systems. In some cases the level of transparency and standard of anti-corruption reporting are also assessed. These assessments usually serve to provide comparative data which can be used to raise awareness and incentivise poor performing companies to strengthen their anti-corruption systems[11].
- *Self-assessment, checklists, indicators and red flags* are often used for companies to assess the design and effectiveness of their own anti-corruption programmes and to assess and manage the risk of fraud and corruption. These are generally based on recognised standards such as TI's Business Principles for Combating Bribery[12].

Data sources

The vast majority of private sector corruption assessments use perception and/or experiential data from large scale business surveys. Anti-corruption assessments, in contrast, tend to use legal-institutional analysis to assess the strength of anti-corruption systems often complemented by business surveys and/or key informant interviews to ascertain how effective such systems are and the extent to which they are enforced in practice. Other less common but valuable data sources include case studies from companies on specific instances of corruption and data relating to internal investigations of bribery and fraud. These can provide more detailed information on 'red flags' to look out for, and can provide insight into some of the concrete causes of company level fraud and corruption[13].

Key issues and challenges

(1) <u>Representativeness and reliability of business surveys</u>:

A common limitation of many business surveys is that they tend to target only large companies in major cities. These may not be representative of the reality for smaller companies in other parts of the country, especially those operating within the informal sector, which may be prone to a different set of corruption risks[14]. Whilst including a broader set of private sector actors in surveys may be more costly and logistically complicated and whilst the informal nature of many of these smaller companies can make it difficult to construct a reliable sample, the results are nevertheless likely to be more accurate[15].

A further difficulty with business surveys is that respondents may have incentives to misreport in an effort to protect themselves or the reputation of their company. One way to

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[11] E.g. TI – TRAC 2, TI and RWI – Promoting Revenue Transparency, Save the Children - Beyond the Rhetoric. Measuring Revenue Transparency: Company Performance in the Oil and Gas Industries
[12] E.g. TI- Business Principles for Countering Bribery: Transparency International's Self-Evaluation Tool, TI - ABC Anti Bribery Checklist, TI and Global Compact - Reporting Guidance on the 10th Principle against Corruption, TI Switzerland - Checklist for Self-assessment , Prevention and Fight Against Corruption in Small and Medium Enterprises, TI Germany - Checklist for Self-audits to Prevent Corruption in Business, KPMG - Who is the Typical Fraudster?)
[13] E.g. PWC – Global Economic Crime Survey, KPMG - Who is the Typical Fraudster?
[14] TI Bangladesh - The Shadow Economy of Bangladesh: Size Estimation and Policy Implications attempts to estimate the size of the informal sector in Bangladesh through a combination of public surveys and regression analysis
[15] Economic Institute of Cambodia - Assessment of Corruption in Cambodia's Private Sector, CMI - (2008) Business Climate Surveys: Experiences from Ghana, Mozambique, and South Africa

address this issue is to phrase questions in such a way as to avoid implicating the respondent. It may also help to include multiple questions on corruption in different sections of a questionnaire to enhance reliability of the data. On the other hand, the inverse problem may occur whereby the lack of actual knowledge about the incidence of corruption in a company may mean that respondents base their beliefs on occasional incidents or hearsay, which may lead to an overestimation of the problem. An important consideration in this respect is to ensure that surveys of business actors use appropriate vocabulary to avoid confusion[16].

An additional consideration relates to aggregate indicators, such as those used in many business environment assessments. These are useful for identifying key dimensions of the business environment at the country level and for comparing across countries and across time. However, they are less useful for highlighting the specific role that corruption plays in shaping the business environment or for identifying differences in the business environment within countries, or across firms and sectors. As such, they are less likely to provide actionable information for prioritising anti-corruption reform efforts[17]. For example, in order to allow international comparisons, the World Bank's Doing Business Survey describes the business climate of a hypothetical company using standardized case scenarios. This approach, whilst systematic and consistent, does not necessarily capture the full spectrum of businesses operating in a country, nor the full set of issues businesses are likely to encounter[18].

(2) Reliability of company level anti-corruption assessments

A number of private sector anti-corruption assessments rely on publicly available information, or documentation volunteered by companies. Whilst this approach may be useful as a measure of transparency, there is an inherent risk that companies may under- or mis- report their activities[19].

A similar risk of bias applies to those tools which rely on company self-assessment as the primary data collection method[20]. This may not be such an issue where the overall objective of the tool is to help companies assess the design and effectiveness of their own anti-corruption systems and identify areas for improvement. Nevertheless, where self-assessments are meant to feed into external reporting[21], the incentive to misrepresent may be greater.

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[16] World Bank - The Cost of Doing Business. Firms' Experience with Corruption in Uganda, Transparencia por Colombia - Second Survey of Anti-Bribery Measures in Colombian Businesses, CMI - Corruption in International Business Transactions: The Perspective of Norwegian Firms Uganda

[17] DFID - Making Sense of Investment Climate Surveys

[18] World Bank – Doing Business

[19] TI –TRAC 2, TI – Promoting Revenue Transparency, Save the Children - Beyond the Rhetoric. Measuring Revenue Transparency: Company Performance in the Oil and Gas Industries, TI Norway - Survey on Values, Code of Conduct and Anti-corruption Programmes in the 25 Largest Companies Listed at the Norwegian Stock Exchange

[20] E.g. TI- Business Principles for Countering Bribery: Transparency International's Self-Evaluation Tool, TI - ABC Anti Bribery Checklist, TI and Global Compact - Reporting Guidance on the 10th Principle against Corruption, TI Switzerland - Checklist for Self-assessment , Prevention and Fight Against Corruption in Small and Medium Enterprises, TI Germany - Checklist for Self-audits to Prevent Corruption in Business

[21] E.g. TI and Global Compact - Reporting Guidance on the 10th Principle against Corruption

Finally, most anti-corruption tools focus on systems, procedures and programmes to combat corruption in the private sector, rather than the level of compliance with stated protocols[22]. Nevertheless, some assessments do use key informant interviews or surveys to gather additional data on perceptions of whether anti-corruption systems are actually applied[23].

Examples of promising practices

- Sub-national assessments: To address some of the limitations regarding business surveys noted above, the World Bank's Doing Business survey developed sub-national indicators for 6 countries in 2009/10[24]. Further sub-national studies are under way in an additional 9 countries[25]. Increasingly, such studies are being periodically updated to measure progress over time or to expand geographic coverage. These studies point to significant differences in the speed of reform and the ease of doing business across cities in the same country[26]. Similarly the World Bank's Enterprise surveys have developed sub-national business environment indicators for 105 countries[27].

- Comparability: The World Bank has restructured its Business Environment and Enterprise Performance Survey (BEEPS) to make it compatible with its Enterprise surveys, allowing comparisons to be made across much of Europe, Central Asia, Africa and Latin America[28]. Likewise, the Bank's Doing Business methodology uses factual information on relevant laws and regulations allowing it to make comparisons and benchmarks which are valid across countries. Doing Business has also introduced a new measure to illustrate how the regulatory environment for business has changed in absolute terms in each country over a 5 year period. Because the methodology is inexpensive and easily replicable, data can be collected in a large sample of countries[29].

- The role of foreign investment in fuelling corruption: Given the increasingly globalised nature of private sector activities, a number of tools aim specifically to measure, in one form or another, the impact of foreign investment on local corruption dynamics[30]. TI'S TRAC2 and Promoting Revenue Transparency (PRT) studies, for example, include an assessment of the extent to which companies report on country-level operations including the transfer of funds to host governments in the form of license fees, taxes etc. Taking a different but related approach, TI's Bribe

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[22] E.g. TI-NZ – As Good as we are Perceived, EIRS - Corporate Codes of Business Ethics: an International Survey of Bribery and Ethical Standards in Companies, OECD - Survey on Measures Taken to Combat Bribery in Officially Supported Export Credit Agencies

[23] E.g. The Conference Board - Resisting Corruption: How Company Programs Are Changing, TI France - Prévention de la Corruption : Où en Sont les Grandes Entreprises Françaises?, TI Czech Republic - Who Benefits from What? The Two-fold Perception of Corruption in the Czech Business Sector

[24] Colombia, Indonesia, Kenya, Nigeria, Pakistan and Russia

[25] Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Moldova, Montenegro, Serbia, the Philippines and South Sudan

[26] World Bank – Doing Business

[27] World Bank – Enterprise Surveys

[28] World Bank - Business Environment and Enterprise Performance Survey (BEEPS)

[29] World Bank – Doing Business

[30] [30] TI – Bribe Payers Index, TI –TRAC 2, TI – Promoting Revenue Transparency, Save the Children - Beyond the Rhetoric. Measuring Revenue Transparency: Company Performance in the Oil and Gas Industries, CMI - Corruption in International Business Transactions: The Perspective of Norwegian Firms

Payers Index (BPI) and CMI's survey on corruption in international business transactions both aim to assess the supply-side of bribery in the context of multi-national companies operating in foreign countries. The BPI, PRT and TRAC 2 also include an assessment of the role of foreign companies in influencing political processes in host countries[31].

- <u>Multi-dimensional</u>: Finally there are a small number of assessments which analyse a broad range of private sector related corruption issues to give a holistic picture of the challenges at country-level, mainly through survey-based perception data. TI Czech Republic's survey, for example, combines an examination of the business environment with an assessment of anti-corruption (or ethics) regulations and an overview of attitudes to unethical behaviour in the private sector[32]. Social Weather Stations surveys, meanwhile, focus on the interaction between the public and private sectors, including: attitudes towards corruption, bribe-solicitation on specific transactions, bribe reporting, sincerity of government agencies in fighting corruption, participation of business in fighting corruption, awareness of government legislation, political patronage, media reporting on corruption, and internet use for government transactions[33].

All tools referenced in this guide are accessible via the gateway tool database:
http://gateway.transparency.org/tools

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[31] For more information on the link between the private sector and political corruption, please see the Political Corruption Topic Guide
[32] TI Czech Republic - Who Benefits from What? The Two-fold Perception of Corruption in the Czech Business Sector
[33] Social Weather Stations – Surveys of Enterprises on Corruption

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