Accounting Forum xxx (2015) xxx–xxx

Contents lists available at ScienceDirect

Accounting Forum

journal homepage: www.elsevier.com/locate/accfor

Corporate reporting on corruption: An international comparison

Ralf Barkemeyer[a,*], Lutz Preuss[b], Lindsay Lee[c]

[a] KEDGE Business School (Bordeaux), 680 Cours de la Libération, 33405 Talence Cedex, France
[b] Norwich Business School, University of East Anglia, Norwich Research Park, Norwich, NR4 7TJ, UK
[c] School of Earth and Environment, University of Leeds, Leeds, LS2 9JT, UK

ARTICLE INFO

Article history:
Received 25 March 2015
Received in revised form
21 September 2015
Accepted 16 October 2015
Available online xxx

Keywords:
Anti-corruption
Institutional theory
International comparison
Organizational fields
Sustainability reporting

ABSTRACT

Building on an institutionalist framework of the various organizational field-level pressures on firms to engage with the challenge of corruption, we analyse anti-corruption disclosures across a sample of 933 sustainability reports. Such reporting complements anti-corruption initiatives, as it allows the company to demonstrate its commitment. Our results show clear country- and sector-level differences in the extent to which companies communicate their anti-corruption engagement. However, the more a company is exposed to corruption, the less likely it appears to openly communicate its anti-corruption engagement. Hence, our results cast doubt on the effectiveness of anti-corruption disclosures as part of wider sustainability reporting.

1. Introduction

International trade and investment have accelerated tremendously during the last decades, but their growth has also been accompanied by an internationalization of corruption (Sanyal, 2005). Corruption is, in simple terms, the abuse of authority for private benefit (Rodriguez, Siegel, Hillman, & Eden, 2006). Corruption matters because, at the firm level, it inflicts uncertainty and additional costs on business; at the societal level, it weakens societal institutions like courts and regulatory agencies, diverts funds away from food, health care, poverty alleviation or education projects, slows economic growth and misdirects entrepreneurial talent (Heywood & Rose, 2014; Rodriguez et al., 2006; Svensson, 2005; Tanzi, 1995). At the same time, the private sector has also been a major source of corruption in many countries, whether these are actions that benefit the company, such as bribing civil servants to obtain public contracts, or actions that benefit individuals within the company, such as nepotism in personnel recruitment (Argandoña, 2001; Sikka & Lehman, 2015).

Hence the quality of corporate reporting practices–both the disclosure of financial and additional information on the firm's social and environmental performance as well as the auditing of this information—have an important role to play in constraining corruption (Kimbro, 2002; Shleifer & Vishny, 1993). Countries that have more transparent reporting standards and a higher concentration of accountants were thus found to be less corrupt (Malagueño, Albrecht, Ainge, & Stephens, 2010; Wu, 2005). The prior accounting literature on corruption predominantly falls into three categories: it is either largely conceptual (e.g. Everett, Neu, & Rahaman, 2007), or it discusses individual cases of corruption (e.g. Sharma & Lawrence,

* Corresponding author. Tel.: +33 556846312.
E-mail addresses: ralf.barkemeyer@kedgebs.com (R. Barkemeyer), l.preuss@uea.ac.uk (L. Preuss), l.a.lee@leeds.ac.uk (L. Lee).

http://dx.doi.org/10.1016/j.accfor.2015.10.001

2015), or it utilizes relatively small samples of countries (e.g. 61 countries in Kimbro, 2002). By contrast, this paper offers a cross-national study of firms from all five continents.

More specifically, the paper focuses on the extent to which companies openly communicate their engagement with corruption. Through publicly reporting its anti-corruption initiatives, a company can demonstrate its commitment to addressing this challenge, thus giving more credibility to its efforts as well as raising awareness of corruption-related problems. Communicating on anti-corruption measures is therefore an important complement to a company's actual engagement in anti-corruption initiatives. Based on this logic, anti-corruption measures have become a key part of sustainability reporting and have become a standard element of mainstream reporting guidelines, such as those by the Global Reporting Initiative (GRI). At the same time, corporate reporting on anti-corruption may not lend itself easily to voluntary, beyond compliance sustainability reporting. Given the nature of the problem, companies may choose to avoid the topic as part of their sustainability disclosures rather than proactively and transparently addressing the issue. Hence, we explore how companies address anti-corruption as part of their sustainability reporting, and compare and contrast anti-corruption reporting to the disclosure of other sustainability-related aspects.

The paper makes a number of contributions to the literature on corporate engagement in anti-corruption measures. First, we do find patterns in terms of country- and sector-level differences in reporting on anti-corruption; more specifically, reporting appears to be negatively related to the degree to which companies are exposed to corrupt practices. In other words, the higher the likelihood that a company is exposed to corrupt practices, the less likely it is to communicate its anti-corruption engagement. Second, we also find that specific anti-corruption initiatives, like the Extractive Industries Transparency Initiative (EITI), are much more effective in encouraging companies to openly engage with the issue than generalist ones, such as the United Nations Global Compact. Both findings have significant repercussions for the future design of CSR initiatives.

The paper is structured as follows. The next section defines corruption and briefly outlines its enormous costs to firms and wider society before introducing key government, multi-stakeholder and corporate initiatives in this area. Thereafter, the prior literature on corruption and corporate reporting is reviewed briefly. This is followed by a section that outlines the theoretical basis of the paper in institutional theory and develops a set of hypotheses to guide the analysis in the remainder of the paper. Thereafter, the methodological details of the quantitative study that underlies the paper are presented. The results section then presents the findings from the various statistical analyses. In concluding, the most important implications of the paper's findings for academic research and management practice in the area of anti-corruption are discussed, its limitations are outlined as well as directions drawn out for future research into the role of businesses in society across different national settings.

2. The nature of corruption

Corruption occurs where decision-makers violate their duty to act in a neutral and impartial manner to pursue societal welfare and, instead, aim to generate benefits for themselves or for closely related persons. This duty requires that "personal or other relationships should play no role in economic decisions that involve more than one party" (Tanzi, 1995, p. 161), in other words that decisions should be made at arm's length. Thus corruption can be defined in a generic fashion as "the intentional non-compliance with the arm's-length principle aimed at deriving some advantage for oneself or for related individuals from this behavior" (Tanzi, 1995, p. 167)[1].

The costs of corruption at both societal and firm level are well documented by now (Bardhan, 1997; Doh et al., 2003; Galang, 2012; Hess & Dunfee, 2000; Heywood & Rose, 2014; Jain, 2001; Svensson, 2005). To start with, corruption imposes significant additional costs on firms and private individuals (Galang, 2012; Luo, 2002). According to estimates by the World Bank, world-wide bribery costs at least US$ 1 trillion a year (Rose-Ackermann, 2004). Corruption also imposes non-monetary costs in the forms of bureaucratic delay, greater information processing difficulty and heightened uncertainty (Habib & Zurawicki, 2002; Luo, 2011). Economic actors face further costs when, because of corruption, they are unable to use societal institutions such as courts for the enforcement of contracts (Bardhan, 1997; Svensson, 2005). At a societal level, corruption is likely to reduce public expenditure, because economic activity outside the official economy generates less tax revenues, if any at all; predatory behaviour by corrupt politicians thus diverts funding away from education, health care and infrastructure projects (Mauro, 1998; Svensson, 2005). Corruption weakens key societal institutions, like courts and regulatory agencies, hence perpetuating the situation (Doh et al., 2003). Furthermore, corruption has adverse effects on economic growth as it tends to reduce investment due to the additional operational inefficiencies (Bardhan, 1997; Habib & Zurawicki, 2002; Mauro, 1995). In addition to hampering economic growth, corruption can also influence the distribution of income within a society (Jain, 2001). In particular, the poorest in a society are the least likely to have resources for bribing and are hence further disadvantaged (Bardhan, 1997).

Anti-corruption measures have traditionally been in the domain of government legislation. Some countries have legislation in place that applies to the international operations of MNEs headquartered within their borders (Cuervo-Cazurra, 2008a), such as the Foreign Corrupt Practices Act (FCPA) in the United States or the Bribery Act 2010 in the United Kingdom.

[1] Another often cited definition defines corruption as the "abuse (or misuse) of public power for private (personal) benefit" (Doh, Rodriguez, Uhlenbruck, Collins, & Eden, 2003: 115).

Please cite this article in press as: Barkemeyer, R., et al. Corporate reporting on corruption: An international comparison. *Accounting Forum* (2015), http://dx.doi.org/10.1016/j.accfor.2015.10.001