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Corruption Risk – the Effect on International Competitiveness

- A study of Norwegian Multinational Companies -

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TABLE OF CONTENTS

ACKNOWLEDGEMENTS ..... **III**

ABSTRACT ..... **IV**

1. INTRODUCTION **1**

1.1 RESEARCH AREA AND SCOPE 2

1.2 RESEARCH MODEL 3

1.3 CENTRAL TERMS 4

1.4 STRUCTURE OF THESIS 5

2. METHODOLOGY **6**

2.1 RESEARCH DESIGN 6

2.2 RESEARCH METHODOLOGY 6

2.3 RESEARCH PROCEDURE 7

2.3.1 Interview process *7*

2.3.2 Selection of participants *8*

2.3.3 Presentation of participants *8*

2.4 VALIDITY AND CREDIBILITY 9

2.5 LIMITATIONS 10

2.6 METHODOLOGICAL SUMMARY 12

3. LITERATURE REVIEW **14**

3.1 WHAT IS CORRUPTION? 14

3.1.1 Impacts of corruption *15*

3.1.2 How to measure corruption *15*

3.2 CORRUPTION AND INTERNATIONAL COMPETITIVENESS 16

3.3 RISK IDENTIFICATION 17

3.3.1 Anti-corruption legislations *18*

3.3.2 BRIC countries *20*

3.3.3 Third parties *21*

3.4 RISK MANAGEMENT 22

3.5 SUMMARY OF LITERATURE REVIEW 23

4. PRESENTATION OF FINDINGS **25**

4.1 CORRUPTION RISK ASSESSMENT 25

4.2 RISK IDENTIFICATION 27

4.3 RISK MANAGEMENT 30

4.4 SUMMARY OF MAIN FINDINGS 31

5. DISCUSSION **33**

5.1 HOW IS THE INHERENT RISK OF CORRUPTION CONSIDERED? 34

5.2 HOW IS THE INHERENT RISK OF CORRUPTION MANAGED? 36

5.3 HOW DOES CORRUPTION AFFECT INTERNATIONAL COMPETITIVENESS? 43

6. CONCLUDING REMARKS **46**

REFERENCES **48**

APPENDICES **52**

APPENDIX 1: INTERVIEW GUIDE - NORWEGIAN 52

APPENDIX 2: INTERVIEW GUIDE – ENGLISH 55

PRELIMINARY THESIS REPORT **57**

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Abstract

Corruption is a debated topic among actors in the international business environment, particularly as stringent anti-corruption legislations pose restrictions on how companies can legally operate. Corruption is by many leading economists regarded as a worldwide challenge and an impediment to economic growth and development. Norway has taken an active role in the international fight against corruption, and this thesis asks whether this could affect Norwegian multinational companies' (MNCs) competitiveness.

This thesis examines *how the risk of corruption affects Norwegian multinational companies' international competitiveness.* To limit the scope, the thesis asks the following sub-questions: (1) *how is the inherent risk of corruption considered? (2) How is the inherent risk of corruption managed*? A qualitative study has been conducted on five Norwegian multinational companies, operating in the BRIC countries (Brazil, Russia, India, China). The MNCs operate in different industries and represent a combination of private/public and privately owned companies.

The research found that the MNCs consider the inherent risk of corruption to be high. The MNCs respond to the identified risk by implementing strict internal procedures for corruption risk management. However, despite these procedures, certain MNCs recognize that they are unable to reduce the risk to an acceptable level, leading to risk aversion.

The implementation of anti-corruption procedures, as a result of identified risk, is found to affect the MNCs' international competitiveness negatively in two ways. On one hand, it requires a considerable amount of resources that might affect the companies' profitability. On the other hand, risk aversion may force the MNCs to exclude certain markets due to the identified corruption risk. These consequences are, however, argued to be short term.

On a long-term basis, the anti-corruption procedures are assumed to contribute to international competitiveness. If anti-corruption laws continue to proceed towards a global standard, it is argued to cause equal competitive conditions for all multinational actors.

Abbreviations

ACP	Anti-corruption procedures
BRIC	Brazil, Russia, India, China
CPI	Corruption Perception Index
EFS	European Fraud Survey
FDI	Foreign Direct Investment
IR	Inherent risk
MNC	Multinational Company
NPC	Norwegian Penal Code
OECD	Organization for European Economic Co-Operation and Development
PwC	PricewaterhouseCoopers AS
RR	Rest risk
SECO	State Secretariat for Economic Affairs
TI	Transparency International
UK BA	UK Bribery Act
UN	United Nations
US FCPA	United States Foreign Corrupt Practices Act
WB	World Bank

1. Introduction

Corruption is recognized as a universal challenge that poses a threat to the global economy and limits sustainable development. In 2004 the World Bank recognized corruption to be a trillion-dollar industry (Werlin 2005). Corruption is further claimed to distort fundamental market structures, thus hinder growth and threaten macroeconomic environment and fiscal stability. The concept of corruption has received a great deal of attention in literature and in media; yet, corruption has proven to be a difficult framework to assess.

Norway has been recognized as a prominent actor in the field of anti-corruption efforts, through an international commitment to fight corruption (St.meld. nr. 10 2008-2009). In 2003 Norway strengthened its anti-corruption law considerably, and it is recognized that an increased number of countries are now taking measures to strengthen their legislative framework (ibid). This is for instance seen through the United Kingdom's improvement of its anti-corruption law in 2011, named the UK Bribery Act[1]. It is recognized that companies are responding to this development by implementing internal anti-corruption procedures. This development may indicate that anti-corruption legislations are moving towards a global standard, argued to create more equal competitive conditions for companies operating in the international business arena.

It is recognized that almost every company is exposed to some degree of corruption risk. As anti-corruption legislations are complex and vary between countries, companies face an increased risk of being sanctioned when operating abroad. What constitutes corruption in one country may not be considered as corruption in another country. Thus, it is of increased importance for companies to have sufficient knowledge of the anti-corruption legislations they are subject to. In 2008 a study[2] revealed that 70 percent of top-executives found that an increased understanding of corruption and associated risks could potentially help them compete more effectively.

[1] UK Bribery Act: an Act to make provisions about offences relating to bribery; and for connected purposes (Bribery Act 2010: www.legislation.gov.uk)

[2] Based on a survey conducted on 390 senior executives by the Economist Intelligence Unit (EIU) in 2007.

Furthermore, the emerging economies, Brazil, Russia, India and China (BRIC), are recognized by Transparency International (2009) to have high level of perceived public sector corruption. Yet, the BRIC countries have contributed to nearly 50 percent of global economic growth in the last decade and presents significant opportunities for international companies (Côté-Freeman 2012, Jain 2006). Contributing to corruption risk in the BRIC countries are the companies need to employ third parties due to their contribution of local business knowledge. Norwegian multinational companies are recognized to have a high presence in the BRIC countries, thus they are exposed to a high level of corruption risk.

1.1 Research area and scope

This thesis treats the subject of Norwegian multinational companies and how the risk of corruption could affect their international competitiveness. The thesis has limited the scope of the research area in order to increase the feasibility of the study.

The thesis will focus on the concept of corruption risk by looking at two specific elements, corruption risk identification and corruption risk management. Combined, these two elements are assumed to have an effect on Norwegian multinational companies' international competitiveness. Corruption risk identification focus on three elements; anti corruption legislations, BRIC countries and the use of third parties. Corruption risk management is identified as the companies' implementation of anti-corruption procedures as. The effect is measured by economical, legislative and reputational consequences. The thesis has defined international competitiveness as a company's ability to maintain and increase economic value creation in the desired market over time.

While Transparency International (TI) has recognized corruption risk to be prevalent in many countries on a worldwide basis, the thesis has chosen only to focus on corruption risk in BRIC countries and corruption risk in the use of third parties. The thesis further emphasizes that the research is limited to Norwegian multinational companies in particular.

Based on the research area and scope the following research question is developed:

How does the risk of corruption affect Norwegian Multinational Companies' international competitiveness?

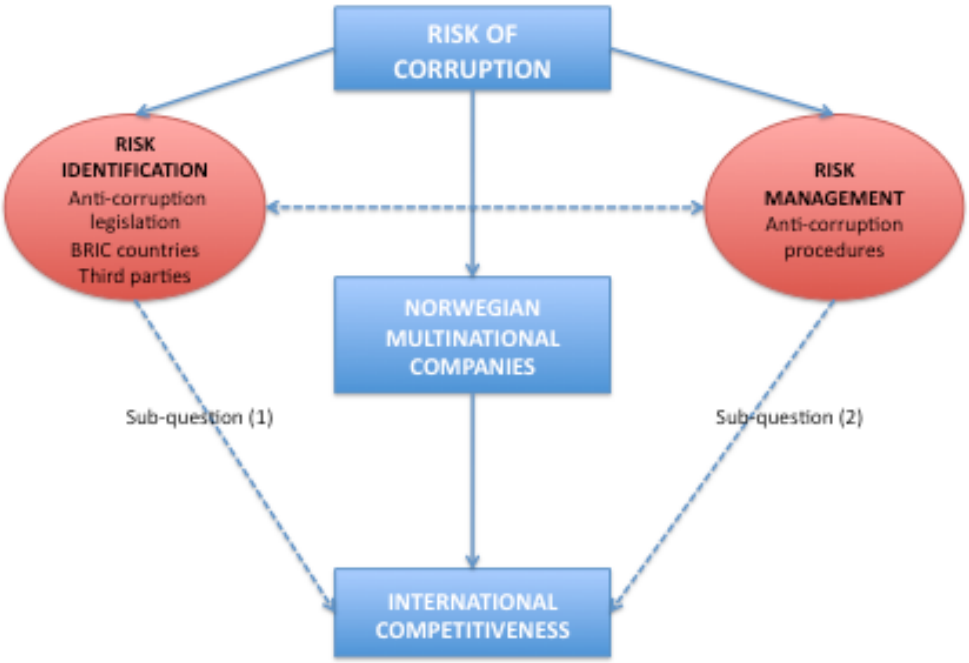
In order to address the research question, the thesis has developed two sub-questions:

(1) How is the inherent risk of corruption considered?

(2) How is the inherent risk of corruption managed?

1.2 Research model

In order to illustrate the reasoning behind the research question and related sub-questions, the following model is developed.



This research model includes the elements that constitute the research area. Through this model, the thesis illustrates the relationship between the developed research question and the two related sub-questions. It should be taken into account that assumptions are based on the researchers' own interpretation of

findings, through responses from the respective Norwegian multinational companies.

1.3 Central terms

The aim of this section is to offer a general definition of the central terms applied throughout the thesis. A more thorough description of the concepts will be provided in the literature review.

Corruption – The thesis will refer to the definition from the State Secretariat for Economic Affairs (SECO 2012) when applying the term. By definition, corruption is considered any abuse of a position of trust in order to gain an undue advantage. This involves the conduct of both sides: that of the person who abuses his position of trust as well as that of the person who seeks to gain an undue advantage by this abuse.

International competitiveness – The Norwegian government has provided a definition that sufficiently covers the perception of the term, defined as the conditions required for maintaining and increasing economic value creation over time (St.meld. nr 10 2008-2009). This definition will be applied when referring to the concept in this thesis.

Anti-corruption legislations – This thesis will focus on the Norwegian anti-corruption law through the Norwegian Penal Code, the US Foreign Corrupt Practices Act and the UK Bribery Act. These are among the anti-corruption legislations considered relevant for Norwegian multinationals, and in addition are among the stringent legislations worldwide.

BRIC – is a commonly used abbreviation for the emerging markets Brazil, Russia, India and China. These are recognized to be among the fastest growing markets in the world in terms of economic growth and development.

Third party - A third party is defined as an individual or entity who performs services for or on behalf of an organization, characterized as agents, distributors, consultants, joint ventures or contractors (the Bribery Act 2010).

Risk identification – the thesis have limited the study to include three elements in the identification of corruption risk: anti-corruption legislations, BRIC countries and third parties. Together they comprise what the thesis considers to be the inherent risk of corruption.

Risk management – is the implementation of anti-corruption procedures in the MNC as internal control, based on the guiding principles recommended by the Norwegian Penal Code, the Foreign Corrupt Practices Act and the UK Bribery Act.

The terms presented above are not based on a universal understanding, but rather illustrates a common perception of the concepts.

This completes the introductory section of the thesis, where the overall topic has been introduced along with the research question and relevant sub-questions. A research model has been developed in order to illustrate the reasoning behind the approach and central terms have been accounted for to deepen the understanding of the research area.

1.4 Structure of thesis

The thesis is further divided into five main chapters. Chapter two provides an overview of the applied methodology and describes the research process. This chapter also accounts for limitations to the study. Chapter three will present a review of previous literature on the topic of corruption, and portray the main concepts that constitute risk identification and risk management. The chapter will also give a brief overview of how corruption can affect international competitiveness. Chapter four presents findings from the conducted study, relevant to the elements recognized in the literature review. Chapter five discusses the literature in relation to findings and makes assumptions and implications relevant to the sub-questions and overall research question. Lastly, chapter six offers concluding remarks and provides suggestions for future research.

2. Methodology

This chapter outlines the methodology applied to the conducted research and provides an explanation behind the choice of research design and methods used. The following chapter additionally outlines the research procedure as well as the validity, credibility and main limitations to the study.

2.1 Research design

A research design ensures that the obtained evidence enables the thesis to answer the initial research question. In order to provide an unambiguous answer to the research question, *how the risk of corruption affects Norwegian MNCs' international competitiveness*, a descriptive design was evaluated as the most appropriate (NYU 2013). The descriptive research design aims to obtain information concerning the current status of a phenomena and what elements that exists in a particular situation (Anastas 1999). In this study, the phenomenon was recognized as the risk of corruption. The elements that exist are risk identification and risk management in the international business environment. Through a descriptive study the thesis will test the relationship between the considered elements, and does not argue that there exists any evidence of a causal relationships (Selnes 1999). As the descriptive design aims at providing a general overview of the research area, it eliminated the possibility to draw clear lines and identify definite conclusions (Anastas 1999). Thus, by choosing this design, the thesis has intended to provide assumptions related to how the risk of corruption could affect the international competitiveness of Norwegian multinational companies.

2.2 Research methodology

A qualitative study was evaluated as an appropriate research methodology, as such a method allowed for an in-depth investigation of the research area. Ragin, Berg-Schlosser and Meur (1996) argues that a qualitative approach is most suitable in research where concepts are vague and theories are underdeveloped. As no commonly accepted model or theory of corruption has been recognized in existing research, a qualitative study was considered suitable (Farrales 2005). In addition, Henderson (2008) argues that a qualitative research method involves

understanding different perceptions, opinions, beliefs, and attitudes. Due to the sensitivity of corruption, and the interviewees' possible restrictiveness to elaborate on the topic, a research intended to obtain opinions and attitudes was therefore considered suitable. The aim of the qualitative research was to facilitate perceptions and comprehensions, in addition to creating insight into the research area (Lanseng 2012). Although a qualitative method enables an in-depth analysis of the phenomena, it is according to Patton (1990) and Lanseng (2012) known to provide limited generalization of findings. This thesis does not intend to contribute with generalizations, but rather seeks to make assumptions and create a foundation for future studies.

2.3 Research procedure

The research process initially consisted of the collection of previous literature relevant to the research area, through secondary data. The research procedure also contributed to the development of a specific research question and two relevant sub-questions. Secondary data was carefully analyzed and used to develop a literature review, presented in chapter three. Primary data was collected through in-depth interviews with the selected participants, before findings were extracted and data was analyzed.

2.3.1 Interview process

The questions that comprised the interview guide were developed based on a set of guiding principles for anti-corruption procedures, recommended by the Foreign Corrupt Practices Act and the UK Bribery Act. In addition to the *Guiding Principles* from the existing anti-corruption legislations, the interview guide was developed with cooperation from employees at the PwC Forensic Services Department[3].

A commonly applied method for qualitative research is in-depth interviews, which was considered an appropriate method for primary data collection. The in-depth interviews were conducted on a semi-structured basis, as the replies of the interviewees, in such a setting, tend to be more personal in nature and thus would

[3] The interview guide is available in *Appendix 1 (Norwegian)* and *Appendix 2 (English)*.

create a higher degree of confidentiality (Easterby-Smith, Thorpe and Jackson 2008). Additionally, this method allowed for the opportunity to identify non-verbal clues present during the interviews, which was used to develop secondary and follow-up questions (ibid). The interviews were conducted in the period between April 25th and May 13th of 2013.

2.3.2 Selection of participants

The selection of participants for this research was based on a certain set of criteria. For a participant to be considered, it had to be a Norwegian multinational company, with a presence in either one or more of the BRIC countries. Another criterion was that the company had headquarters and/or regional offices in Norway, and employed a minimum of 2.000 people worldwide.

After an evaluation of approximately thirty Norwegian MNCs, twelve companies were found eligible. PwC provided contact information to these companies, who thereby received a request to participate in the research. The desire was to collect a maximum of eight participants, where four was considered a minimum, in which an agreement from five MNCs was considered sufficient. Top-level management or executives from the respective MNC's compliance and/or jurisdiction department were chosen as interview objects.

Due to confidentiality, the participants will not be recognized by name, but be referred to as company A, B, C, D and E throughout the thesis. No sensitive company information will be revealed.

2.3.3 Presentation of participants

The following section provides a brief description of the Norwegian MNCs who participated in the research.

Company A operates within the technology industry and has been operating for approximately 150 years. The activities in Norway has increased in recent years, and share a 70/30 distribution of activities in Norway and internationally. The company has about 2.700 employees in total.

Company B operates with mineral fertilizers and chemicals. The company has been involved in international activities for more than 100 years and consolidates revenue in more than 120 countries. Globally the company holds approximately 8.000 employees.

Company C operates within shipping, logistics and maritime services. The company has over 150 years of history and most of the activities take place outside Norway. The company employs 500 people in Norway, while employing 7.000 people internationally.

Company D operates with oil services and seismic and has been involved in international activities since the establishment in 1991. The company shares a 10/90 distribution of activities in Norway and internationally, and globally the company holds about 2.500 employees.

Company E operates within the oil and gas industry, and has been operating for about 150 years. The majority of the employees are located in Norway, and the company holds approximately 3.000 employees worldwide.

The MNCs have been involved in international activities for more than 100 years and the distribution of activities varies. They are private- and/or private/publicly owned, and listed on both Norwegian- and international stock exchanges.

2.4 Validity and credibility

The following section is divided into two parts. Initially, the thesis will account for the threat against external validity. Secondly, it will address the issue of credibility. Validity and credibility may be difficult to measure in qualitative research; however, these two elements are considered important when addressing limitations, and therefore considered relevant to include in this section.

External validity – is the ability to generalize beyond the conducted research (Easterby-Smith, Thorpe and Jackson 2008). As the research is conducted on five Norwegian multinational companies, it is difficult to generalize any result of the

findings and make assumptions applicable to multinational companies as a whole. In addition, the researched MNCs are operating in different industries, which makes it difficult to provide any generalization of findings related to industry-specific trends. The thesis recognizes that this threat could have been eliminated by for instance conducting interviews with MNCs from only one industry.

Furthermore, the thesis addresses the limited ability to systematically interpret the qualitative data that is collected. The conducted research produced five comprehensive interview reports, where the findings were based on each MNC's provided answer, and the thesis takes into account any misinterpretation of the provided answers and/or questions asked.

Credibility – has been defined in terms of expertise and trustworthiness (Bagozzi 1994). The thesis recognizes that corruption is a sensitive topic and that the interview objects might have been cautious as to reveal company information and/or attitudes in relation to the concept of corruption. This raised the question of whether the respondent's answers were accurate, and whether they represented the factual conditions. However, the thesis assumes that the interview objects are credible and thus have provided truthful answers.

2.5 Limitations

The thesis seeks to contribute with valuable insights and make certain assumptions about the risk of corruption and its affect on Norwegian MNCs international competitiveness. In this regard, there exist certain limitations valuable to address. Initially, the topic of corruption is considered to be somewhat controversial. There is often limited transparency, lack of available information and avoidance in peoples' general willingness to speak openly about it. This results in several challenges, both when gathering data and conducting the research, as accurate and credible information could be difficult to obtain.

Furthermore, the definition of what actually constitutes corruption has been debated over time. Yet, it is difficult to measure and there exist numerous definitions of the concept and perceptions differ. As it is recognized in the introduction, what is perceived as a corruption, an undue advantage, largely

depends on the time, place and situation where it occurs. Although law determines what constitutes corruption, it is challenging for Norwegian MNCs to evaluate where the line of what is considered corruption should be drawn in any given situation. For clarification, the thesis provided one commonly used definition offered by the Organization for Economic Co-operation and Development (OECD) and one definition from the State Secretariat for Economic Affairs (SECO), taking into account that these definitions may not reflect all actors' (country, organization, company) perception of the concept.

Previous literature on corruption have often focused on case studies or cross-national statistical tests, yet, no commonly accepted model or theory of corruption have been recognized in existing research (Farrales 2005). Thus, no theoretical framework was considered applicable to the study. However, previous research accounted for in the literature review, will create the theoretical foundation necessary for understanding the addressed concepts.

Transparency International, through its Corruption Perception Index (CPI), has been criticized for only taking into account the perceived level of corruption in the public sector, while neglecting to measure the level of corruption in the private sector. While the thesis has taken this critique into account, it has not made a clear distinction between public- and private sector corruption when conducting the interviews. In addition, the thesis has accounted for the CPI from 2012 and acknowledges that the 2013-ranking is available, yet, not applied.

Another aspect considered imperative is the use of secondary data collection. The thesis initially gathered data from academic articles based on scientific research. Further data was collected from research contributed by recognized international actors such as the United Nations, Transparency International and the World Bank. The Norwegian government and Norwegian newspapers have also been sources of information in addition to existing anti-corruption legislations. It should be recognized that information not gathered from scientific research could be criticized for having an agenda when presenting a specific case, situation or opinion. Thus, the credibility of these sources could be limited compared to the contribution from other sources. The thesis has tried to mitigate this limitation by critically evaluating each source and its origin.

Furthermore, the thesis accounts for any opinion or assumption that may have been influenced through the participation in the PwC Scholarship Program[4] or through information accessed in PwC reports. However, all sources of information gathered at PwC are accessible to the common public.

Lastly, it is appropriate to consider the limitations that may occur due to the content in the interview guide. The interview guide was not tested on anyone prior to the conducted interviews, and thereby no potential pitfalls of the formatted questions were discovered in advance. According to Dillman (2000), ignoring a pre-test could potentially lead to ambiguity of the questions, interview error and ambiguity of the answers. In addition, four out of five interviews were conducted in Norwegian and the thesis takes into account that certain contexts may have been altered during translation.

The limitations are addressed in order to create awareness of elements that could threaten credibility. However, the thesis emphasizes that collected data and conducted research is presented as accurate as possible, and that any assumption is intended to reflect factual conditions.

2.6 Methodological summary

This chapter has presented the main reasoning behind the choice of research methodology, through an explanation of the design and conducted procedure. Main limitations to the study have also been accounted for.

A descriptive research design was chosen as an appropriate method and in-depth interviews were conducted as part of the qualitative research. Five Norwegian MNCs agreed to participate in the research. While this was considered a sufficient number of participants, the limited number could not contribute to a generalization of findings. Although the thesis raised a question of credibility related to the information provided by the interview objects, the thesis assumes

[4] The PriceWaterhouseCoopers (PwC) Scholarship Program is developed to provide students with a professional environment, a dedicated mentor and overall assistance during the research process. This thesis received a mentor from the Forensic Services Department at PwC, due to the topic of the thesis.

that the interview objects have provided truthful answers. Through collected data, the thesis therefore seeks to make clear assumptions regarding the risk of corruption and its affect on Norwegian MNCs international competitiveness.

3. Literature Review

The following literature review accounts for previous literature on the topic of corruption and portrays the main concepts that constitute the research area. Initially, the review will elaborate on the topic of corruption, its related challenges and its impact. The thesis also addresses how corruption could be related to companies' international competitiveness. Furthermore, the literature review elaborates on corruption risk identification, and describes the inherent risk through anti-corruption legislations, operations in BRIC countries and the use of third parties. Lastly, the literature review will provide a brief presentation of the legislations' *guiding principles* for anti-corruption procedures.

Literature on corruption is extensive, yet objective research may be difficult to recognize. Through a comprehensive review, the thesis has done its best to present literature from a selection of authors and institutions perceived to have broad knowledge of the subject.

3.1 What is corruption?

The literature on corruption is complex by the imprecision of relevant definitions, and a clarification of the term is a necessary condition for an understanding of the concept. A common and widespread perception of corruption, which adds clarity to the concept, is recognized by OECD (2008) and defines corruption to be the abuse of public or private office for personal gain. Yet, this definition tends to be minimalist in nature (Farrales 2005). Thus, the definition provided by the State Secretariat for Economic Affairs (SECO)[5], is considered to be more precise:

> *"Any abuse of a position of trust in order to gain an undue advantage. This involves the conduct of both sides: that of the person who abuses his position of trust as well as that of the person who seeks to gain an undue advantage by this abuse (...)"*
>
> - SECO 2012

Although the definition seems to cover a common understanding of the concept, corruption has proven to be a difficult framework to assess (Urra 2007).

[5] SECO is the Swiss' federal government's centre for core issues relating to economic policy.

Corruption differs widely in forms, pervasiveness and consequences and is not limited to a single setting or situation (Elliott 1997). According to Farrales (2005) corruption can exist at any given time, in any country under any form of government. Thus, it may be challenging to evaluate what constitutes a corrupt act, as Farrales (2005) argues that it could be situation dependent. Yet, in literature it is recognized that corruption can occur through bribery, fraud and facilitation payments, and is often separated into two categories, *small-* and *grand corruption. Small corruption* refers to facilitation payments or grease money, often involving small values (Transparency International 2009a). G*rand corruption* refers to abuse found in political systems, often performed by elected politicians or public officials (ibid). While the perception of what constitutes corruption has been debated, there seem to exist a somewhat common consensus of its consequences.

3.1.1 Impacts of corruption

Corruption is recognized to undermine democracy and civil society, while raising costs for governments and increase distrust in the society's underlying moral foundations (Elliot 1997, Rose-Ackerman 1999). The impacts of corruption can be viewed in light of economic, legislative and reputational consequences, which could affect a government, a company or a single person or entity.

The United Nations Global Compact (2012) recognizes corruption to be one of the world's greatest challenges. It is argued that corruption has been transformed from a national or regional preoccupation to an issue of a global revolutionary force, as globalization of the world's economy is adding new urgency to the problem (Elliott 1997). Multinational companies are contributing to the overall globalization process and Bishop and Hydoski (2009) have raised the question of whether companies are prepared to deal effectively with the complexities of corruption in the global economy.

3.1.2 How to measure corruption

Corruption is by principle not a new phenomenon and the topic has been prevalent in the society for decades (Tiihonen 2003). However, it was not until the 1990s

that it became a popular topic in research, mainly through major international organizations such as the OECD and TI (ibid). Research has recognized the many impacts of corruption, but how does one actually measure it? Research in the field is methodologically challenging and there is limited generalization of knowledge on how effective anti-corruption measures can be developed (Søreide 2013). A common indicator is CPI, developed by TI (2009b), which measures the perceived level of corruption in the public and political sector using surveys and data collected from 13 sources and 10 independent institutions. A low rank on the CPI indicates that the level of corruption in these markets is perceived as high.

However, criticism has been raised as information is limited and objective data is difficult to obtain, and corruption has proven to be a difficult framework to assess (Urra 2007). Criticism is further based on the claim that TI's CPI is inaccurate, inconsistent, and that it is difficult to measure what a given degree of corruption could mean for a specific country (ibid). In addition, the CPI does not separate between corruption in the private and public sector. Yet, the CPI is based on data from sources such as the World Economic Forum, Freedom House and Gallup International, and it is recognized as one of the most valuable tools for corruption measurement today.

3.2 Corruption and international competitiveness

International competitiveness is in literature often referred to as a country's ability to create a competitive advantage in the international marketplace (Solberg 1998). The World Competitiveness Report (WCR), developed by the World Economic Forum[6], considers international competitiveness to be value creation in terms of a country's ability to be leading in technology, infrastructure, management and financial markets (ibid). However, this thesis has applied international competitiveness on a company basis, defined as: "*the conditions required for maintaining and increasing economic value creation over time*" (Norwegian Government 2001). The ability for a MNC to position itself as an important player in the international marketplace becomes important as globalization of the world

[6] The World Economic Forum is an independent international organization established in 1971, engaged in the field of business politics and academia (www.weforum.org).

increasingly influence companies' strategic choices (Solberg 1998). Buckley and Casson (1998) have argued that companies have a tendency to pull in and out of markets, depending on local conditions. Corruption is considered to be one of those conditions, and one could therefore ask whether corruption risk influence a company's choice of entering a market, thus affecting international competitiveness. One can argue that this assumption holds ground, as findings presented by Alas and Miller (2009) showed that 45% of global companies have neglected to enter certain markets due to the prevalent corruption risk.

Based on findings from Alas and Miller (2009), the thesis assumes that corruption has a negative impact on MNCs' international competitiveness, as neglecting to enter a market due to prevalent corruption risk affects the company's ability to increase economic value creation in that market over time. On the other hand, Doh et al. (2003) have argued that corruption could create opportunities for international firms if they are able to overcome the numerous difficulties associated with entering new foreign markets. The reasoning behind this argument could be found through Wallace-Bruce (2000), who states that:

> (…) Economic theory preached that the payment of bribes and other forms of corruption were good for international business because they were a way of overcoming barriers to business in some countries. Therefore, those who were willing to pay bribes obtained a competitive advantage over their business rivals who were not willing to do so (…).
>
> - Wallace-Bruce, N. L. (2000:1)

Taking Doh et al. (2003) and Wallace-Bruce (2000) into account, one can argue that corruption can have a positive impact on MNCs' competitive advantage, only if they are willing to conduct corrupt acts. This argument is not applicable when considering the effect of corruption on Norwegian MNCs' international competitiveness, as they are subject to Norwegian anti-corruption law, which according to Brautaset (2011) prohibits bribery and corruption.

3.3 Risk identification

The risk of corruption posed on international companies are in many aspects recognized through the growth of outsourcing, off shoring, the use of global supply chains, and consumer and investor expectations (Anderson et al. 2011).

There exist a need for MNCs to identify the risk picture presented when operating abroad, especially concerning the inherent corruption risk (ibid). While MNCs, regardless of size, industry or country of operation, are exposed to some degree of corruption risk, the risk is especially prevalent through increased global expansion to countries recognized by a high level of corruption (ibid). This may be because anti-corruption legislations are becoming more stringent, and penal provisions against corruption have been improved significantly over the last ten years.

3.3.1 Anti-corruption legislations

Norwegian multinational companies could be subject to separate anti-corruption legislations when operating abroad. The thesis has limited the scope of the legislative frameworks addressed to include Norwegian-, US- and UK law. These are considered relevant as they are among the most stringent anti-corruption legislations in the international arena. The following section presents the Norwegian Penal Code, the US Foreign Corrupt Practices Act, and the UK Bribery Act.

The Norwegian Penal Code (NPC) of 1902 regulates corruption and was strengthened considerably by the Norwegian Parliament in July 2003 (Brautaset 2011). The penal provisions are compliant with international standards and do not distinguish between corruption in the public- and private sector (ibid). The NPC applies to offenses conducted in Norway, but also to offences conducted abroad, regardless of whether the action is considered illegal according to legislations in the host country.

The US Foreign Corrupt Practices Act (FCPA) of 1977 address the challenges of international corruption by anti-bribery provisions and accounting provisions. The anti-bribery provision has a broad scope and prohibits actors to perform corrupt payments to foreign officials, in order to obtain or retain business (FCPA 2012a). The FCPA address briberies in the public sector, and does not govern corrupt acts conducted in the private sector (ibid). While the legislation has a limited associated power in theory, it covers a broad range in practice, as a corrupt act conducted in US currency abroad, is enough to convict a company or person under US law.

The UK Bribery Act (UKBA) was introduced to update and improve the UK anti corruption law and provides a modern legal framework to combat bribery. The UKBA came through on July 1st 2011, and is considered to be among the strictest anti corruption legislation in the international arena (Transparency International 2013). It applies to UK citizens, residents and companies established under UK law (ibid). The UKBA does not distinguishing between corruption in the public- and private sector, and requires companies to implement adequate anti-corruption procedures to prevent corrupt practices within the organization and/or by third parties acting on the company's behalf.

In the introduction, the thesis emphasized that a strengthening of anti-corruption legislations in several countries could contribute to more equal competitive conditions for multinational companies (St.meld. nr. 10 2008-2009). Yet, it is recognized that as of today, the different countries anti-corruption legislations vary in scope and associated power, even the legislations that are perceived to be among the most stringent. In order to create an understanding of how these legislations could create a challenge for MNCs, the thesis will illustrate convergence and divergence between them.

The complexity of being subject to three separate governing entities creates a challenge to MNCs. Initially, Norway, the US and the UK hold different practices when cooperating with the government. In the US and the UK, a company that detects or suspect corrupt actions among its employees can alert the government and make an agreement with the intention to avoid considerable punishment (Kvadsheim 2012). Such an agreement could be based on the companies' commitment to the implementation of strict anti-corruption procedures, as well as internal control and compliance. However, this is not the case in Norway. A company cannot enter into an agreement with the Norwegian Government, and if suspicious corrupt activity has been detected a company face the risk of penalty according to the NPC (ibid). For a company that is subject to all three legislations, it is challenging to effectively handle such a situation.

A challenge is also recognized by the fact that it is difficult to measure what constitutes a corrupt act. As introduced previously in the thesis, what constitutes

corruption by law in one country, may be not be considered as corruption in another. In addition, the FCPA (2012a) has established that it only applies to corruption in the public sector, while the NCP and the UKBA also endorse corruption conducted in the private sector.

The challenges that occur as a result of being subject to several legislations make the implementation internal anti-corruption procedures difficult. The FCPA and UKBA have thus recommend a set of *Guiding Principles* for effective anti-corruption compliance programs, which will be accounted for in the review of risk management procedures. FCPA and UKBA are perceived to be more proactive anti-corruption legislations compared to the NPC, as they offer guiding principles.

The legislations are considered one of the factors that could affect how MNCs operate in BRIC countries and if they choose to employ third parties in international operations. Beyond the consequences of the legislations, in terms of sanctions and penalties, are the legislations' influence on the MNCs' internal procedures for corruption risk management. The thesis recognize the anti-corruption legislations to be part of the inherent risk picture facing MNCs in international operations, in addition to operations in BRIC countries and the use of third parties. The following section attempts to deepen the understanding of corruption risk in BRIC countries and explains why these markets play a significant role for companies seeking to operate abroad.

3.3.2 BRIC countries

The BRIC countries consist of Brazil, Russia, India, and China. They are recognized as the fastest growing markets in the world in terms of economic growth and development, thus significant future players in the global economy (Jain, 2006). It is further predicted that the BRIC economies, in less than forty years, could be larger than the G6 (France, Germany, Italy, Japan, the UK and the US) in US dollar terms. According to Côté-Freeman (2012) the countries are very attractive for foreign businesses looking for expansion on an international level. Being present in these markets is according to Jain (2006) considered to be a strategic choice.

Although the BRIC countries are perceived as attractive markets, Marnewick (2008) argues that they pose a great level of corruption risk, due to for instance weak government regulations. This argument is supported by statistics in the CPI. In 2012, Brazil Russia India and China were ranked at 69, 133, 94 and 80 respectively, an indication that public sector corruption in these countries are perceived as high (Transparency International 2012). In comparison, Norway was ranked at number 7 (ibid). Furthermore, while corruption is prevalent in various industries, TI (2009a) argues that it is most prevalent in the weapon- and defense industry, the oil-gas-and energy industry, the telecommunication industry and in public construction projects.

According to Bishop and Hydoski (2009), the perceived level of corruption risk recognized in the BRIC countries presents a challenge to MNCs. With globalization and increased growth in these markets, corrupt governments are a considered a risk factor that must be taken seriously when operating in such markets (Uhlenbruck et al. 2006). An additional challenge is recognized through the employment of third parties, who on one side can contribute with local business know-how, while at the same time offer a limited level of control. The subsequent section will address the risk identified with the use of third parties when operating in BRIC countries.

3.3.3 Third parties

The thesis has identified a third party as "an individual or entity that perform services for or on behalf of an organization, recognized as agents, distributors, consultants, joint ventures or contractors" (Bribery Act 2010) According to TI (2009a) there is a common practice for companies to engage in relationships with third parties when operating in foreign markets. The use of third parties may help companies secure contracts, as they can play an important role when establishing a presence through local market knowledge and local business know-how (FCPA 2012b). This could in many aspects be viewed as a competitive advantage; however, due to increased anti-corruption legislations, the reliance on third parties is altering the risk picture facing MNCs in the BRIC countries.

Through extended relationships, derives the need to effectively identify and mitigate the associated risks. Anderson et al. (2011) argues that increased regulatory scrutiny and continuing cost pressures, in addition to active investors and public awareness, force companies to create an understanding of the risks associated with third party relationships.

3.4 Risk management

The previous section identified the anti-corruption legislations found to be relevant to Norwegian MNCs. While certain challenges were recognized, it is important to acknowledge the main principles recommended for adequate implementation of anti-corruption procedures, recommended by the Foreign Corrupt Practices Act and the UK Bribery Act. While the legislations offer a slightly different set of principles, they overlap to some extent and the substance carry similarities. The subsequent section will briefly describe the intention behind each principle to create an understanding of what these risk management procedures entail.

Proportionate measures refer to a compliance program that should be adapted to assess the specific risk, need and challenges facing the specific company in order to be efficient. The FCPA and UKBA (Urofsky, Dollinger and Torres-Fowler 2013) argue that companies may have different compliance needs depending on their size and the particular risks associated with their businesses and that adequate anti-corruption procedures need to be proportionate to the level of risk the company is faced with. With the implementation of such measures, it is recommended to encourage *top-level commitment* in the determination of bribery prevention. The UKBA states that management at the top of an organization is in the best position to foster a culture of integrity where bribery is unacceptable (ibid). Furthermore, the principles emphasize the need to ensure efficient internal and external c*ommunication* of the policies and procedures throughout the organization.

Moreover, *risk assessment* is conducted based on the size of the company and what industry the company is operating in, depending on the company's attitude towards risk exposure. Risk assessment involve procedures that are included in

the generally accepted meaning of the term *due diligence*. The latter principle is the evaluation and assessment conducted by a company on their prospective business partners as insurance that their partners are not involved in corrupt acts (Transparency International 2009a). A thorough due diligence process intends to create a realistic picture of relationships, finances and ownership structures in order to ensure compliance within international anti-corruption laws. Lastly, the establishment of a system that incorporates regulation and oversight, in which all employees must obey, refers to the principle of *monitoring and review.*

While the principles of anti-corruption procedures are intended to act as guidelines, they have received critique as research has neglected to provide the efficiency of them (Reed and Fontana 2011, Persson, Rothstein and Teorell 2010). The critique is based on inadequate implementation of the procedures, such as insufficient due diligence and reporting of suspicious transactions (ibid). Another limitation is further recognized in the Global Economic Crime Survey[7] (GECS), where it was found that 54% of the companies explained the absence of consistent risk analysis by lack of faith in the affect of them (GECS 2011). These two critiques indicate that there is a gap between design and implementation, as awareness of the principles are not necessarily coherent with adequate implementation.

This thesis argues that the international anti-corruption legislations influence the MNCs' operations in BRIC countries and the use of third parties, and recognize these three elements to comprise the inherent corruption risk picture. Together, these three elements influence how MNCs choose to implement and manage anti-corruption procedures. The thesis argues that the identified risk and risk management combined affect the MNCs' international competitiveness.

3.5 Summary of literature review

The overall aim of the review was to account for previous literature and research conducted on the topic of corruption. Through the review, the thesis recognized

[7] Global Economic Crime Survey (GECS) 2011: Based on a study conducted on 3.877 companies in 72 countries, where 67 of the total amount of companies where Norwegian.

that corruption is a concept covered by widespread definitions, proven to be a difficult framework to assess. This presents a challenge, as what constitutes a corrupt act largely depends on the perception of the term. The review has recognized the vast negative impacts of corruption, in terms of economical and societal consequences. Literature stated that corruption could have both positive and negative consequences for companies' international competitiveness.

Previous literature has recognized the great corruption risk that exists, as a result of increased global expansion, especially the risk associated with MNCs' presence in BRIC countries and their relation to third parties. It was further recognized that Norwegian MNCs are taking steps to implement anti-corruption procedures due to increased attention by governments on high- profile enforcement legislations. These penalties are recognized as the NCP the FCPA and the UKBA, governing anti-corruption work in the international arena. While the legislations differ to a certain extent, in terms of governing areas and associated power, they offer certain guiding principles that influence companies' risk management procedures.

4. Presentation of findings

The findings are divided into three sections. Section one accounts for the MNCs' corruption risk assessment process and how the risk of corruption could potentially affect the Norwegian MNCs. Section two presents findings relevant to risk identification. In this section, findings related anti-corruption legislations, operation in BRIC countries and the use of third parties are presented. Section three identifies the MNCs' risk management procedures, before the fourth section summarize the main findings.

As the purpose of research is to investigate how the risk of corruption could affect Norwegian MNCs' international competitiveness, the thesis has chosen to account for findings relevant only to the research- and sub-questions. Thus some findings were considered irrelevant, and the interview guide may seem more comprehensive, in terms of scope and number of questions asked, than what is presented in the findings.

4.1 Corruption risk assessment

The companies where asked to identify specific risk factors related to corruption. Specific factors where selected in advance, based on the guiding principles from the three anti-corruption legislations introduced in the literature review.

Company / Risk factor	A	B	C	D	E
Country risk		X	X	X	X
Industry risk		X			
Transaction risk		X		X	X
Business opportunity risk		X			
Business partnership/relation risk	X	X		X	

Table 1: Risk assessment

The MNCs found it difficult to identify only one factor that poses an increased risk, as the factors are all interrelated. However, when asked to specify only one factor, company A, C, D and E were able to identify one or more factors as especially important when evaluating risk, while company B emphasized the importance of taking all factors into account.

Furthermore, three questions where asked to address the how each MNCs consider corruption risk to affect the company. The questions are identified in the left vertical column below. For complete questions see interview guide.

	A	B	C	D	E
(1) The risk of corruption affects the company's ability and desire to operate globally?	Has neglected to enter certain markets due to the risk of corruption.	It depends on the amount of risk exposure the company allows and the "risk appetite".	Not considered as a problem or challenge.	Not considered as a problem or challenge.	Considerable factor in the evaluation of whether or not to enter a market, especially in regard to third party relations.
(2) Experience of not entering a market?	Has excluded certain markets due to risk. But need to be present in certain markets although the perceived level of corruption is high.	Depends on the "risk appetite".	No.	Has excluded certain markets, yet constantly evaluate whether the opportunity outweigh the risk of entering the market.	Part of the overall evaluation of the company's strategy.
(3) Can you evaluate how the prevalent risk of corruption affects the company?	(1) Positive, increased need for anti-corruption procedures can lead to increased transparency, good reputation (2) Negative, as it excludes certain market opportunities.	It is important to balance the level of compliance in regards to the level of international competition.	(1) Positive, when improved anti-corruption procedures are implemented. (2) Negative, it could challenge the relationship with local agents.	Increased transparency is believed to positively affect the reputation of the company.	The company seeks to increase transparency due to the corruption risk.

Table 2: How corruption affects the MNCs

(1) Global operations: The findings show that three out of five companies (A, B and E) consider the perceived level of corruption risk to affect the desire and ability to operate globally. Yet, company B points out that whether they choose to operate in a corrupt market depends on the allowed risk exposure, recognized as the risk appetite. Company C and D have not recognized corruption to have an effect on global operations. This may indicate that they either have a high risk appetite, or that they do not recognize the risk at the same level as company A, B and E.

(2) Excluding a market: perceived level of corruption risk have consequences on international competitiveness to some extent as two companies have seen the need to exclude certain markets due to the prevalent risk picture. This could indicate that two of the companies are not able to adequately manage the risk, in other words, they are not able to reduce the risk of corruption to an acceptable level, and thus choose not to enter the desired market.

(3) Overall effect: The findings show that the companies recognize corruption risk to have both positive and negative effects for the MNC. In one way, the MNCs see the need to be more transparent, which they argue to have a positive effect on company reputation. The companies recognize that increased corruption risk may challenge the relationship with employed third parties and force the elimination of certain markets. In addition, company B emphasized the importance of balancing the level of compliance in regards to the level of international competition.

4.2 Risk identification

The following section will give a brief overview of the companies' perception of risk identification in terms of anti-corruption legislations, operations in BRIC countries and the use of third parties.

Anti-corruption legislations

Please note that no direct questions related to this element can be found in the interview guide, however, through the researchers were able to extract the results when discussing risk identification.

Company / Anti-corruption legislation	A	B	C	D	E
(1) Awareness	X	X	X	X	X
(2) Effect on risk management	X	X	X	X	X
(3) Awareness among third parties	N/A*	N/A	N/A	X	N/A

* N/A: not applicable

Table 3: Anti-corruption legislations

(1) Awareness: It was recognized that all the MNCs considered the existing legislations (NPC, FCPA, UKBA) to guide their acts in both the home- and host country. Through a more stringent Norwegian corruption law and introduction of the UKBA, the MNCs claim to experience an altered risk picture. This is consistent with the general perception of the effect of the increased legislations.

(2) Effect on risk management: Consistent with the common perception of the scope of the legislations, it was found that the companies consider them to affect their risk management procedures. However, the effect varies, depending on the level of anti-corruption procedures the company has implemented. Company A, B, D and E emphasized the importance of the legislations by the need to constantly evaluate and improve the company's already existing anti-corruption procedures. Company C is now responding to the introduction of the UKBA by developing strategies for the implementation of anti-corruption procedures.

(3) Awareness among third parties: Findings from the interview with company D indicate that the anti-corruption legislations pose a challenge towards their relationship with external third parties, as third parties may not have sufficient knowledge of the legislations' associated power beyond national borders. Company D was the only company who provided an answer directly linked to third parties' assumed awareness of the existing legislations.

BRIC countries

The following table illustrates the researched MNCs main markets of operation. Consistent with what was found in literature, the MNCs consider the BRIC countries to be vital markets due to their proven growth potential and business opportunities.

Company	A	B	C	D	E
BRIC / main markets	Brazil Middle-East Australia Korea	Brazil Asia South-Africa Colombia Egypt Vietnam	Brazil Russia India China	Asia - China West-Africa Mexico-gulf Australia	Russia China Kazakhstan

Table 4: BRIC/ main markets of operation

Third parties

The findings revealed that four out of five companies (A, B, D and E) have a clear and established attitude towards risk of using third parties. The companies are taking into account the existing risk picture when evaluating how, and if, it is relevant to establish and/or maintain relationships with external third parties.

It was also found The MNCs' established attitude toward the use of third parties governs how they choose to structure the relationship. The table below illustrates some of the common organizational structures.

Company / Structure	A	B	C	D	E
Wholly owned daughter companies	X*	X	X	X	
Partly owned daughter companies		X			
Joint ventures		X	X	X	X
Agents or intermediaries		X	X	X	X

Table 5: Structure of third party relations

* Company A is a wholly owned daughter company in Norway of a larger European MNC.

This table shows that there is a tendency among the MNCs to structure third party relations through joint ventures and agents or intermediaries. It was further found that a 50/50 or 51/49 majority split, favoring the Norwegian MNCs, characterizes the structure of the joint ventures. The MNCs emphasized that such a structure was chosen based on the desire to obtain a high degree of control. Four MNCs employ agents or intermediaries, while one MNC has chosen to exclude the use of agents or intermediaries overall.

4.3 Risk management

The following was found related to the guiding principles for anti-corruption procedures recommended by the UK Bribery Act and the FCPA. The findings presented in the following table indicate at what level each of the MNCs have adopted anti-corruption procedures.

Company / Guiding principle	A	B	C	D	E
Proportionate procedures	Heavy procedures. Anonymous hotline for reporting.	Code of conduct and fundamental rules. Anonymous hotline for reporting.	Code of conduct and governing elements.	Several policies. Heavy program for training. Anonymous hotline for reporting.	Detailed policies and business integrity program. Anonymous hotline for reporting.
Top-level commitment	High involvement	High involvement	Medium involvement. Split between business units	High involvement	High involvement
Due diligence	Heavy due diligence regulations	Heavy due diligence regulations.	Currently establishing guidelines for due diligence.	Well established due diligence procedures, dependent on the risk picture	Well established due diligence procedures
Communication	High level of disciplinary measures and training.	Internal portal.	Not recognized the need for a specific communicatio n channel.	High level of communication and training.	High level of communicatio n and training.
Monitoring & review	Control of sub-contractors: "Supplier Qualification Process"	Different set of committees and controllers /audits.	Currently no effective system.	Compliance function and legal department.	Key performance indicators and audits.

Table 6: The guiding principles in anti-corruption procedures

Company A, B, D and E indicated that they have implemented adequate anti-corruption procedures throughout the company, while company C emphasized that the development of such procedures are on the agenda, with the aim to have them implemented by the end of 2013.

4.4 Summary of main findings

The thesis further seeks to provide a brief interpretation of the gathered responses. In addition to what has been stated previously in this chapter, the thesis recognizes that the MNCs' approach to corruption risk identification and corruption risk management varies. The general impression is that the MNCs recognize the

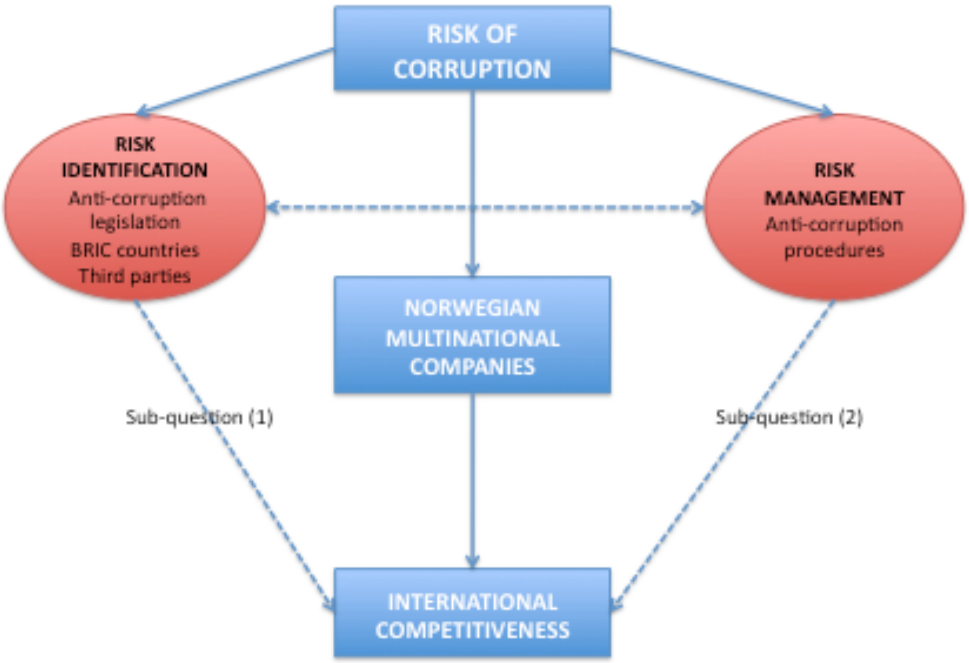
inherent risk of corruption to be high, and that anti-corruption procedures are implemented as a response to the recognized risk. This creates what this thesis has recognized to be the companies risk appetite, which can be either high or low depending on their consideration of the inherent risk.

A MNC can recognize a high inherent risk, and thereby implement anti-corruption procedures to reduce it, which may create a high risk appetite. Yet, despite the fact that certain MNCs consider the inherent risk to be high, and thereby implement anti- corruption procedures to mitigate the risk, they might not be able to reduce the risk to an acceptable level. Thus the appetite for becomes low. This may induce a MNC to exclude certain markets and/or business opportunities, however this may not seem to be applicable in BRIC countries.

How these findings could have implications for Norwegian MNCs' international competitiveness will be discussed in the following chapter.

5. Discussion

In chapter one, a research model was presented to illustrate the research question and related sub-questions:



The sub-questions will initially guide the discussion. In its final section, the discussion will argue how the answers to sub-question one and two combined could support the answer to the overall research question.

How does the risk of corruption affect Norwegian MNCs' international competitiveness?

(1) How is the inherent risk of corruption considered?

(2) How is the inherent risk of corruption managed?

5.1 How is the inherent risk of corruption considered?

Anti-corruption legislations

Through the literature review, the thesis has recognized the complexity facing MNCs when being subject to three separate anti-corruption legislations. It creates a challenge as the legislations are becoming more stringent, thus reducing the room for error, and companies need to carefully evaluate the scope and associated power of each legislation, when conducting business abroad.

From the conducted interviews, findings revealed that all five MNCs are aware of the anti-corruption legislations that govern their international operations, both the Norwegian Penal Code, the Foreign Corrupt Practices Act and the UK Bribery Act. The MNCs emphasized that the Norwegian anti-corruption law through the NPC, which has become more restrictive after 2003, and the introduction of the UK Bribery Act in 2011, is altering the corruption risk picture. While the companies claimed to be well aware of existing legislations, company D emphasized that the challenge was not their own ability to obtain knowledge of the anti-corruption legislations, but rather their external partners' lack of knowledge of the legislations' associated power and scope. This may imply that MNCs, when employing third parties, must dedicate resources to train them on relevant anti-corruption legislations, which could be both time consuming and costly.

Moreover, a general impression from the findings was that the MNCs considered the newly established UKBA to be of increased importance, as the it force companies subject to the legislation to implement adequate anti-corruption procedures based on the six guiding principles it offers. This is consistent with literature, and elements introduce in the introduction of the thesis, as it implies that adequate anti-corruption procedures are implemented as a response to the increased legislations.

BRIC countries

The BRIC countries are recognized to be leading players in the global economy in terms of economic growth and development (Jain 2006). Côté-Freeman (2012) has estimated their contribution to be nearly fifty percent of global economic

growth in the last decade. Yet, the BRIC countries have been recognized by high level of perceived corruption risk (Marnewick, 2008). This corresponds well with findings. While it has been expressed concern about the prevalent corruption risk in the BRIC countries, the MNCs emphasized the importance of having a presence in such high growth markets although the risk of corruption is high. To provide an example, company A argues that they need to be present in Brazil, due to the vast opportunities the country offer. It may seem that excluding operations in any of the BRIC countries, due to corruption risk, is not a current option as all the MNCs recognize the risk but still choose to operate there.

Third parties

From the literature review it was argued that the increased anti-corruption legislations are forcing companies to create an understanding of the risks associated with third party relationships (Anderson et al. 2011). The thesis considers third parties to be agents, distributors, consultants, joint ventures or contractors (Bribery Act 2010). The findings show that four of five MNCs have established a clear attitude towards the risk of using third parties, in particular because of increased legislations. This corresponds well with the argument put forward by Anderson et al. (2011) regarding risk.

Another finding that might influence how the MNCs evaluate the risk associated with third parties, is how each company define what constitutes a third party. In general, there seem to be a tendency among the MNCs to refer to third parties only as agents or intermediaries. However, this thesis has applied UK Bribery Act's definition, which also includes joint ventures. This relates to the challenges that can occur because MNCs are subject to several legislations and thereby often several different definitions.

Out of the four companies that have set up joint ventures, three claim to be restrictive towards the use of third parties, which may indicate that they do not consider a joint venture to be a third party as it is argued in literature. Yet, these companies do argue that the risk of corruption is prevalent when establishing a joint venture, and therefore often establish a 50/50 or 51/49 majority split, in their favor, argued to increase control and reduce the level of associated corruption risk. This thereby indicates that the companies consider third parties to include

agents or intermediaries, but not joint ventures, which supports the assumption that there is a difference in the perception of the term, in theory and in practice.

Response to sub-question one

The thesis found that four MNCs have considered the inherent risk of corruption to be high, while one MNC seemed to view the inherent risk of corruption risk to be moderate. This statement is based on the discussion above, where it was found that increased legislative measures are altering the corruption risk picture and are forcing the MNCs to take increased cautionary measures when operating in corrupt markets. The MNCs expressed concern about the corruption risk present in the BRIC countries, yet all companies are present there. Lastly, it was found that four out of five MNCs have established a clear attitude associated with the risk of using third parties, and that three are restrictive to the use of them. Yet, one should take into consideration each MNCs own definition of what constitutes a third party, when evaluating the associated risk.

It was found that the recognized inherent risk is considered to be high. However, the thesis regards the reasoning behind each MNCs risk identification process to be of importance. Through the answer to sub-question one, it was found that the level to which each MNC recognize the inherent risk, largely depends on each company's acceptable level of risk, in other words, the MNC's risk appetite.

5.2 How is the inherent risk of corruption managed?

Existing anti-corruption law influences corruption risk management, and the legislations provide guidance for how companies can enforce this internally. The thesis has identified this element as risk management through certain anti-corruption procedures, illustrated below through the guiding principles.

Anti- corruption procedures

Through the literature review, the thesis presented six guiding principles, for anti-corruption procedures, based on the recommendations set forth by the FCPA and UKBA. The principles are intended to fulfill the requirements of a compliance program, through proportionate measures, top level commitment, communication, risk assessment, due diligence and monitoring and review. In order to create a

valuable and dynamic discussion of the MNCs procedures for risk management, the guiding principles will not be discussed one by one but rather in a comprehensive view in light of relevant findings.

Through findings, it was discovered that four of the MNCs have implemented strict internal anti-corruption procedures, ranging from integrity for bribery unit, to code of conduct and complex compliance programs. Yet, the procedures were found to vary in scope, depending on how the companies had identified the inherent risk. In literature it is emphasized that a compliance program should be adapted to assess the specific risk, need and challenge of that specific company, and that the anti-corruption procedures should be proportionate to the level of risk the company is exposed to. To provide an example, company D and E emphasized that the level of *due diligence* (DD) conducted, vary depending on the partner and the respective market they operate in. As stated by company D:

> "Hiring an agent in Nigeria, who is unfamiliar and lacks references, requires a higher degree of due diligence as opposed to an agent in Sweden where the corruption risk picture is recognized at a different level" – Company D

This may seem as an obvious statement, but it is important to recognize this aspect in order to understand that reality actually can correspond well with what is stated in literature.

Furthermore, it is also important to recognize the critique rose against the existing anti-corruption procedures. The critique argues that certain companies have an inadequate implementation of anti-corruption procedures, as for instance insufficient due diligence and reporting of suspicious transactions (Reed and Fontana 2011, Persson, Rothstein and Teorell 2010). In addition, literature has also pointed to the challenge of proving the efficiency of these procedures (ibid). Through findings it seems that that this critique is not applicable to company A, B, D and E, as they claim to have implemented procedures consistent with recommendations from the guiding principles.

On the other hand, findings from company C seem to make the critique somewhat legitimate. The company has recently recognized the need to establish anti-

corruption procedures, as a response to the UKBA introduced in 2011. Through the process of developing these procedures, with the aim to complete them by 2013, the company experienced top-level managements' attitude to be somewhat divided. While management from certain business units have initiated the establishment of anti-corruption procedures, management from other business units have not recognized this to be of importance. While literature states that the guiding principle aims to encourage the involvement of top-level management in determination of bribery prevention procedures, it can be argued that the procedures are inefficient if top-level management are not fully committed. Thus, the critique could be applicable to company C. Yet, one should note that while company A, B, D and E claim to have adequate procedures, it is difficult to regard their statements as valid when no explicit evidence of the procedures' effectiveness was found.

However, company D emphasized that their strict anti-corruption procedures, in certain situations, could create an obstacle in relation to third parties. The company argued that third parties, who did not share the same attitude towards corruption risk management, could eventually choose to operate with other companies lacking adequate anti-corruption procedures as of today. While it was argued that anti-corruption legislations are moving towards a global standard, and thereby creating more equal competitive conditions for companies operating internationally, this does not seem to be the case in any of the BRIC countries. As Norwegian MNCs are responding to the increased legislations, by the implementation of strict anti-corruption procedures, they may loose opportunities with local and/or other partners. Thus, Norway's commitment in the international fight against corruption could negatively affect the MNCs competitiveness.

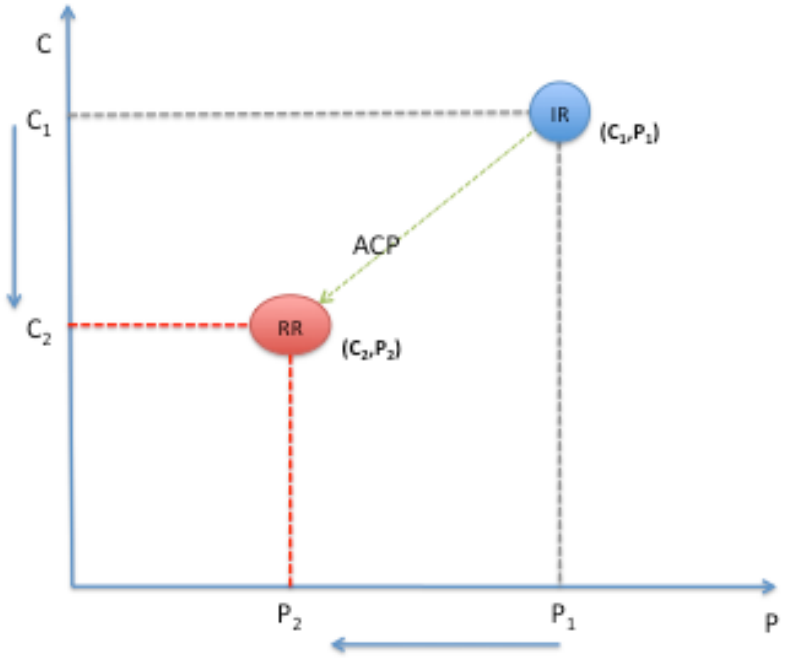
Another reasonable assumption is that the MNCs recognize the inherent risk at different levels because they operate in different industries. Transparency International (2009a) argues that the oil, gas and energy industry represents a presumed high level corruption risk. As Company C is operating within the latter industry, and as previously mentioned lack adequate anti-corruption procedures, one could ask whether they consider their industry to be less exposed to corruption risk. This assumption is not meant to act as a generalization, as

research is conducted on only one company within the shipping and maritime industry, but merely an observation that corruption risk might be industry specific.

Risk appetite

To further elaborate on how the thesis considers risk appetite to be an important element in the overall corruption risk picture, the following graph is provided as an illustration. A brief explanation is provided, before further findings are presented.

Graph I: Inherent corruption risk and rest risk



P = Likelihood

C = Consequence (economical, legislative, reputational)

IR = Inherent risk

RR = Rest risk

ACP = Anti-corruption procedures

- G*raph I* illustrates the consequences of corruption through the C-axis (economical, legislative, and reputational). The likelihood of encountering corruption is illustrated through the P-axis.

- The inherent risk (IR) is shown in C_1, P_1. IR illustrates a situation where both the consequence of corruption and the likelihood of encountering corruption are high.

- When the IR is high, it is necessary to implement anti-corruption procedures (ACP) that reduce the inherent risk (illustrated by the green arrow).

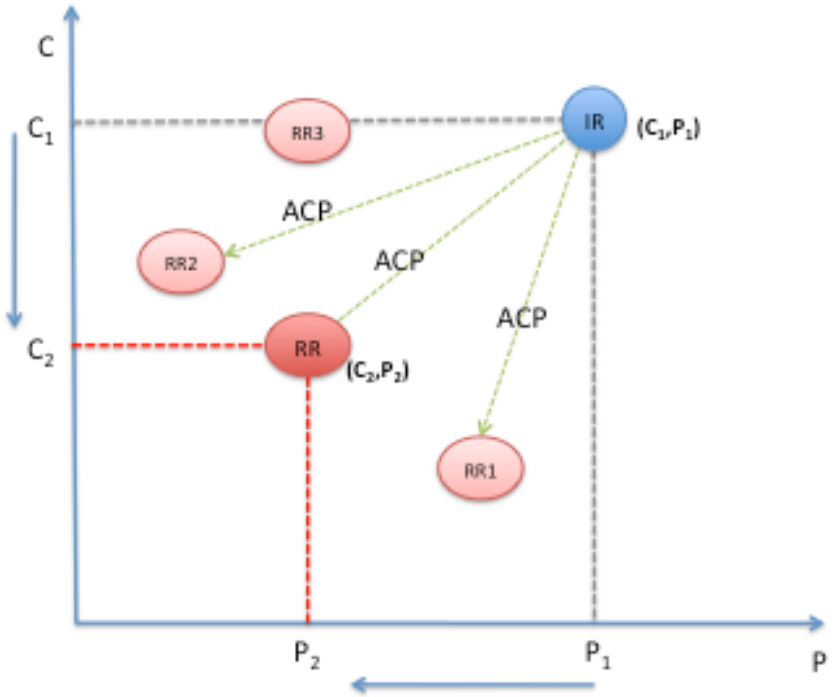
- When a company implements ACP, reducing the IR, what is left is the so-called rest risk (RR) shown in C_2, P_2. The RR is considered to be the company's risk appetite.

- Thus, RR (C_2,P_2) illustrates a situation where both the consequence of corruption and the likelihood of encountering corruption is reduced to a lower level.

- The question is therefore whether the company perceives the rest risk to be at an acceptable level.

- Note: The ACP can vary between companies, depending how they consider the IR, resulting in varying levels of the RR. This is illustrated in *graph II* on the next page, by RR1, RR2, RR3. Exemplified by RR3, where the likelihood of corruption is lower, but the consequence remains as high as in the example from *graph 1*.

Graph II: Different levels of rest risk



In order to relate the graphs to findings, two situations are provided below.

Situation 1: If one considers the graph to illustrate the risk facing MNCs when operating in BRIC countries, the rest risks represent the MNCs' risk appetite of operating and/or accept the corruption risk in the BRIC countries. Findings show that the researched MNCs have chosen to be present in the BRIC countries, despite that the level of corruption is high. This indicates that the MNCs have reduced the inherent risk of operating in BRIC countries to a level they find acceptable.

However, the thesis has found that in other markets where inherent corruption risk is recognized to be high, or potentially at the same level as for the BRIC countries, the risk appetite can be lower compared to the risk appetite in the BRIC countries. Although the MNCs have reduced the inherent risk, and thus are left with a rest risk at the same level as in BRIC countries, they may choose to exclude the market, as the rest risk is unacceptable. Thus, the companies are not willing to take the rest risk on their company. This corresponds with research from Alas and

Miller (2009), who claimed that 45% of global companies have neglected to enter certain markets due to the high risk of corruption.

These findings indicate that the MNCs' risk appetite is higher in BRIC countries than in other corrupt markets. The thesis argues that the importance of having a presence in such high growth markets increase the MNCs' international competitiveness, despite that the risk of corruption is high, due to the opportunities those markets can offer. Thus, risk appetite of a company seems to be related to international competitiveness.

Situation 2: Consider the graph to illustrate the risk associated with the use of third parties. The MNCs may have reduced the inherent risk to a level where both the likelihood and consequence of encountering corruption is lower, yet the rest risk may not be at an acceptable level. This was found to be the case of company A. Although the company considered a high inherent risk in regards to the employment of third parties, they are not able and/or willing to accept the rest risk. The inherent risk is thus not reduced to an acceptable level, and the company has therefore excluded all use of third parties.[8]

Response to sub-question two

Through the discussion, the thesis sought to recognize how the MNCs' choose to manage the inherent risk of corruption. While it was assumed that the implementation of anti-corruption procedures, based on the guiding principles, was an adequate risk management technique, research revealed the MNCs take further, and more concrete steps, to reduce the level of the existing corruption risk. This was recognized through for instance company A's elimination of all third party relationships.

The discussion also raised questions whether the critique against the existing anti-corruption procedures where applicable to the researched MNCs. The findings indicated that a strengthening of the NPC, the FCPA and the introduction of the UKBA have influenced MNCs' risk management procedures to a large degree. This was exemplified through company C, who are now developing anti-

[8] Company A refers to third parties as agents or intermediaries, and not joint ventures

corruption procedures based on the guiding principles, as a direct response to the legislative enforcement.

The level to which the MNCs have implemented anti-corruption procedures seem to depend on what level they have recognized the inherent risk. While this may seem as an obvious statement, it is worth to consider, as the thesis looks further into the underlying reasons. It was found that the companies who recognized a high level of inherent risk also implemented strict anti-corruption procedures, while lower to moderate recognized inherent was likely to correspond with inadequate procedures. However, it is not argued that these two factors necessarily correlate, but rather assumed that the level, to which a company chooses to recognize the inherent risk, and thereby implement procedures for risk management relative to that risk, is based on the MNCs' risk appetite.

5.3 How does corruption affect international competitiveness?

The following section will draw upon the above discussion, related to sub-question one and two, in order to address the overall research question.

The thesis argues that a MNC who does not recognize the inherent risk of corruption as high, could be more willing to enter a corrupt market, or benefit from the use of third parties, thus creating competitiveness through increased economic value creation. While Wallace-Bruce (2000) and Doh et al. (2003) argued that a competitive advantage could be achieved by companies who are willing to conduct bribery, the thesis argue that increased competitiveness could only be achieved by Norwegian MNCs willing to operate within the applicable anti-corruption law. This further supports the argument raised in the introductory section, where it was stated that increased knowledge on anti-corruption legislation could lead companies to compete more effectively.

Moreover, in the process of recognizing the inherent risk, a MNC's level of implemented anti-corruption procedures becomes relevant. A MNC, who is able to implement adequate procedures, and establish a zero tolerance towards corruption throughout the organization, is assumed to recognize a high level of inherent risk in corrupt markets. This is further argued to both have a positive and

negative affect on competitiveness, based on findings shown in *table 2*. Initially, company A, C, D and E have argued that well established anti-corruption procedures increase transparency, and thereby have a positive effect on the company's reputation, assumed to positively affect competitiveness. Furthermore, company B emphasized the importance to balance the level of compliance in regards to the level of international competition. However, findings also point to certain negative aspects of these procedures. Company A has through its anti-corruption procedures, and a high level of due diligence, recognized a high inherent risk concerning third parties, and thereby excluded them. This limits the MNC's ability to create economic value in the desired market, and thereby could reduce competitiveness.

The thesis has previously recognized that an implementation of anti-corruption procedures requires a vast amount of resources, and MNCs should therefore carefully evaluate whether the cost of implementing adequate procedures could potentially exceed the benefits. The thesis recognizes that certain MNCs may be reluctant to the implementation of such procedures, as it can drain the company's economic resources. Yet, it can be argued that it would be beneficial for a MNC to invest in the implementation of strict anti-corruption procedures today, in order to exploit the benefits it can create in the long term, given that the overall anti-corruption efforts are developing at the same pace one have seen in the last decade. This correlates well with findings, as company D argued that there is a tendency for anti-corruption procedures to positively affect competitiveness today, compared to ten years ago, as the procedures have been more commonly recognized in the international business arena.

Lastly, the thesis argues that a high risk appetite could positively affect competitiveness. With a high risk appetite, a MNC is inclined to have a higher presence in certain markets, seen for instance through the MNCs' presence in BRIC countries. It generates an assumption relevant to the overall research question. It implies that a MNC's recognized level of corruption risk not directly affects international competitiveness, but rather that the MNC's allowed risk appetite is what affects its international competitiveness. The thesis again emphasize that it is difficult to evaluate what constitutes a corruption, and thereby

argue that a company's identification of acceptable corruption risk, largely depends on how the company perceive corruption by law and by definition.

6. Concluding remarks

Corruption has been recognized to be a difficult framework to assess. Yet, the thesis sought to research the topic of corruption in relation to international competitiveness, and asked the following research question: *how does the risk of corruption affect Norwegian MNCs' international competitiveness?* The model developed to this specific research proposed that two elements of corruption risk were likely to affect competitiveness, recognized in the model as risk identification and risk management. Based on the related sub-questions, the thesis sought to answer the overall research question.

Initially, it has been found that the MNCs identify a high level of inherent corruption risk. Yet, it is not necessarily the risk of corruption that affects the MNCs' international competitiveness. The inherent risk of corruption, recognized through anti-corruption legislations, BRIC countries and third parties, is assumed to be present regardless of whether the MNC have identified it or not. The thesis has rather found that a MNC's international competitiveness is likely to depend on the level of acceptable risk appetite, whether high or low. Thus, the amount of risk exposure acceptable to the MNC, affects its ability to increase or maintain economic value creation.

It is further found that the recognized inherent corruption risk, influence the level of anti-corruption procedures the MNC find necessary to implement. The risk of corruption could thereby affect the company's international competitiveness both in a positive and negative manner. One on hand, by dedicating resources to invest in anti-corruption procedures, the MNC will likely be perceived as transparent which can create positive- economical, legislative and reputational consequences. Still, the MNC might not be able to benefit from these efforts just yet, as there seem to exist limited equal competitive conditions in the BRIC countries as of today. Companies operating in the BRIC countries that do not share a zero tolerance for corruption may be reluctant to cooperate with Norwegian MNCs who are considered more mature in their anti-corruption efforts. Yet, this may viewed to be only a short-term negative affect on international competitiveness.

On the other hand, if the world is moving towards a global standard in terms of anti-corruption legislations, as is argued by the Norwegian Government,

Norwegian MNCs who have adequate procedures for corruption risk management may acquire international competitiveness if equal competitive conditions are realized in the future.

It is important to recognize that the thesis has not been able to develop a definite answer to the research question, as corruption risk is found to create both limitations and opportunities for international competitiveness. However, the thesis contributed with assumptions, based on the researchers interpretation of the findings. Thus, suggestions for future research are proposed.

Anti-corruption legislations are constantly under development as an increased number of countries are committed to the international fight against corruption. Future research therefore suggests a longitudinal study that measures the effect of companies' implementation of anti-corruption procedures on international competitiveness in the long-term. It is further suggested to conduct a quantitative study on the same topic, where answers are generated on a scale, contributing with a possible generalization of findings. Thus, a cross-national study conducted on a considerable amount of MNCs could be considered.

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Appendices

Appendix 1: Interview guide - Norwegian

Del 1: Generell Informasjon om selskapet	
1	Innenfor hvilke(n) bransje(r) driver selskapet?
2	Hvor stor andel av selskapets aktiviteter foregår i Norge/internasjonalt?
3	Hva er bakgrunnen for selskapets internasjonale aktiviteter?
4	Hvor lenge har selskapet hatt internasjonale aktiviteter?
5	Hvilke internasjonale markeder fokuserer selskapet på?
6	Opererer selskapet i Emerging markets/ developing markets, hvilke?
7	Hvor stor andel av selskapets internasjonale operasjoner foregår her?
8	Hvor stor andel av selskapets operasjon (salg, drift, ansatte) foregår her (i prosent)?
9	Hvor mange ansatte har selskapet i Norge og internasjonalt?

Del 2: Organisasjons struktur: Hvordan opererer selskapet?	
1	**Hvordan er selskapets globale operasjoner organisert?**
	a) Har selskapet heleide og/eller deleide datterselskap i de land det opereres i?
	b) Har selskapet lokale joint venture partnere eller tilsvarende?
	c) Benytter selskapet seg av salgsagenter, markedsrepresentanter eller lignende i de globale operasjoner?
2	**Har selskapet en fast prosedyre/strategi med hensyn til hvordan selskapet skal operere globalt (struktur, rapportering, organisering mv.)?**
	a) På hvilken måte?
	b) Hvordan implementeres den?
	c) Hvis ikke standard/fast --> lokalt tilpasset alle markeder med operasjonell drift?
	d) Har selskapet en bevisst holdning til bruk av norske/internasjonale ressurser vs. lokale ressurser? I tilfelle hva er selskapets holdning og hvorfor er det slik?
3	**Oppfølging og styring:**
	a) Hvordan følger selskapet opp heleide og/eller deleide datterselskap i utlandet
	b) Hvordan styrer toppledelsen i Norge heleide og/eller deleide datterselskap i utlandet
	c) Hvordan sikrer toppledelsen av lokale aktiviteter gjennomføres i tråd med policier og rutiner etablert av selskapet
	d) Hvordan sikrer toppledelsen tilstrekkelig kontroll med heleide og/eller deleide datterselskap i utlandet?
	e) Dersom selskapet opererer globalt uten å bruke heleide og/eller deleid datterselskap, men eksempelvis via salgsagenter, hvordan sikrer den norske toppledelsen tilstrekkelig styring og kontroll over utenlandske aktiviteter

Del 3: Antikorrupsjonspraksis: Hvordan adresseres risikoen?	
1	Beskriv engasjementet fra toppledelsen vedrørende prosedyrer for å sikre mot korrupsjon ved 3-parts håndtering
2	Hvordan utarbeides prosedyrer til anti-korrupsjons retningslinjer i selskapet? Etterlevelse, tilsyn, autonomi, ressurser?
3	Risiko vurdering: land risiko, sektor risiko, transaksjonsrisiko, mulighets risiko, relasjons risiko
4	Hvordan foregår kommunikasjonen vedrørende de relevante prosedyrene? Opplæring, rådgivning, insentivsystemer og disiplinærtiltak
5	Har selskapet en bevisst holdning til risiko knyttet til bruk av tredjeparter? I tilfelle, på hvilken måte kommer dette frem?
6	Hvilke prosedyrer har selskapet for bakgrunnssjekk av tredjeparter?
7	Hvilke prosedyrer har selskapet for overvåkning og kontroll? Konfidensiell rapportering, interne undersøkelser, regelmessig gjennomgang av prosedyrer?

Del 4: Sammenheng: korrupsjonsrisiko og globale aktiviteter	
1	På hvilken måte påvirker korrupsjonsrisiko organiseringen av selskapets globale aktiviteter?
2	På hvilken måte påvirker korrupsjonsrisikoen styring og kontroll av selskapets globale aktiviteter?
3	I hvilken grad opplever du at korrupsjonsrisikoen påvirker selskapets evne og ønske om å operere globalt?
4	Er du kjent med at korrupsjonsrisikoen knyttet til globale aktiviteter har ført til at selskapet ikke har ønsketå gå inn i enkelte markeder/land?
5	I hvilken grad mener du korrupsjonrisiko påvirker selskapet?

Appendix 2: Interview guide – English

Part 1: General Information	
1	Within what industry/ sector does the company operate?
2	What percentage of the company's activities take place in Norway / abroad?
3	What is the rational behind the company's international activity?
5	How long has the company engaged in international activities?
4	Which international markets does the company focus on?
6	Does the company operate in either developing or emerging markets? Which?
7	What percentage of the company's business (sales, operations, employees) takes place here (in percent)?
8	How many employees do they have in Norway/ abroad?

Part 2: Structural organization: how does the company operate	
1	**How are the company's global operations organized?**
	a) Does the company own full and/or partial subsidiaries in any of the countries of operation?
	b) Does the company have any local joint venture partners or other cooperation of a similar structure?
	c) Does the company uses sales agents, marketing representatives or similar partners in their global operations?
2	**Does the company have a standard procedure / strategy for global operations (structure, reporting, organization, etc.)?**
	a) In what way?
	b) How is it implemented?
	c) If not a standard procedure - do they adapt their strategy to each market?
	d) Does the company have a deliberate policy on the use of Norwegian / international resources vs. local resources? In case what is the company's attitude and why is it so?
3	**Monitoring and control**
	a) How does the company follow up on wholly and/or partially owned subsidiaries abroad?
	b) How does top management ensure adequate supervision of wholly and / or partly owned subsidiaries abroad?
	c) How does top management ensure that local activities are conducted in accordance with the established company procedures and good practice?
	d) If the company operates globally without using wholly and / or partly owned

Part 3: Anti-corrupt practices: How to address the risk? (UK Guidance – Six Principles // FCPA Guide – Hallmarks of Effective Compliance Program)	
1	Describe the commitment from top management regarding procedures to safeguard against corruption in relation to 3-party management
2	How are procedures for anti-corruption policies implemented in the company? Compliance, monitoring, autonomy, resources?
3	Risk assessment: country risk, sector risk, transaction risk, business opportunity risk, and business partnership risk?
4	How does the company communicate on the relevant procedures? Training, consulting, incentive and disciplinary action?
5	Does the company have an awareness of the risks associated with the use of third parties? If so, in what way will this be?
6	What procedures have the company established for due diligence of third parties?
7	What procedures have the company established for monitoring and control? Confidential reporting, internal investigations, regular review of procedures?

Part 4: Relationship: Risk of corruption and global activities	
1	In what way does the risk of corruption affect the company's organization of its global activities?
2	In what way does the risk of corruption affect the management and control of the company's global activities?
3	To what extent do you believe that the risk of corruption affects the Company's ability and desire to operate globally?
4	Are you aware of any situation where the company has chosen not to enter a market due to prevalent corruption risk?
5	Can you evaluate how the prevalent risk of corruption affects the company?

Preliminary Thesis Report

(See next page)

Kaja Fosmark
Hedvig Meidell

Preliminary Thesis Report

BI Norwegian Business School

- Corruption -

- The challenge of the principal-agent relationship -

A study in cooperation with PwC

Supervisor:
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Table of Contents

ABSTRACT ..... **II**

ABBREVIATIONS ..... **III**

1. INTRODUCTION TO TOPIC **1**

1.1 CORRUPTION IN TODAY'S ECONOMY 1

1.2 OBJECTIVE OF STUDY 2

1.2.1 Tentative Research Question *2*

1.3 PROPOSED STRUCTURE OF PAPER 3

2. PROPOSED METHODOLOGY **3**

2.1 METHODOLOGICAL REFLECTIONS 3

2.2 RESEARCH METHOD 4

2.3 SAMPLING CRITERIA 4

2.4 DATA COLLECTION STRATEGY 5

2.5 VALIDITY 5

2.5.1 External validity *5*

2.5.2 Internal validity *5*

2.6 LIMITATIONS 5

3. LITERATURE REVIEW **6**

3.1 CORRUPTION THROUGH HISTORY 6

3.1.1 Corruption Defined *6*

3.2 THEORETICAL FRAMEWORK 7

3.3 AN IDENTIFICATION OF THIRD-PARTY ACTORS 9

3.4 RISK EVALUATION OF THIRD PARTIES 9

3.5 INTERNATIONAL ENFORCEMENT TRENDS – COMPANIES' REQUIREMENTS FOR ACTIONS 10

3.5.1 "Best Practice" *10*

3.6 LEGISLATIONS 11

3.6.1 The Norwegian Government *11*

3.6.2 The United Nations *12*

3.6.3 Transparency International *12*

3.6.4 The OECD *13*

3.6.5 The World Bank *13*

3.6.6 The FCPA *13*

3.6.7 The UK Bribery Act *14*

4. SIGNIFICANCE OF STUDY **14**

5. TENTATIVE TIMELINE **15**

6. REFERENCES **16**

7. APPENDICES **18**

Abstract

Corruption has emerged as a central theme in international research, as an aggressive global push to fight corruption has emerged. Through a focus on transparency, anti-corruption and strict regulations, governments along with international organizations, are doing their foremost to prevent and control the level of corruption existing in the global business environment. This paper attempts to deepen the understanding of anti-corruption efforts, by systematically examining how it affects Norwegian companies' management of third-party relations. Through the framework of the *principal-agent theory,* the paper intends to demonstrate an understanding of the risks associated with the companies' external relationships, and the following research question is proposed:

"*In a Norwegian company with a global presence, how does the principal-agent theory, combined with the risk of corruption, affect the company's execution of global operations?"*

The master thesis will be conducted in cooperation with PwC, through the PwC Scholarship. Working closely with the Forensic Investigations Department, allowing access to valuable information and cases relevant to the research. Kristian W. Thaysen, Senior Manager in PwC, will act as a mentor throughout the process.

Abbreviations

EFS	European Fraud Survey
OECD	Organization for European Economic Co-Operation and Development
PwC	PricewaterhouseCoopers AS
TI	Transparency International
UK BA	UK Bribery Act
UN	United Nations
US FCPA	United States Foreign Corrupt Practices Act
WB	World Bank

1. Introduction to topic

Corruption, although a well-known phenomena, is a constantly increasing problem in today's global marketplace as an aggressive international push to fight corruption has moved well beyond well-intentioned rhetoric and toward hard results" (PwC 2009: 3). While Norway traditionally have scored high on Transparency International's Corruption Perception Index, an extensive survey completed by Ernst & Young (2011) on fraud and corruption in European companies, reveal signs of a different trend. The European Fraud Survey[1] (Roscher and Ellingsen 2011: Ernst & Young 2011) reported that 23% of the survey respondents claimed corruption to be prevalent in Norway. More interesting is the fact that 41% of Norwegian top executives responded that employees in their organization had been sanctioned for breach of the company's anti-corruption legislations (Roscher and Ellingsen 2011: Ernst & Young 2011). These numbers indicate a prevalence of corrupt actions in Norway and/or Norwegian companies, which brings attention to the subject of anti-corruption legislations. With this development in mind it, there is a recognized need for concern among Norwegian companies (Roscher and Ellingsen 2011: Ernst & Young 2011).

Furthermore, according to Roscher and Ellingsen (2011), corruption is widespread, even though it seems that the anti-corruption actions in Norwegian companies are falling behind. While the EFS (Ernst & Young 2011) shows that several Norwegian companies do not hold important actions of effective compliance/anti-corruption programs, they claim that the amount of companies that have implemented anti-corruption programs has been reduced compared to 2009 (Roscher and Ellingsen 2011). In Norway only 49% agree that their company have ethical guidelines or "code of conducts", and as many as 68% have never been part of an anti-corruption learning program, further supporting the need to take action.

1.1 Corruption in today's economy

In 2004 the World Bank reported that bribery has become a USD 1 trillion industry (UN Global Compact 2012). Yet, the norms for truthful behavior in

[1] The EFS is based on 2365 interviews with people in 25 countries working in multinational companies with more than 500 employees.

business are increasingly under development, as legislations have become stricter. As a result, the development of anti-corruption policies among companies have gained increased attention (Roscher and Ellingsen 2011), as corruption is recognized to be one of the world's greatest challenges according to the United Nations Global Compact (2012). Myint (2000) has emphasized that corruption has become universal, meaning that it exists in all countries, developed and developing, both in the public- and private sector, non profit- and charitable organizations and pose a major hindrance to sustainable development for a the global economy.

There are many prominent companies in today's fight against corruption, who work actively with clients to ensure they operate within the guidelines of the international arena. The main sanctions that they operate under are the US FCPA and the UK Bribery Act, which puts strict regulations on the way in which multinational companies are allowed to operate**.** However, while one company might work within the legislation put in forth by for instance the US FCPA and the UK Bribery Act, there is no guarantee that the actors they cooperate with act within the same guidelines. This leads us to the importance of the *principal-agent theory,* and thereby the risks arising when managing third-party relations.

1.2 Objective of study

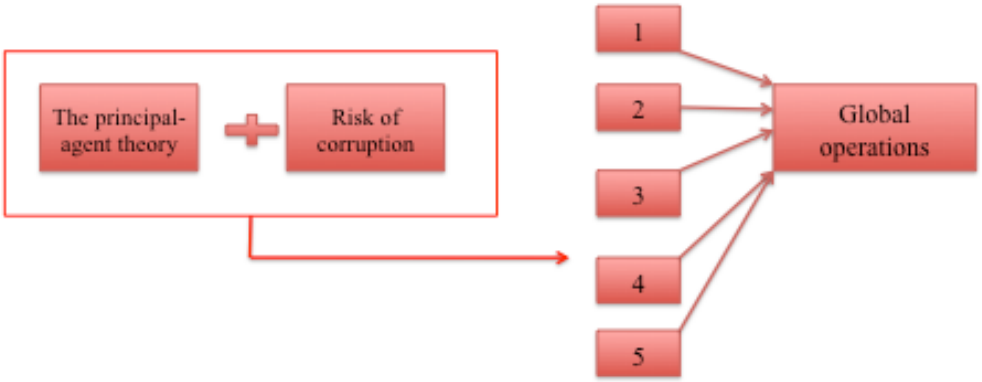
The purpose of this study is to investigate a selection of Norwegian companies that operate globally, and assess how they evaluate and eventually address the risk of managing third parties in their global business operations. Through an examination of the companies' anti-corruption policies, and an identification of their best practice, we seek to disclose a common set of anti-corruption policies. Based on this information, a research will be conducted to identify how the selected Norwegian companies address the risk of operating in a global environment, taking corruption and the principal- agent problematic into account.

1.2.1 Tentative Research Question

Based on the above reasoning, the following research question is proposed:

In a Norwegian company with a global presence, how does the principal-agent theory, combined with the risk of corruption, affect the company's execution of global operations?

The following model is provided to illustrate the reasoning behind the research question, where the numbers represent a set of companies investigated.



1.3 Proposed Structure of Paper

The remainder of the research paper is structured as follows: initially, the proposed research method is demonstrated, with the intension to provide insight into the desired findings of the study. An identification of previous literature on corruption is then recognized, including an illustration of the theoretical framework in which the paper is built on. Furthermore, challenges to the principal-agent problematic is defined, through an identification of third-parry actors, before a description of the most relevant legislations are provided. Lastly, we illustrate an example of best practice, based on research conducted by PwC.

2. Proposed methodology

The following methodological section is intended to provide an understanding of how the research will be conducted in order to address the issues set forth in the research objective.

2.1 Methodological reflections

In order to address the current issue of efficient third party management, an investigation on a selection of companies, and how they address the challenges of operating globally in relevance to the principal-agent theory and the risks of

corruption, will be executed. The research will be conducted in order to identify how Norwegian companies respond to the risk of corruption and the principal-agent problematic.

2.2 Research method

A qualitative study will be chosen to ensure an in-depth understanding of each company. According to Henderson (2008: 44), "Qualitative research involves around understanding perceptions, opinions, beliefs, and attitudes, and traditional ways of getting information in those arenas is through adept questions and probes". When conducting qualitative research, the main focus is not on the numbers or statistics the research provides, but rather to explore the interview objects through their thoughts, emotions and behaviors (Rallis and Rossman 2011). A qualitative study, such as in-depth interviews, will in this case be applied, with the intension to uncover the companies' response towards corruption that may affect the way in which global operations are executed. This method will allow for a more thorough investigation of the research objectives, thus creating valuable insights to the objective of the study.

Semi-structured interviews are proposed as the most appropriate method, as the interview questions often give a higher degree of confidentiality, as the replies of the interviewees tend to be more personal in nature (Easterby-Smith et al 2012: 128). Additionally, this method will provide the opportunity to identify non-verbal clues that are present, which can be used to develop secondary questions (Easterby-Smith et al 2012: 128).

2.3 Sampling criteria

The companies will be carefully selected based on a set of certain criteria. The intention is to conduct a research on companies that has a connection to PwC, in order to get access to information and key personnel. At this point, the criteria include the following:

- The company should be Norwegian owned
- The company should operating globally, or at least a strategy to operate globally
- The company should be present in at least one emerging markets (BRIC)

- The company should employ at least 500 employees

2.4 Data collection strategy

The interviewees will be selected based on their professional engagement on risk evaluation and anti-corruption issues. The aim is to contact key personnel, preferably with a minimum of five years experience, within each company connected to global operations and strongly committed to the companies' anti-corruption policies and legislations.

2.5 Validity

2.5.1 External validity

An element important to consider when evaluating to which extent the research is valid, is the element in literature defined as external validity. The element evaluates to what extent the conducted research could be applied to other samples, in other words, whether it is applicable in a general sense (Cook and Campbell, 1979). The external validity in this research is limited, as the study is intended to be conducted with a few selected companies, and could not be applied to the common business environment as a whole.

2.5.2 Internal validity

Another element important to the validation of research is the internal validity, which refers to the instance that there could be a causal relationship between two determined variables (Cook and Campbell, 1979), in this sense the principal-agent problematic and the risk of corruption. In order to maximize internal validity "random assignment to control the experimental groups, and efforts are made to ensure that the subsequent experience between the two groups are identical in all respects" (Easterby-Smith et al. 2010:87). By conducting identical questions to the interview objects, the research intends to enhance internal validity.

2.6 Limitations

Limitations to this research would mainly concern the authenticity of the information received by the interview objects. As the topic of investigation is sensitive, interview objects might refuse to give a detailed response. In addition, it

could be difficult to control for quality of the respondents and accuracy of their answers.

Furthermore, major audit firms have recently received criticism for their position in the fight against corruption. Certain researchers and anti-corruption activists have expressed concerns, as the auditing firms in large degree operate in countries perceived by transparency international as highly corrupt. This poses the question of their legitimacy in the fight against corruption. In relation to this research, it is important to be aware of the role PwC plays in the international arena, however, the main criticism is based on their involvement in countries perceived as tax havens, and as this research is primarily focused on the third party problematic, it is less relevant.

3. Literature review

3.1 Corruption through History

Corruption is not a new phenomenon, as Robert Klitgaard (1988:7) states: "corruption is as old as government itself", further supported by Bardhan (1997) who argues that corruption is an ancient problem. According to Tiihonen (2003) most of the literature available on corruption twenty years ago was based on developing countries, today most politicians and servants in advanced, industrial countries, regard corruption as a phenomena which everybody knows exists, but only few write or speak about it in public (Tiihonen 2003). Tiihonen (2003) further states that it was not until the 1990s corruption became a popular theme in major international organizations, such as the WB, the OECD, TI, and the UN. For instance, in 1993 TI began an initiative to raise public awareness on the subject, i.e. through the Corruption Perception Index (Tiihonen 2003).

3.1.1 Corruption Defined

Corruption is a broad topic, and involves several perspectives. A corrupt act is often, but not necessarily, illegal. When handling corruption one will often face grey-zones and complex dilemmas (Corruption on the Agenda 2012). According to the State Secretariat for Economic Affairs SECO, corruption is defined as "any abuse of a position of trust in order to gain an undue advantage. This involves the conduct of both sides: that of the person who abuses his position of trust as well as

that of the person who seeks to gain an undue advantage by this abuse. Corruption can occur in relation to officials as well as between private persons and is particularly prevalent in certain kinds of transactions (for example, when awarding public contracts), in certain economic sectors (for example, in extractive industries), and in certain countries. Corrupt practices can range from small favors in anticipation of a future advantage to the payment of large sums of money to senior members of governments" (seco.admin.ch 2012). According to the President of The World Bank, corruption is "a cancer that steals from the poor, eats away at governance and moral fiber, and destroy trust".

The World Bank states that the consequences and effects of corruption is that it deters investments and hinders growth. It spurs inequality and erodes macroeconomic and fiscal stability. Furthermore, corruption reduces the impact of development assistance and provides an incentive to exploit natural resources, further depleting our environmental assets. It also reduces the effectiveness of public administration and distorts public expenditure decisions; channeling urgently needed resources away from sectors such as health and education to corruption-prone sectors or personal enrichment. It erodes the rule of law and harms the reputation of trust in the state. In short, it increases wealth for the few at the expense of society as a whole, leaving the poor suffering the harshest consequences (The World Bank 2012). For clarity, a list of indicators of corrupt acts is presented, based on the Serious Fraud Office in the UK (2012), in appendix 1.1.

3.2 Theoretical Framework

In relation to companies' risk evaluation in global operations, the *Principal-agent theory* is provided as a theoretical framework for understanding companies' challenges relating to third party actors. According to Persson et al. (2012), "A large number of researchers now agree that the overall failure of anti-corruption reforms is by large the result of an implementation problem. In particular, there seems to be an absence of actors willing to enforce existing laws by reporting and punishing corrupt behavior and, as such, act as "principals" (Persson et al. 2012: Lawson 2009; Fjeldstad & Isaksen 2008; Svensson, 2005; Riley 1998; Kpundeh 2004; Ittner 2009).

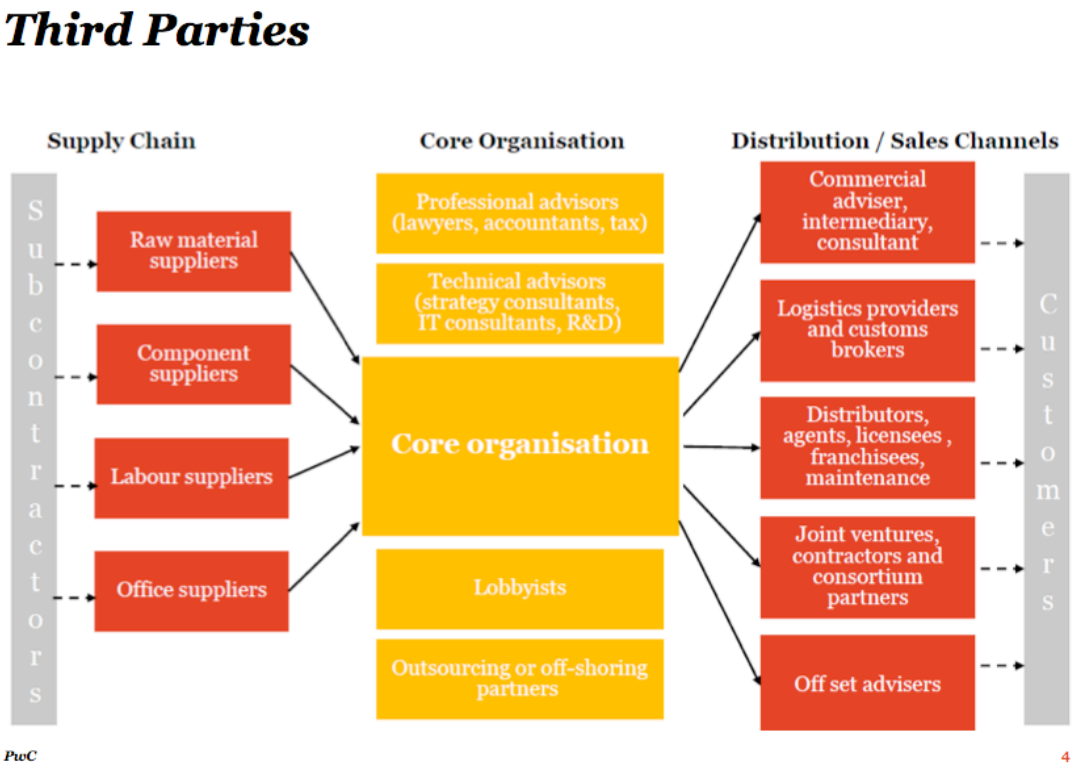
The principal-agent theory is based on two key assumptions: 1) that a conflict of interest exists between the principals and the agents, and; 2) that agents have more information than the principals, resulting in information asymmetry between the two groups of actors (Persson et. al. 2010: Klitgaard 1988, Williams 1999). The problem arise when the agent have another intention than the one expressed to the Principal, and operating with a hidden agenda. In relation to corruption, and the challenges that occur with the management of third party actors, "corruption occurs when an agent betrays the principal's interest in the pursuit of his or her own self-interest" (Persson et. al. 2010: 5). According to the authors (2010) this betrayal is in turn made possible by the information asymmetry occurring between the actors, namely the principal and the agent. The implications of this framework underlines that in order to reduce corruption, it is the principals responsibility to negatively affect the agents motivation to engage in corrupt behavior (Persson et. al. 2012). This further emphasizes the need to introduce an efficient governance system that sanction against corrupt acts, while maintaining the interests of the principal form a business perspective.

Meanwhile, the *principal agent theory* holds certain limitations as it assumes the agent only to act in self-interest. The principal is assumed to be the governing actor, controlling for anti corruption actions and acting in the interest of the common public good. However, the principal agent theory does not hold ground if the principal acts in self-interest. As stated by Persson et al. (2012), "by implication, if the supposed principal(s) are also corrupt and do, as such, not act in the interest of the public good, the principal-agent framework becomes useless as an analytical tool since there will simply be no actors willing to monitor and punish corrupt behavior (Persson et. al. 2012: 4: Andvig & Fjeldstad 2001). It is in these contexts, the *collective action theory* becomes relevant. The theory does not emphasize the need for efficient monitor and legislation regimes as the principal agent framework, but rather "collective action theory starts from the assumption that all actors – i.e. rulers, bureaucrats and citizens alike – are maximizes of their own self-interest" (Persson et. al. 2012). Persson et al. (2012) further assumes that if a large enough number of actors is expected to act in self-interest, everyone has something to gain personally from acting corruptly. Consequently, in a society where corruption is the expected behavior, no principal will take on the governing role, causing a limited control of corruption. This view

has been supported in literature for years, as the Swedish Nobel laureate Gunnar Myrdal already in 1968 stated: "Well, if everybody seems corrupt, why shouldn't I be corrupt" (Persson et. al. 2013: 5: Myhrdal 1968: 409)

3.3 An identification of third-party actors

The subsequent section identifies different third-party actors, in order to create an understanding of their importance to the global companies way of operation. Each agent can pose a specific risk to the company, depending on the market, the size of the market and the legislations governing the market the companies are operating in.



(Illustration: PwC, "Managing Third Party Integrity Risk". Kristian W. Thaysen, 2012).

3.4 Risk evaluation of third parties

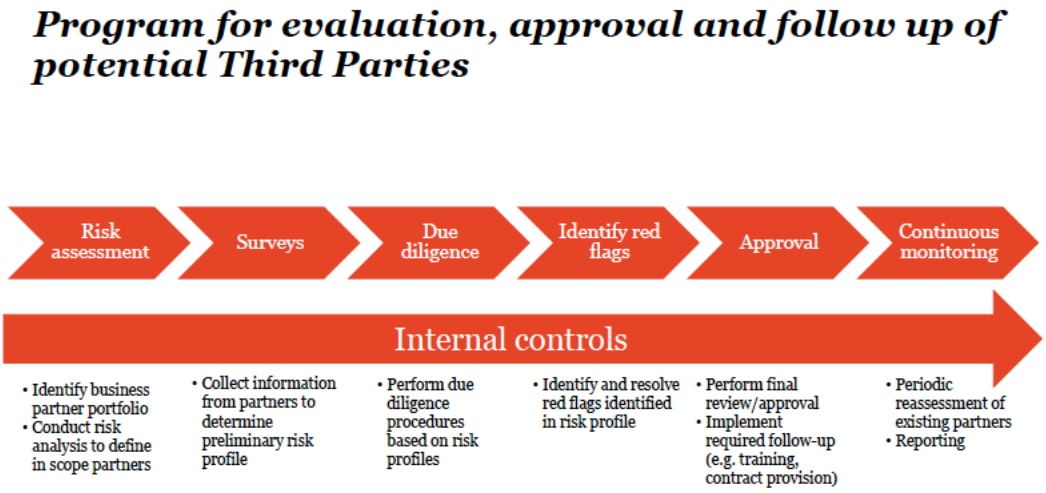
A growing number of organizations have recognized the increasingly uncertain risk picture that results from relationships with external agents and intermediaries (Anderson et al. 2011), emphasizing the need to effectively identify and mitigate those risks. Moreover, Anderson et al. (2011) states that "with increased regulatory scrutiny, continuing cost pressures, active investors, and a vigilant public, businesses today must have a clear understanding of the risks that are inherent in external business relationships".

3.5 International Enforcement Trends – companies' requirements for actions

"Almost every company, regardless of size, industry or country of operation, is exposed to some degree of corruption risk" (PwC 2008: 2). According to a report made by PwC (2008), the numerous risks that face companies today are especially prevalent through their increased global expansion in countries where "geopolitical risk and corruption are pervasive". However, through grey areas, for instance when engaging in facilitation payments, and the retention of third party agents, companies are forced to adapt their behavior to meet the greater financial and reputational risk (Skjult 2012: 6). While many companies traditionally have lacked the systems and practical tools necessary to implement an effective anti – corruption policy, they are now taking further steps to mitigate this risk due to the increased attention by governments on high- profile enforcement penalties. One reason is the desire among developed nations to establish a level playing field for business competitors regardless of their country of domicile, as corruption has an enormous social cost for vast developing countries, and a corrosive impact on democracy for rich and poor alike (PwC 2008:Sec 3:V). Furthermore, governments have recognized that corruption is a destabilizing force within the international arena (PwC 2009: 3). Consequently, the need to recognize corruption, and enforce efficient anti-corruption policies internally, is vital for global companies today. However, from the Economist Intelligence Survey (2007), 80% of the respondents say their company has some form of program in place to prevent and detect corruption, yet, among the survey respondents, only 22% are very confident that their company's anti-corruption program identifies and mitigates the risk of corruption (PwC 2008).

3.5.1 "Best Practice"

In addition to the official legislations that govern the way in which company fight corruption, such as the FCPA and the UK Bribery act, are the internal policies that offer a proposition for a best practice. According to PwC, there are five steps to ensure a better anticorruption program:



(Illustration: PwC, "Managing Third Party Integrity Risk". Kristian W. Thaysen, 2012).

Moreover, the UK Bribery Act, Article 7, suggests an extended corporate responsibility of corruption executed of associated persons, such as employees, agents, middlemen, consultants, joint venture agreements and daughter companies. This corporate responsibility is called "failure of commercial organizations to prevent bribery" (Roscher and Ellingsen 2011). It is almost impossible to secure 100% that corruption does not happen in a large international company; however, if the company has implemented robust and effective anti-corruption actions based on the so-called adequate procedures, could this according to the Article 7 (2) pose an effective and well responsible securement. Adequate procedures depend on what kind of risks that are relevant for the individual company, and according to given guidelines are "combating the risk of bribery (is) largely about common sense, not burdensome procedures. The core principle set out is proportionality" (Roscher and Ellingsen 2011).

3.6 Legislations

There are several legislations relevant for the work against corruption. In the following section seven different anti-corruption legislations are presented. However, the thesis will be concentrated around the legislations relevant for the companies chosen for the study.

3.6.1 The Norwegian Government

In 2006, The Foreign Affairs implemented an anti-corruption project, which propose several suggestions for how the fight against corruption could be

strengthen internationally. The Foreign Affairs and Norad cooperate through an anti-corruption network, where the purpose is to govern actions and initiatives against corruption (regjeringen.no 2013). On January 2nd 2008, the Foreign Affairs introduced a reporting channel in order to strengthen internal control and the fight against corruption in foreign services. The purpose was to make fraud reporting an easy task, for both employees and others (regjeringen.no 2013). The Norwegian Government actively supports the UN-convention against corruption (UNCAC), which is the first global standard for the fight against corruption.

3.6.2 The United Nations

The engagement of the UN, along with the other named actors, is a very important element in the international common attempt to fight corruption. The fact that the organization is increasingly focusing their efforts towards anti corruption legislations, affects international companies as a whole, as increased transparency and actions are seeking to govern their way of operation. Through its *Business Action Against Corruption and the Post-2015 Development Agenda*, the UN has encouraged businesses and other stakeholders to ”reaffirm their commitment to scaling up anti-corruption efforts and emphasized the importance of investing in shared platforms for collective action” (UN Global Compact 2013). Furthermore, they encourage a focus on increased transparency, as ”participants agreed to explore how to bring transparency in public procurement and public disclosure more prominently into these processes” (UN Global Compact 2013).

3.6.3 Transparency International

Through its engagement, Transparency International has gained a strong level of recognition among the forces in the global marketplace; it represents one of the largest organizations for international anti-corruption legislation. The organization has, since it was founded in 1993, focused on a systematic fight against global corruption and had an impact on the way in which companies that operate internationally conduct their business. In Norway, for example, companies could until 1995 receive a tax except from bribes placed to public officials abroad; however, through legislations set forth by TI, a law was initiated that prohibits bribes of public officials. TI also publishes the Corruption Perceptions Index, which ranks countries on how corrupt their public sectors are perceived to be,

where Norway is ranked as number 7. Norway is further linked to TI through its commitment to the Civil Law Convention on Corruption (transparency.org 2013).

3.6.4 The OECD

The Organization for European Economic Co-Operation and Development (OECD) was established after the Second World War to administer the reconstruction of Europe with help from American Marshall subsidies. The Organization works to create economic development for its member states, which today consist of 34 of the most prosperous economic countries worldwide (Skjult 2012: 23). Recently, OECD has exerted pressure on countries to strengthen their anti-bribery laws, as they do not meet the conventions standards. While there have been many cases of prosecution, OECD is concerned about the effect of the UK Bribery laws, as they claim they are inefficient and lack sufficient sanctions (PwC 2009: OECD Press Release 2008). In order to secure a more level playing field for businesses worldwide, OECD hopes there will be a ”snowball effect in the number of cases being brought up”, as ”bribery investigations and enforcement actions in the wealthiest exporting countries, to date, has done little to increase prosecution activity related to bribery and graft in developing countries” (PwC 2009: OECD 2008).

3.6.5 The World Bank

The World Bank, as a collective description of five international organizations, is a central actor in financial guidance, economic development and the fight against poverty in developing countries. The bank is a part of the United Nations, but is fully owned by the countries contributing to the bank capital (Skjult 2012: 23).

3.6.6 The FCPA

The US Foreign Corrupt Practices Act came through in 1977. The main purpose is a crackdown on the bribery of foreign officials. The detail within the FCPA is such that it is an offence for a US person, entity and certain applicable foreign entities to make bribes or offer any inducement for the purpose of obtaining or retaining business with a US firm. The Act extends to anyone transacting business while in the USA. However, the Act is not merely restricted to the US, although their signatory clearly adds weight (fcpa.us 2013).

3.6.7 The UK Bribery Act

The UK Bribery Act came through July 1st, 2011, which amends and reforms the UK criminal law and provides a modern legal framework to combat bribery in the UK and internationally. The UK Bribery Act attracted strong support from the government, and section 9 of the Act requires the government to publish guidance on procedures that commercial organizations cant put in place, in order to prevent bribery on their behalf. The Act requires companies to implement "adequate procedures" to prevent corrupt practices within the organization and by third parties on the company's behalf. While the Act applies to UK citizens, residents and companies established under the UK law, it also applies to non-UK companies in large degree, making the extremely relevant for Norwegian as well as other multinationals, as international companies operating within the UK can be held liable for failure to prevent bribery by UK Law. Appendix 1.2.

4. Significance of study

Through an identification of the need to fight corruption, and an identification of the current legislations that govern companies' behavior, this paper intends to provide insight into the international corruption scene as it occurs today. As companies are facing a high level of risk in their international engagement, the research will focus on how the companies address this risk, and more specifically, how they evaluate the risk of third-party relations. Is the relation to third-party management forcing Norwegian companies to alter their international operations? Do they increase quality control and complete a thorough due diligence? Do they work with third parties that have a solid reputation? Or do they simply cut out the middleman to ensure that business is conducted in accordance with the anti-corruption legislations? Through in-depth interviews with key personnel in the selected Norwegian companies, this paper seeks to reveal how they respond to these risks, and how it affects their way of operations. The results are intended to act as important guidelines in how to mitigate the risk associated when managing third-party relation. If proven successful, the study's long-term goal is to contribute to an improvement of the best practice among Norwegian companies.

5. Tentative timeline

January

- Research: Literature Review and methodology
- **January 15th**: Preliminary Thesis Report Due

February:

- **February 20th:** Literature Review Completed
- **February 28th:** Strategy for methodology Completed
- Select companies for interviews

March:

- Set up Interview guideline. Prepare questions.
- Book interviews with selected companies.
- **March 20th:** All interview appointments lined up.
- **March 31st:** Complete interview guide

April:

- Data Collection
- Conduct interviews
- **April 20th:** Data collection Completed
- **April 30th:** Collection of findings interpreted

May:

- Analyze findings and interpret the data collected through interviews
- Conduct possible follow up interviews if more information is needed

June:

- Continue analysis of findings and propose conclusion

July - August:

- **July 1st:** Final First draft of master thesis completed
- **Focus of period:** Correction and finalizing thesis format

September:

- **September 1st: Master Thesis Project due date.**

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7. Appendices

Appendix 1.1:

- Abnormal cash payments
- Pressure exerted for payments to be made urgently or ahead of schedule
- Payments being made through a third party country - for example, goods or services supplied to country 'A' but payment is being made, usually to a shell company in country 'B'
- An abnormally high commission percentage being paid to a particular agency. This may be split into two accounts for the same agent, often in different jurisdictions
- Private meetings with public contractors or companies hoping to tender for contracts
- Lavish gifts being received
- An individual who never takes time off even if ill, or holidays, or insists on dealing with specific contractors himself or herself
- Making unexpected or illogical decisions accepting projects or contracts
- The unusually smooth process of cases where an individual does not have the expected level of knowledge or expertise
- Abuse of the decision process or delegated powers in specific cases
- Agreeing contracts not favorable to the organization either because of the terms or the time period
- Unexplained preference for certain contractors during tendering period
- Avoidance of independent checks on the tendering or contracting processes
- Raising barriers around specific roles or departments which are key in the tendering or contracting processes
- Bypassing normal tendering or contracting procedures
- Invoices being agreed in excess of the contract without reasonable cause
- Missing documents or records regarding meetings or decisions
- Company procedures or guidelines not being followed
- The payment of, or making funds available for, high value expenses or school fees (or similar) on behalf of others.

Appendix 1.2:

The UK Bribery Act creates the following offences:

1) Active bribery: promising or giving a financial or other advantages
2) Passive bribery: agreeing to receive or accepting a financial or other advantages
3) Bribery to foreign public officials
4) The failure of commercial organizations to prevent bribery by an associated person (Corporate offence)