



Corruption and ethical practices perceptions

By Christos Cabolis

The issues of governance scandals and corporate control failures are perennial and persistent. In the last year, companies and industries ranging from airlines to banking, data analytics, health technology, marketing, transportation and delivery, have been exposed to situations related to abusive or discriminatory working relationships, bribery, corruption, data breaches, or just simple fraud. The implication of any of the above is destructive for all stakeholders of a company: customers, employees, investors, and executives are all affected in different aspects of their lives. Equally important, is the fact that the society as a whole is also affected because the presence

of corporate scandals erodes the confidence in organizations, increases the uncertainty and thus the cost in investing; it ultimately harms the credibility and reputation of officials and institutions at the firm and country level.

In this edition of the criterion of the month we present the relationship between variables from our dataset that capture the perception on corruption and practices within firms.

Research on corporate governance points to the legal and institutional framework as mechanisms that can address control failures. They are related with the rule of law in a country, the strength and independence of the judicial system, and the time it takes for decisions to be finalized and implemented. The top panel in Figure 1 presents the responses by mid- and upper level managers from our Executive Opinion Survey as to the existence of bribery and corruption. The answers are aggregated at a regional level and the higher number denotes a perception of lower presence of bribery and corruption in the country. As the figure outlines, Western Europe is characterized by the lowest presence of corruption followed by Eastern Asia and North America, while South America exhibits the highest.

Figure 1: Corruption perceptions by region



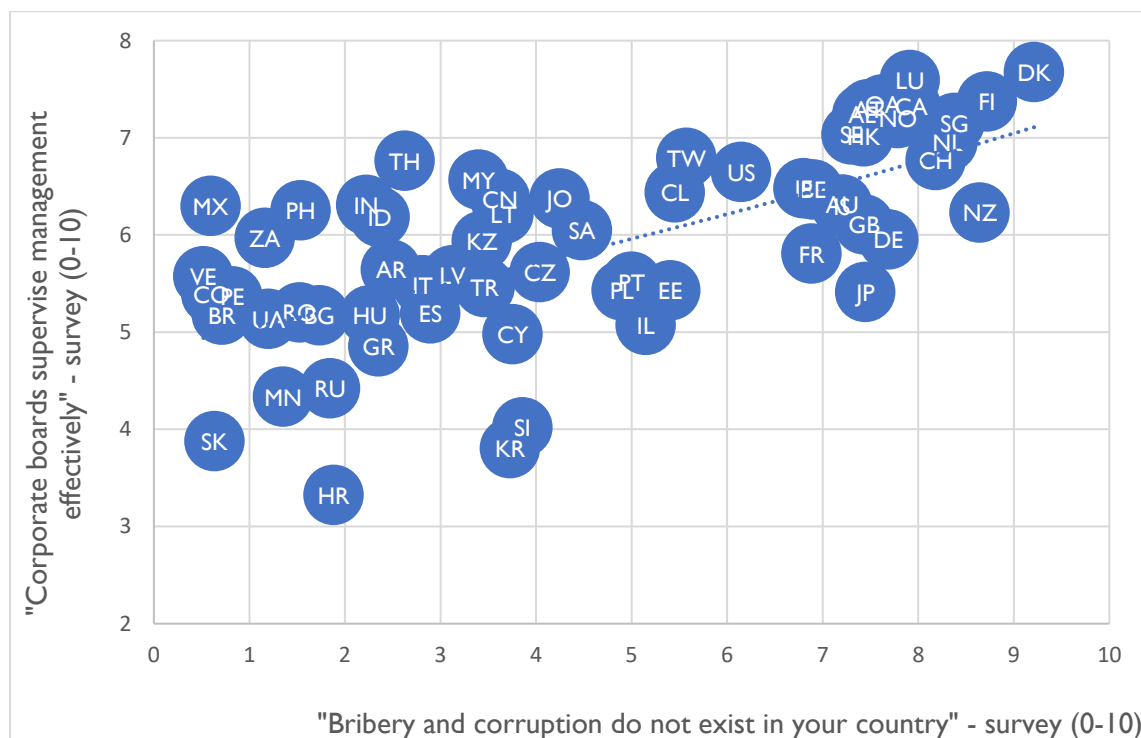
Figure 2 analyzes the ethical practices within firms. Executives are asked whether “ethical practices are implemented in companies.” Again, aggregating the answers at the regional level, the perception of executives in Western Europe is that ethical practices are implemented more there, followed by North America and Eastern Asia. This time, managers in the region of the Commonwealth of Independent States and Central Asia perceive the implementation of ethical practices to be the lowest in their companies.

Figure 2: Ethical practices by region



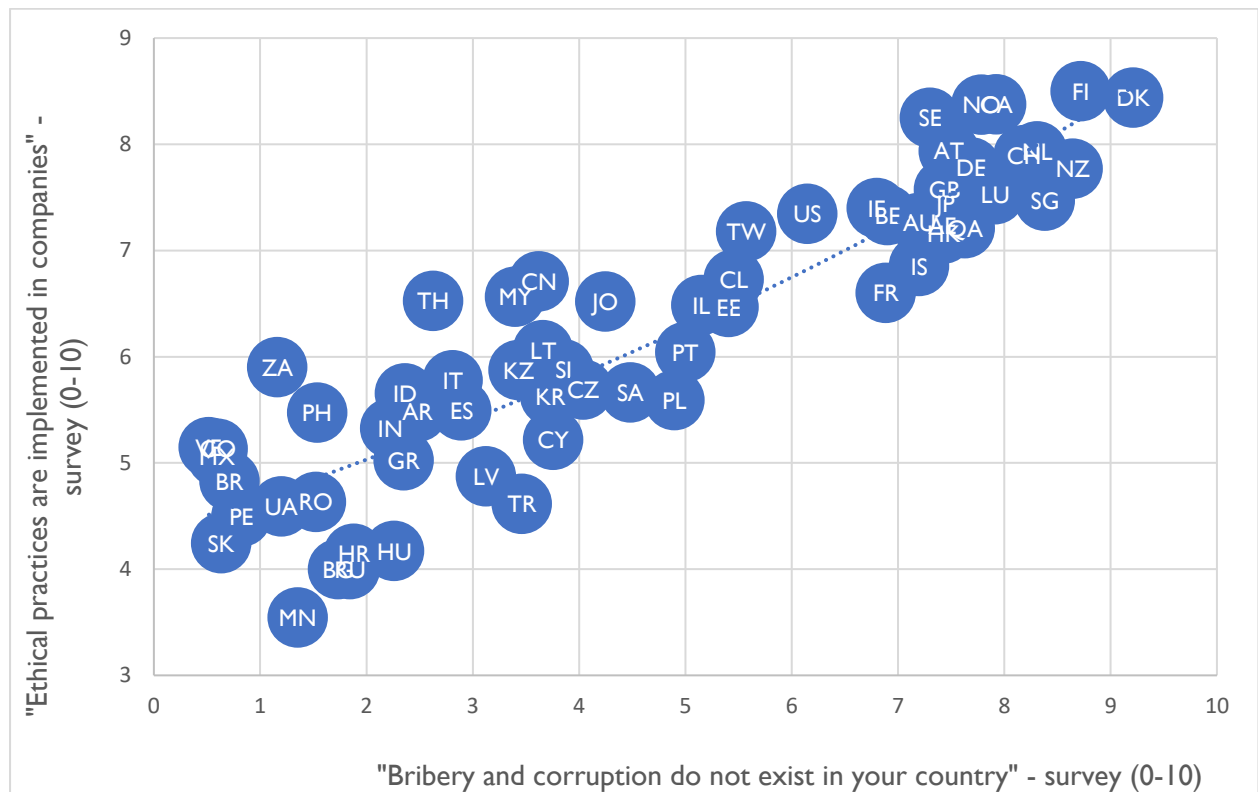
It is interesting to explore whether the perception about the level of corruption at the country level is correlated with company-level traditions and practices. Research has shown that strong leadership within a company affects the firm’s culture, can impose strong standards and consequently many times companies follow stricter corporate governance practices than the ones prescribed by the law. Figure 3 offers the relationship between corruption perceptions and management supervision. The latter quantifies the reaction to the statement “Corporate boards supervise management effectively.” The positive correlation equal to 0.66 is in line with research results that find positive returns for a knowledgeable and meticulous board.

Figure 3: Corruption perceptions and corporate board supervision on management



Even more telling is the relationship between corruption perceptions and implementation of ethical practices at the firm level. Figure 4 identifies a strong positive relationship between the two criteria with a correlation coefficient equal to 0.90.

Figure 4: Corruption perceptions and ethical practices in companies



The relationships above suggest that managers can potentially set the pace by implementing ethical practices and by allowing for meaningful monitoring of their decisions. Furthermore, this is a practice that can be cultivated for executives and managers at all the levels. In a period of time that companies strive to be successful in a rapidly transforming environment, finding ways for managers to implement the ethical and governance practices may enable the company to be a sustainable growth champion.