The Anti-corruption Performance and Non-financial Disclosure:
A Cross-country Analysis

Maria-Alina Carataș
The Bucharest University of Economic Studies
maria.caratas@gmail.com
Raluca-Andreea Trandafir
"Ovidius" University of Constanta
trandafirraluca@hotmail.com

Abstract

This article aims to stress out if there is any relation between corruption, anti-corruption practices and non-financial disclosure in different countries. The effects of cultural dimensions on corruption are strongly important for the competitiveness of an economy, the business environment, the financial growth, and many other aftereffects. Disclosure on anti-corruption can help on corruption prevention while transparency still is the most valuable tool in fighting against it. We used global scores, by the country for various indicators of corruption, starting from the United Nations "Peace Justice and Strong Institutions" goal. We used the Eikon database on Environment Social and Governance and specific scores measuring corruption facets to complete our analysis.

Key words: corporate governance, corporate culture, anti-corruption policies, non-financial disclosure
J.E.L. classification: D73, G34, M14

1. Introduction

Corruption is multi-layered in descriptive terms, from the misuse of public power to grand corruption, bureaucratic and can affect the national security within a state, can lead to environmental deteriorations and threats on the democratic leading system. Corruption causes can be linked with the state of development within a country (Caron et al., 2012). Emergent market regions are characterized by weak economic policies, impoverished society, poor education levels and low accountability of public institutions (World Bank, 1997).

Every country is characterized by national culture and we highlight the influence of cultural differences influencing people or companies' behaviours. Corruption is widespread in all societies, in a weaker or more accentuate form. The effects of cultural dimensions on corruption are strongly important for the competitiveness of a state, the business environment, the economic growth, and many other aftereffects. The innate tendency for opportunistic behaviour generates from a specific cultural background and we believe that in a general opinion, anti-corruption conduct serves values like honesty and integrity and respecting commitments.

2. Literature review

Analysing corruption is challenging, due to its complexity and wide-spreading. It can be of financial or legal nature, some of the corruption acts are blameworthy and others are not. We can explain it as a deviation from morality, duty or honour. An act can constitute a crime and be subject to sanctions if it meets the elements under criminal law (National Anticorruption Directorate, 2020).

In their studies on organizational conduct, renowned scholars like Hofstede and Scott proved that certain cultural dimensions could modify the perception over ethical circumstances and influence the corruption approach (Hofstede 2001, Hofstede at al. 2010, Scott et al. 1993). Carr & Outhwaite

question if companies made a significant impact on their practices and policies with their self-imposed measures, and the CSR agenda (Carr & Outhwaite, 2011).

We agree with Seleim and Bontis (2010) that anti-corruption fight is difficult because corruption is a multiangled social phenomenon, invading the society on upright and horizontally. Also, Fukuyama (2014) argues that collectivist societies ignore the need of treating citizens impersonally and universal rules do not function, generating nepotism, clientelism and corruption. Furthermore, Husted (1999) notes the association between low standards and collectivism, which make us conclude that higher individualism level and higher governance standards will lead to a lower level of corruption.

Global Report Initiative requirements do include the anti-corruption disclosure but there are not many companies that choose to disclose information about it (Hess, 2012). That is why including anticorruption in the Corporate Social Responsibility practice will generate value, firstly creating social value for the society and economic value for the corporation. Disclosure of information has foremost importance in the communication between companies and their stakeholders and can improve relations between communities, environment, stakeholders and prevent conflicts between them (Alonso Carrillo et al. 2019).

Companies need to disclose significant information about the policies, the management methods and their effectiveness translated into the accomplished results. Jackson et al. argue that increased transparency imposed by the non-financial disclosure (NFD) regulation may lead to less irresponsibility, meaning fewer engagements in corruption behaviours of companies. Disclosure requirements may increase awareness and more attention paid to socially related concerns inside the company (Jackson et al., 2020).

One can refer to NFD from two points of view, one is the hard disclosure, meaning the government regulation and the other is soft disclosure, as the business self-regulation. NFD legislation points out the information for disclosure but does not dictate a standard layout, it does not impose reporting, neither external audit verifications. The reporting requirements might act as red flags generator to detect and resolve the social problems at the firm level and counteract questionable activities and behaviours.

3. Research methodology

We started with an explanatory review with the use of secondary data for the literature review and quantitative statistical data for the case study. We proceeded to formulate two hypotheses, aiming to find a correlation between non-financial disclosure and the variation of results in the fight against corruption.

Anti-corruption practices are more efficient in countries where NFD is required.

NFD regulation can determine an increase of the anti-corruption performance.

For this research, we used Statistical analysis to compare country scores on the environment, social and governance [ESG] drawn from the Eikon Reuters ESG metrics dataset. Eikon is a financial mediator delivering investment information on Environment, Social and Governance problematics. Data are collected from firms reports and websites, media, and NGOs.

The data that we selected for the study is collected from 209 sovereign states. We chose the aggregated ESG country score on "sustainable development country goals" overall, and "Peace Justice and Strong Institutions" segment, one of the 17 goals chosen by the United Nations for sustainable development and measured by country. The six indicators coverage score, related to corruption that we selected are Comprehensive Risk, Criminal and Human Trafficking; Comprehensive Risk, Criminal, Illicit Financial Flow; Comprehensive Risk, Criminal, Arms Export Controls; Corruption Perceptions Index; Anti-Corruption Risk, Criminal, Anti Money Laundry Controls and Comprehensive Risk, Political, Government Effectiveness scores.

Through our analysis we emphasized only the countries with the lowest scores for each indicator, meaning they have the highest risk and the ones with the lowest risk, registering the highest scores values.

4. Findings

Corruption is composed of bribery and fraud. Bribery is a fraudulent action that implies a payer and a beneficiary of an amount of money or goods/services expecting a mutual obligation between the two parties.

Monitoring the corruption phenomenon and fraud is fundamental for the EU financial security and interests. The institution operating fraud investigations, corruption or other illicit activities regarding EU funds and assuring the European citizens' taxes go to where are needed for their Europe development is The European Anti-Fraud Office (OLAF).

At the European Union level, the Amendment on accounting enforcing the Non-Financial Reporting Directive [NFRD] 2014/95/EU concerns the disclosure of non-financial and diversity information. All entities of public interest exceeding 500 employees at the end of the financial year have to encompass in their annual report a non-financial statement regarding environmental, social aspects and personnel issues. The entities will describe their business model, the chosen and applied policies, main risks, and will disclose non-financial performance indicators according to their industry, offering an image of their performance, position and development (EU Directive, 2014).

In the United States, the law that addresses corruption is the Foreign Corrupt Practices Act (FCPA), that prohibits paying bribes to foreign officials to facilitate business deals was installed as early as 1977 with amendments enacted in 1998 and is enforced by The Securities and Exchange Commission (SEC) and the Department of Justice (DOJ) (https://www.investopedia.com/).

The corruption phenomenon and bribery can be reduced by combined efforts and actions on the international and national level. Anticorruption reforms and strategies were adopted and national institutions of anti-corruption were established (e.g. National Anticorruption Directorate in Romania [NAD], Serious Fraud Office [SFO], UK, Federal Bureau of Investigations [FBI] and Public Integrity Section in the US, French Anti-Corruption Agency [AFA] etc.) and transnational bodies like United Nations ["U.N. Convention Against Corruption"], World Bank and International Monetary Fund [IMF], the Organization for Economic Cooperation and Development [OECD]; Anti-Bribery Convention, and Civil Society (e.g. Civil Society Against Corruption [CSAC] platform launched by the Romanian Academic Society [SAR], Transparency International. The reforms' main objectives are improving corporate governance, endorsing public accountability, transparency, responsibility, diminishing corruption and encouraging economic growth and development (Boategn et al. 2020). Analysing the countries with the highest scores on CPI we can notice that eight out of nine countries perceived as less corrupt in the world are part of the OECD.

Corruption refers to revenues from theft, bribery, grafting and embezzlement of national funds by government officials (OECD, 2018). Bribery exposes the companies to legal and financial risks, and they need to bear the outcomes of their acts in case of detection. The convicted managers of companies will not only face fines but also jail incarceration and consistent financial risks. Governments may cancel their contracts obtained or affected by paying bribes or blacklist the firms to forthcoming government projects (Wu, 2005). There is also the other side of the bribery practices, performed by managers that cannot afford the consequences of not paying the bribe, in high corrupted societies. The *collective problem* resides in the attitude of people justifying their behaviour relying on their approach of reasoning how other people will behave in the same circumstances. If corruption is seen as an unwritten rule, people will think it is the only way of making things happen. Even the people are aware of the negative aftermath of corruption, they still adopt corrupt conduct supposing it makes no sense to be the sole person to behave honestly in a rotten system.

Table no. 1 Corruption scores under the "Peace Justice and Strong Institutions" segment of SDG country scores

SDG indicator	Definition	Significant scores	Lowest values, highest risk	Highest values, lowest risk
Comprehensive Risk, Criminal, Human Trafficking, Score	Assesses a country's human trafficking legislation and the effectiveness of a country's human trafficking laws and enforcement capabilities.	min 0.38 max 9.39 average 5.043 median 5.84 164 countries analysed	weakest scores of 0.32 counted for 20 countries (Belarus, Bhutan, China, Cuba, Congo, Eritrea, Iran) and 2.02 for 37 countries (Afganistan, Algeria, Angola, Bolivia, Iran).	31 countries with the highest score of 9.39, ten among them are: Australia, Canada, Colombia, Cyprus, Finland, France, New Zealand, South Korea, Switzerland, United Kingdom
Comprehensive Risk, Criminal, Illicit Financial Flow, Score	Unrecorded money, illegally earned due to crime, corruption and tax evasions, that crosses frontiers from emerging or developed economies to another country/jurisdiction	min 0.58 max 10 average 4.686 median 5 from a total of 211 analysed countries	lowest score, of under 2 hits for China, Mexico, Malaysia, Russian Federation, Saudi Arabia, Thailand. Brazil, Indonesia and Vietnam	10 highest scored countries are Equatorial Guinea, Lao People's Democratic Republic, the Democratic Republic of the Congo, Somalia, Iraq, Liberia, Chad, Turkmenistan and Dominica
Comprehensive Risk, Criminal, Arms Export Controls, Score	Rates the efficiency of arms export control mechanisms of the selected country	min 0.46 max 8.3 average 5.08 median 5 from a total of 211 analysed countries	14 countries on lowest scores Chad, Somalia and the Syrian Arab Republic being on top, while 33 countries score highest, 23 of them are within the EU	highest scores for the first 9 countries are over 80 points: Denmark, New Zealand, Finland, Sweden, Switzerland, Singapore, Norway, Netherlands and Germany
Corruption Perceptions Index, Score	Indicates and assess the states or regions by the perception of corruption. It is a combined index, obtained by a mix of inquiries and evaluations of corruption, compiled by different prestigious institutions. The CPI is the prevailing corruption barometer used worldwide.	min 9 max 87 average 43.26 median 40 169 countries analysed	the lowest score under 20 marks for 14 countries, Somalia, Syrian Arab Republic, Yemen, Venezuela, Afghanistan, Sudan and North Korea.	9 countries score highest on corruption free perception, with over 80 points for the New Zealand, Denmark, Finland, Sweden, Switzerland, Singapore, Norway, Netherlands and Germany
Anti-Corruption Risk, Criminal, AML Controls, Score	Assesses whether a country has adopted AML/CFT legislation and the effectiveness of a country's AML controls and enforcement capabilities.	min 0.11 max 8.15 average 4.79 median 5.11 211 countries analysed	between 0 and 1 for Iran, North Korea, Botswana, Zimbabwe, Yemen, Pakistan and the Maldives	over 7.4 we count 7 countries Spain, United Kingdom, Bulgaria, France, Cyprus and Germany
Comprehensive Risk, Political, Government Effectiveness, Score	It analyses countries/jurisdictions in terms of the overall degree of democracy within the political culture. The effectiveness and credibility of governance instruments used to improve the quality of	min 0.05 max 10 average 4.87 median 4.82 211 countries analysed	over 15 countries score under 1, the highest risk for top 5: Yemen, Somalia, Haiti, Libyan Arab Jamahiriya, Eritrea	20 countries score over 9, with a top-five Singapore, Switzerland, Finland, Andorra, Hong Kong, Norway and Denmark.

	public services, Policymaking and the degree of independence from political interferences			
Overall score	The median score for all the SDG scores assessed for countries where more than 10 out of 17 are available.	min 2 max 9.5 average 5.56 median 5.625 total of 188 countries analysed	10 countries are at the basis with a score of under 3: Yemen, Haiti, Somalia, Eritrea, Central African Republic, Libyan Arab Jamahiriya, Chad, Burundi, Papua New Guinea and Afghanistan	11 countries have the highest scores, over 9: Iceland, Norway, Denmark, Austria, France, Finland, UK, Germany, Sweden, Switzerland, Netherlands

SDG = Sustainable Development Goals Country Scores, https://sustainabledevelopment.un.org/
AML / CFT = anti-money laundering /combating the financing of terrorism. https://www.imf.org/en/
Source: Authors' extraction from https://eikon.thomsonreuters.com/index.html

5. Conclusions

A set of mandatory international standards on NFD will have an important impact over asymmetrical information and moral hazard and will support transparency. Transparency is associated with a good reputation. Companies choose what information to disclose but most of them choose not to publish either because of their aversion to voluntary reporting or because they fail to apply adequate anti-corruption solutions.

The scores we used for our research are specific to corruption and are part of the sustainable country score, referring to United Nations goal of promoting impartial, peaceful and inclusive societies, with secure institutions and access to justice and social services. In countries with highest scores on Environment Social and Governance overall (see the EU countries, Singapore, New Zealand, Canada, Australia) corruption is weaker and their economies and business environment are stronger and cleaner. The persistent presence of corruption and bribery in the corporate environment is also proof of weak management skills. On a European level, the 2014/95/EU NFRD is supposed to assure consistency of the non-financial reporting and improvement on transparency in disclosing information.

Disclosure of social, environmental, governance and other non-financial information is made by companies to transmit information to their stakeholders and to build a good firm reputation or to react to a bad performance (Aldaz et. Al, 2015). We align our opinion with Guba et al. that NFD has to be done considering the information from the financial statement of firms. This will mirror the company's business opportunities and risk vulnerability to financial risks together with management reactions (S&P, 2020). NFD has a financial impact and can give information about the company's opportunities and its trustworthiness. Disclosure on anti-corruption can help on corruption prevention while transparency still is the most valuable tool in fighting against it.

Corruption remains a complex topic in international research and difficult to analyse, measuring it gets challenging from its occurrence to its perception by people. Anti-corruption performance can only be achieved by setting realistic goals and implementing measures aiming to limit the phenomenon, that is customized for every culture.

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7. References

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