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Combating Corruption in the Private Sector

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Abstract
Combating private sector corruption is indispensable for economic growth. This paper sought to interrogate the impact of corruption in private sector and explore enabling strategies to retard private sector corruption and allow the economy to grow. The research applied a qualitative approach using an exploratory research design. The research participants were purposively selected from the Chief Executive Officers of private corporations that were conveniently accessed in Harare Metropolitan Province. Data collection methods included unstructured interviews and documentary review. The results established that major causes of corruption in the private sector include effects of colonial heritage, low percentage of women in the labour force, deteriorating cultural factors and endowment of natural resources. It was also found that the impact of private sector corruption negatively manifest itself in the community, it derails investments, foreign direct investment, foreign trade and foreign aid, affects gross domestic product and the economic growth and productivity. The study recommended that strong adherence to corporate governance principles, building strong positive culture and improving corporate integrity, incorporating financial institutions and promulgating effective laws against bribery and corruption in the private will help in reducing private sector corruption. It can be concluded that the fight against corruption should be given top priority as its success has the potential to grow the economy.
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1. Introduction

Corruption is described as a form of criminal activity or dishonesty orchestrated by an individual person or a group of people and it is further revealed that corruption primarily includes activities like bribery or embezzlement. Corruption in business is a worldwide glitch, distressing companies of all sizes in all countries. In a business setting, corruption can comprise, fabricate or enable deceitful financial reporting, procurement fraud, embezzlement, bribery and a range of other acts.

Corruption in the private sector influences the whole supply chain, as it distorts, undermines competition, and increases costs to firms. It prevents a fair and efficient private sector, reduces the quality of products and services resulting in missed business opportunities (UNODC, 2013). Corruption likewise influences the growth of companies in the private sector. A channel through which corruption may affect the growth prospects of firms is through its negative impact on the product innovation.

It has been revealed that a corporate culture of corruption is brought about by a multiplicity of factors such as competition and growth orientation, complicated leadership structures, and high levels of autonomy and discretion, with a lack of transparency, accountability and ethics.

Consequently, the empirical investigation on the influence of institutions draws a comparatively transparent and noticeable picture. Eighteen organisations for Economic Co-operation and Development (OECD) countries were examined in respect of their institutional eminence restrained by a rule of law index and an index of government usefulness and found a vindicating impact on corruption, which is -0.95 meaning that the marginal increase in institutional quality reduces the level of corruption by 0.95. This effect can be divided into direct effect and an indirect, which works through lowering the scope of the shadow economy (Dreher, Kotsogiannis and McCorriston, 2009).

The level of corruption is increasing in the private sector hence it is extremely disturbing. It is common that domestic companies and multinationals pay bribes in order to secure public procurement contracts exerting undue pressure in order to capture institutions and influence regulations to elicit favours. Resultantly, practices of this nature are receiving co-operation from unscrupulous and selfish civil servants (Cuervo-Cazurrais, 2009).

In countries where the extractive industry must play a pivotal role in developing the economy, the defence sector might be used to ensure corruption is totally eradicated and create an environment where revenue streams are transparent. In the fight against corruption, it is important to establish and implement the national and international normative frameworks against corruption.

The involvement of the business community is a very effective strategy in the fight against corruption. The UN Global Compact's tenth principle against corruption underlines the shared responsibility and willingness of the private sector to play an important role in the fight against corruption. In this regard rules against corruption need to be continuously evaluated to ensure their effectiveness (Global Corruption Report, 2009). Governments have often embraced civil society and public opinion to fight the malady of corruption in the private sector. Civil society is very helpful in designing appropriate strategies, enrolling the participation of citizens and enterprises in the implementation of the anti-corruption measures and maintain social pressure to continue combating corruption in the private sector (Global Corruption Report, 2009).

The current economic quagmire characterised by hyperinflation is an indication of corrupt practices that are taking place in the private sector. The private sector is largely in control of the economic activities that take place in many countries across the globe, Zimbabwe included. Despite efforts being pursued by government in taming the hyperinflation, the exchange rate volatility continues to present some economic challenges and thereby retard economic growth. In this regard, it seems to confirm that private sector corruption has serious consequences and lasting impacts on the performance of the economy and the livelihood of the society. The occurrence of private sector corruption should not be underestimated as it has the capacity to cripple the economy, hence enabling strategies should be formulated to curtail the impact of private sector corruption and allow the economy to grow.

2. Research Methodology

The study utilized qualitative research approach to unravel the negative impact of corruption to economic growth. The target population was the executives of private corporations within Harare Metropolitan Province. The exploratory research design was applied. Purposive sampling techniques was used to select 10 Chief Executive Officers and private industry leaders as research participants. The data was collected through unstructured interviews in order to elicit information in respect of the informal and formal business ventures. The selected participants were presumed to be aware of the aspects surrounding the corruption in the private sector. Data analysis involved the use of N-vivo software for data coding and content analysis.

3. Results and discussion

3.1.1 Colonial heritage

In congruence with Lambsdorff (2006), it was established that colonial heritage is of philosophical interest as it is anecdotal evidence that former colonies suffer from higher corruption levels. Empirical research conducted by Dreher et al. (2009) in support to the research results revealed that an analyses of eighteen countries in OECD with regard to their institutional quality measured by a rule of law index was not impressing. The colonial heritage causes institutional quality to slumber to moral decadence. This has a direct and indirect effect that have the ability to lower the scope of the shadow economy.

3.1.2 Percentage of women in the labour force

It was found that the lower percentage of women in the labour force cause increase of corruption in the private sector. The results are in tandem with Rau (2011) who averred that women are more trustworthy than their male counterparts. In this regard it shows women are selfless and their behaviour in experimental trust games is always higher than their male counter parts. Therefore, if these results are anything to go by, countries with a high number of women in the labour force and in parliament might suffer less from opportunistic behaviour at public expenses. Using data from World Values Survey and macro data for cross country tests, Swamy, Knack, Lee, and Azfar (2001) in conformity previously asserted that women engage less in corruption than men. This provides a negative correlation regarding the engagement of women in both the public and private sector corruption.

3.1.3 Lack of positive cultural value

The study established that cultures of trust and honest inculcated in societies in most cases help to reduce the malady of corruption. This is elucidated by the fact that trust enhances and encourages co-operation amongst members of societies and improves transparence within private institutions. It should be realised that not all scholars support the findings of these studies but have differentiated views on trust and its effect on corruption reduction (La Porta, Lopez De-Silanes, Shleifer and Vishny, 1997; Uslaner, 2004). However, Harris (2007) in support of the present study concluded that policy makers could reduce corruption through nurturing generalised trust in the society through civic education and thus opening up strong anti-corrupt networks.

3.1.4 Endowment of natural resources

The abundance of natural resources is believed to have a positive effect on economic development as it encourages trade and investment including living standards. However in the presence of the abundant resources, governments may become inefficient since in most cases, citizens and officials compete for rents and invest less in other forms of capital such as human capital development. Rent-seeking behaviour is naturally produced by the availability of natural resources and is in most cases accompanied with corruption. It has been concluded that when a country discovers rich supplies of natural resources, strong institutions are necessary to prevent the increase in corruption (Ades and Di-Tella, 1999).

Bhattacharyya and Hodler (2010) underscored the findings above and contend that an increase in rents from natural resources increases corruption only if democratic institutions are weak. Panel data from 1980 to 2004 in respect of 124 countries have been analysed and support this theory even when controlled for various factor like regional fixed effect and income effects. In this regard, the author's conclusion is not different from the one alluded to by Ades and DiTella (1999) who averred that, in resource rich countries, rent-seeking activities encourage corrupt behaviour. Where the democratic institutions are strong, and officials of private companies can be held accountable for malfeasance, this trend can be counteracted. Democratization can help to reduce corruption in countries that have an abundance of natural resources.

3.2 Impact of private sector corruption

3.2.1 Impact of private sector corruption to the community

Results revealed that existence of large informal sectors in developing economies has been attributed to corruption. In support of Johnson and Christensen (2010) research showed that a one-point improvement in the corruption index, irrespective of a country's gross domestic product (GDP) per capita, is associated with 9.7% reduction in the size of the informal sector. It was also observed that corruption induced informality limited growth of businesses hence retarding economic growth. This is based on the fact that entities operating informally do not share same advantages with firms operating in the formal sector in terms of access to financial system and public services. Findings supported Dabla-Norris, Gradstein and Inchauste (2008) that corrupt entrepreneurs deliberately remain shadowed avoiding attracting unnecessary attention. Such usually do this through paying bribes to public officials to avoid meeting the required minimum operating standards.

The results pinpointed that community is also affected by private sector corruption since it impedes employment growth in small, medium and large business organisations (Aterido et al., 2007). The research concurs with Seker and Yang (2012) who examined data from Latin America and Caribbean and discovered that bribery to a large extent hampers industrial growth. Specifically, it was disclosed that corruption is more destructive for young and low revenue generating firms. Previously De Rosa et al., (2010) had interrogated the effects of corruption on employment creation and similarly discovered that bribery is more damaging for firm level productivity in countries with weaker legal framework and higher levels of aggregate corruption. Likewise, Anokhin and Shulze (2009) in congruence had found that countries that are successful in controlling corruption exhibit higher levels of innovation leading to job creation. Similarly, using data for African companies from the World Bank's Enterprise Survey found a strong and significant negative link between corruption and product innovation. Therefore, companies that are seized with innovation can boost their productivity, profits, thereby improving the status of the economy and community standards of life.

3.2.2 Impact of private sector corruption on investment

The results confirmed Mauro (1995) that corruption reduces total investment, which includes public as well as private investment. In the same vein economists concurred that the impact of private investment is clearly visible but the effects of corruption on public investment is broadly disputed. Most the research participant stated that corruption affects private investment simply because private investors take into cognisance that they have to bribe the officials in order to get permits and licenses for their businesses.

3.2.3 Impact of private sector corruption on Foreign Direct Investment (FDI)

A look at capital inflows and FDI presents similar findings to the effects of corruption on total investment. The analysis of 20 OECD source and 52 host countries from 1996 to 2003 by Barassi and Zhou (2012) discovered that corruption reduces the likelihood of FDI taking place in any country by about 3 percent which is both statistically and economically significant. The findings of the study carried out by Barassi and Zhou (2012) are in sync with Egger and Winner (2006) who indicate that corruption deter FDI in their dataset of 21 home and 59 host countries. Consequently, the effect is significantly strong in developing countries than in developed countries.

3.2.4 Impact of private sector corruption on Foreign Trade and Foreign Aid

The study revealed that the government's intention to control foreign trade and foreign aid triggers corruption in international trade by private enterprises. This suggest that since every country has regulations governing the movement of goods and services in and out of the country, it provides opportunity for customs officers to take advantage of the regulations to extort bribes from illegal traders so that these traders conduct illegal transactions. The extorted bribe fee will be well below the official customs duties. In view of this, Lambsdorff (2000) supported that these two parties benefit from the corrupt deal at the state's expense and no side has the incentive to uncover the deal.

A myriad of companies are facing competitive disadvantages in their trading with corrupt countries. Companies are coerced to pay high bribes to get their products into the country or refuse to pay bribes and the corrupt official keeps them out of the market. Companies coming from Australia and Malaysia or Sweden face a significant competitive disadvantage in bilateral trade with corrupt country, simply because in these countries especially Malaysia corruption is severely punished even when a Malaysian company bribes officials (Lambsdorff, 2000; Malaysia Ant-Corruption, 1997)

3.2.5 Impact of private sector corruption on Gross Domestic Product (GDP)

The correlation between GDP per head and corruption is very strong. It has been noted that countries with higher GDP per head score better in the Corruption Perception Index. A myriad of reasons have indicated that corruption lowers GDP per head and it has been proved that lower GDP per head encourages corruption. Corruption is unlikely to be controlled where a country has low GDP and obviously this has an effect of supporting corruption (Lambsdorff, 2005).

Several economists came up with findings that are very ambivalent, because the findings vary between proving a negative impact and no impact at all (Campos et al., 2010). The effect of corruption is that it lowers the growth of GDP especially in countries where political institutions are in good shape. In this regard a decrease in corruption leads to an increase in GDP. Corruption does not impact negatively on growth in countries where institutions are of low quality (Aidt et al., 2008). The findings of the study seem to be encouraging or supporting the 'grease in the wheel' hypothesis. The authors of the research do not elucidate the role of weak institutions in aiding corruption hence these findings should not be seen as proof of beneficial effects of corruption.

3.2.6 Impact of private sector corruption on firm growth and productivity

Results revealed that corruption has the character of inducing informality and is in a position to limit the growth of businesses. There is a difference between firms that are forced to go on the ground and firms that operate in formal sector in respect of accessing financial systems. The system limits the growth perspectives of the firms that go under-ground and it diminishes productivity. It therefore follows that firms that operate in the informal sectors have to deliberately limit expansion to avoid attracting unnecessary attention hence firms in the informal sector are generally smaller and less productivity that firms in the formal sector (Dabla-Norris et al., 2008).

Consequently, corruption deters employment and growth of employment in small, medium and large firms. This is despite the fact that incidence of corruption are measured of bribes, bribes as percentage of sales, incidence of gifts to government officials or gifts as percentage of government contracts. Furthermore, in terms of incidence of bribes, corruption seems to increase the growth of micro firms. Resultantly, corruption is more devastating for young and low revenue generating firms (Aterido et al., 2007; Seker and Yang 2012).

3.3 Strategies to curb corruption in the private sector

3.3.1 Strong adherence to corporate governance principles

The research found that the most important strategy of dealing with corruption is to prevent its occurrence and this can be possible when a firm has a strong commitment from its board of directors and Chief Executive Officer to attain the two foundational goals of global capitalism; the fusion of high performance with high integrity. It is true that high performance provides economic growth and durable benefits for shareholders and other stakeholders.

The results established that Chief Executive Officer's (CEO) fundamental obligation is to ensure that 'performance with integrity' is created within a company. The three elements of 'high integrity', which are: robust adherence to the spirit and letter of formal rules, legal and financial; adoption of global ethical standards that bind the firm and its employees; and an employee commitment to core values of honest, candour, fairness, trustworthiness and reliability. Therefore the company's culture entails the principles, which subsumes values, policies and attitudes, including shared good practices such as norms, systems and processes. In the first place the element of deterrence should be emphasised where violation of norms leads to punishment in an endeavour to coerce every employee to do the right thing (Githongo, 2008).

3.3.2 Building strong positive culture and improving corporate integrity

It was established that the fight against corruption requires ethical leadership to enhance both internal and external monitoring and supervisory institutions. This can be buttressed by a business code of ethics that guide the behaviour of managers and employees. Githongo (2008) shared the same sentiments that the code of ethics should be enforced to ensure both managers and employees are adhering to the principles and practices of the firm and international best practices.

There is need to raise consciousness about the existence and harms of corruption including the means to fight corruption. The need to improve the indicators that allow economies to know the level of corruption in the country should be prioritised to enable the economies to come up with strategies to combat corruption. Those involved in corrupt activities, besides punishing them, they should be exposed as a way of deterring those who have the penchant to engage in corrupt activities. The information about the level of corruption in a country, the names of people engaged in corruption and the sanctions imposed on them should be disseminated on a broad basis in order to break skepticism about potential reform efforts (Githongo, 2008).

Research revealed that traditional tools of criminal and civil enforcement historically applied to individuals who are corrupt poorly suited to corruption crimes. The prosecution of individuals only does not address deeper organisational issues. It has been discovered that organisational norms, culture and practices are often deeply complicit in organisational misfeasance, hence the need to improve the principles and practices of firms. The new approach in respect of enforcement speaks directly to organisational structures thereby strategically harnessing the business and reputational forces that are deterrent sanctions in motivating companies to obey the law (Gunningham, Kagan and Thornton, 2003).

3.3.3 Financial institutions' efforts to fight corruption

The research established that financial institutions are helpful in fighting against private sector corruption. According to Fenner (2008) most forms of corruption involve financial transaction between one person or institution and another and a number of the transactions involve banks or other financial intermediaries. The involvement of the banks in these dealings might be involuntary and unknowing. Therefore, financial intermediaries are highly exposed to and directly involved in corruption. In this regard, banks have the potential and responsibility to combat corruption. The anti-corruption and asset recovery strategies if professionally and transparently put into practice corruption is likely to disappear.

3.3.4 Laws against bribery and corruption

Research results asserted that effective laws against bribery and corruption are useful in the fight against corruption. The fight against corruption has attracted most countries to put in place harsh and deterrent laws to punish those engaging in corrupt practices in an endeavour to effectively and efficiently deal with corruption and allow their economies to grow. It should be accepted that such laws might not be effective in all countries, as a judge may accept bribe not to enforce the law or a law enforcement agent might also accept bribe to ignore perpetrators of corruption.

It is imperative to reduce the supply of bribes by foreign investors through strengthening laws against briber abroad in countries from which foreign investments originate. Such types of laws reduce incentives for corruption by increasing the risks of detection for multinational companies that pay bribes to foreign government officials. In this vein, it has been established that the largest foreign investors tend to come from countries with relatively effective judicial systems, and therefore might be effective in curbing corruption abroad (Cuervo-Cazurrais, 2009).

4 Conclusion

Based on the results and discussion above it can be concluded that corruption is like cancer in any society it corrodes the social fabric of society. The economic development of a country is retarded and its revenue generation systems are blocked as corruption continues to spread within the economic system. Economies should therefore design appropriate strategies to decisively and continuously deal effectively with the malady of corruption. It can be concluded that some of the major contributors to the corruption levels in private sector of Zimbabwe include colonial heritage, low percentage of women in the labour force, lack of positive cultural values and the natural resources endowments. It can also be concluded that the existence of corruption in the private sector have a negative impact on the community, investment, FDI, foreign trade and foreign aid, GDP as well as retarding firm growth and productivity. The recommended strategies for combating private sector corruption include strong adherence to corporate governance principles, building strong positive culture and improving corporate integrity, taking abode financial institutions in the fight against corruption as well as promulgating relevant laws against bribery and corruption that can be easily implemented in our country set up. Future studies might consider taking a quantitative approach as a follow up to this study to enhance generalizability. It is also equally important to explore on the relationship between cybercrime and corruption in the private sector.

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