

Anti-Corruption Research News

Editorial: Introducing the Anti-Corruption Research Network



Photo: Istockphoto
© Andrey Prokhorov

INSIDE THIS ISSUE:

Editorial	1
Spotlight: Private Sector Corruption	3
Recent Highlights in Research	5
Curriculum of the Month	7
Research Project Updates	7
Research Marketplace	8
Upcoming Events	8

KNOWLEDGE FOR TRANSPARENCY – LINKING ANTI- CORRUPTION RESEARCH AND PRACTICE

Welcome to the inaugural issue of Anti-Corruption Research News, your window into the latest, most important insights and activities in anti-corruption research, synthesised for scholars, policy-makers and anti-corruption practitioners.

This newsletter summarises the highlights of the Anti-Corruption Research Network (ACRN), a new initiative by Transparency International (TI) to promote anti-corruption research.

ACRN - MEETING POINT AND MELTING POT

Built around an interactive online platform, ACRN will be the global meeting point for a research community that spans a wide range of different disciplines and institutions. It will be a podium to present innovative findings and approaches, a sounding board to bounce off ideas and questions, a marketplace to announce jobs, events, courses and funding.

The online platform is designed to ensure a high degree of user input and interaction. ACRN visitors can comment on all posted items and registered members are able to create their own user profiles and connect with other corruption experts across the globe. A designated discussion space can be used by members to seek peer advice, brainstorm new

ideas and share information on upcoming conferences, funding opportunities or jobs.

With these functions ACRN will enable anti-corruption policy-makers, practitioners and journalists gain easy, efficient access to relevant academic research and help the anti-corruption research community to forge stronger networks across disciplines.

HOW TO SUBSCRIBE AND GET INVOLVED

The ACRN web platform will be launched in early 2010. It will be edited and maintained by TI. To be notified of the launch and to subscribe to this newsletter, please write to Farzana Nawaz at:

fnawaz@transparency.org

Anti-Corruption Research News

A Message from Huguette Labelle, Chair of Transparency International

LEVERAGING RESEARCH TO TACKLE CORRUPTION – BUILDING AN ANTI-CORRUPTION KNOWLEDGE COMMUNITY FOR NOW AND THE FUTURE

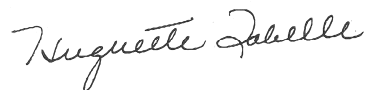
Tackling corruption is about finding answers to some of the most intricate questions that both scholars and policy-makers have grappled with for centuries: How can power be bound to laws? What are the levers for social change? What motivates people to act the way they do and how can we create incentive systems for integrity?

As researchers from a wide array of disciplines work to expand and refine our understanding of these fundamental questions, their work continuously enriches our toolbox of innovative methods and empirical evidence to measure and tackle corruption. To fully realise this research potential, however, we must create stronger linkages among those who work against corruption:

- *between practitioners and researchers*: we must promote the many relevant academic studies that might not otherwise reach the anti-corruption practitioners for whom they might be enormously useful, while at the same time creating the opportunity for those with experience fighting corruption on the ground to inspire research agendas;
- *among scholars*: corruption is a multi-disciplinary phenomenon, but academic research communities are built around disciplines, meaning we have to overcome a fragmented corruption knowledge base that is difficult to consolidate and consult;

- *between established and emerging researchers*: we want to encourage young researchers to take on corruption issues, which may appear difficult given that corruption issues, and the associated network of corruption scholars, straddle several disciplines.

As the chair of TI, I am proud to introduce you to our new Anti-Corruption Research Network that seeks to address these challenges head on and provide a platform to bring together anti-corruption researchers and practitioners. This network will strive to forge stronger links and co-operation, to make it easy for educators to share curricula and learning tools and to inspire the next generation of academic leaders to apply their ingenuity, critical faculty and analytical excellence to one of the greatest challenges that societies face: corruption and how to tackle it.



Huguette Labelle

Chair, Transparency International



“To fully realise the potential of anti-corruption research, we must create stronger linkages among those who work against corruption.”



Photo: Istockphoto
© Macie J Noskowski

Some of the most compelling findings and imaginative approaches to understanding private sector corruption come from academic scholarship. Unfortunately, much of this research rarely catches the attention of policy makers, civil society or the general public, despite its tremendous potential to support the fight against corruption.

SPOTLIGHT

CORRUPTION AND THE PRIVATE SECTOR – THE INDISPENSABLE ROLE OF EMPIRICAL RESEARCH

BY DIETER ZINNBAUER, EDITOR,
GLOBAL CORRUPTION REPORT

A flurry of high-profile corruption scandals ranging from BAE Systems to Siemens, Halliburton to Samsung highlight the many ways in which the private sector plays a role in the supply side of corruption and faces a broad range of corruption challenges. Translating this continuous stream of corruption cases into a solid empirical account of the scale and scope of corruption in the private sector is as difficult as it is essential for guiding policy reform.

Measuring and understanding corruption in business becomes even more complex when the focus shifts from bribery to subtle forms of upstream corruption at the business-government nexus. When no money changes hands, but entrusted power is instead leveraged to build positions of influence, both the scale of the problem and the best ways to tackle it become extremely difficult to pin down empirically.

Transparency International has invited more than 80 scholars and practitioners for its 2009 Global Corruption Report to shed more light on these issues. The result is a collection of empirical research that advances our understanding of such vexing corruption issues such as policy capture, price-fixing or self-dealing. Some extremely compelling findings come from academic scholarship. Unfortunately, much of this research rarely catches the attention of policy makers, civil society or the general public, despite its tremendous potential

to support the fight against corruption.

Making the elusive visible and tangible: the corruption burden of political connections

Take the risk of policy capture at the business-government nexus as an example. Mara Faccio, of the Department of Finance at Purdue University, collected data on the political connections of large shareholders and top officers of more than 20,000 publicly traded firms in 47 countries. The results are startling and provide compelling evidence that conflicts of interests permeate developing and developed countries alike and require urgent attention by policy-makers. In the United Kingdom, for instance, politically connected firms are estimated to account for almost 40 per cent of market capitalisation – a number that rises to a staggering 80 per cent in Russia (Faccio, 2006).

Academic research also highlights that the undue benefits of such political connections are real, significant and ubiquitous. Eitan Goldman, at the Kelley School of Business at Indiana University, and his colleagues have studied US companies listed on the Standard & Poor's 500 index and found that those connected to the winning/losing party in national elections realised abnormal gains/losses in their stock market values and were significantly more likely to register an increase/decrease in procurement contracts won (Goldman et al., 2009). Taking a different approach, Faccio estimated the benefits accrued from political connections by analysing more than 100 sudden deaths of senior politicians around the world and documenting a significant decline in the value of firms geographically connected to these politicians. Sharper drops in firm value signalling particularly beneficial

links between politicians and companies were experienced in countries with high levels of corruption (Faccio & Parsley, 2009).

Undue corporate influence does not only register at the business-government nexus, but can also occur inside a company when strong managers and powerful large shareholders take opportunistic decisions and enrich themselves at the expense of dispersed and weak minority shareholders. Again, a number of academic studies are instrumental in moving this debate from theoretical concepts to an empirically-substantiated call for urgent action. A survey by Alexander Dyck (Rotman School of Management at the University of Toronto) and colleagues of more than 390 companies in thirty-nine countries, for example, shows that the overall private benefits of holding a controlling stake in a company amount, on average, to a remarkable 14 per cent of firm equity value. In Austria, Italy, Mexico and Turkey these benefits of control exceed a mean of 30 per cent of equity value, reaching as high as 58 and 65 per cent of firm value in the Czech Republic and Brazil, respectively (Dyck & Zingales, 2004).

Guiding the policy response: what works and what does not in strengthening corporate integrity

Recent scholarship has also begun to shed important light on the stakeholders and policies that are most important and effective in tackling corruption in the business sector. A seminal study by Dyck et al. clearly shows that strengthening corporate integrity is not only the duty and accomplishment of business leaders and regulators, but, in their words, '[it] takes a village of several non-traditional players' to provide important checks and balances for detecting corporate fraud.

Dyck and his colleagues looked at all publicly reported cases of corporate fraud in large US companies between 1996 and 2004 and traced the sources of exposure. As it turns out, auditors and analysts, the media and employees all account individually for more than 10 per cent of exposed cases, providing a stark reminder that systemic reform must also focus on helping these stakeholders assume their watchdog roles most effectively (Dyck, Morse & Zingales, 2007).

The same researchers have also demonstrated, in detail, the impact of international media coverage on remedying violations in corporate governance – a link that is often assumed but has rarely been convincingly proven. In analysing almost one hundred corporate governance violations in Russia between 1998 and 2002, they found that those which were featured covered by the *Financial Times* or *Wall Street Journal* were almost three times as likely to be reversed than corporate actions that did not attract any media attention (Dyck, Volchkova & Zingales, 2007).

These are just some examples of recent scholarship on corporate corruption and integrity that yield interesting empirical insights. Bringing the fruits of such efforts to the attention of policy-makers, anti-corruption practitioners, businesses and the broader public is a core objective of this new newsletter and the ACRN project. This is an indispensable step towards making the fight against corruption as strategic, facts-based and hard-hitting as can be.

For the full bibliography, please see page 8.

Research shows that strengthening corporate integrity is not only the duty and accomplishment of business leaders and regulators, but, '[it] takes a village of several non-traditional players', such as auditors, the media and employees, to provide the important checks and balances for detecting corporate fraud.



Photo: Istockphoto
© Mark Stay

Corruption in and by the private sector is of growing concern to the general public

- 2009 Global Corruption Barometer

For the third year running, poor regulation over political financing remains the most critical governance challenge around the world

- 2008 Global Integrity Report

RECENT HIGHLIGHTS IN ANTI-CORRUPTION RESEARCH

MEASURING CORRUPTION

Global Corruption Barometer, Transparency International, 2009

The only worldwide public opinion survey on perceptions and experience of corruption, the Global Corruption Barometer provides information on the extent of corruption across government and private sector institutions based on the responses of ordinary people, supplementing the views of experts presented in other surveys. The 2009 Barometer interviewed 73,132 people in 69 countries and territories between October 2008 and February 2009. For more, please see:

http://www.transparency.org/policy_research/surveys_indices/gcb

Global Integrity Report, Global Integrity, 2008

The Global Integrity Report is a tool for understanding governance and anti-corruption mechanisms at the national level. Utilising a network of in-country researchers and journalists, the report provides both quantitative data and qualitative reporting on the health of a country's anti-corruption framework. The 2008 report found that for the third consecutive year, poor regulation over political financing remains the most critical governance challenge around the world, with the vast majority of countries experiencing difficulties in promoting transparency around the flow of private money into election campaigns. For more, please see: <http://report.globalintegrity.org/>

Illicit Financial Flows from Developing Countries: 2002-2006, Global Financial Integrity, 2008

This report breaks important new ground by taking on the considerable conceptual and methodological difficulty of providing a global estimate of illicit financial flows out of developing countries. It estimates that illicit financial flows from developing countries to developed countries averaged between US\$ 612 bn and US\$ 716 bn per year from 2002 to 2006, and increased steadily over that 5-year period to culminate to between US\$ 859 billion

and US\$ 1,056 billion in 2006. For more information, please see:

<http://www.gfip.org/>

TRAC Report, Transparency International, 2009

Transparency in Reporting on Anti-Corruption – A Report of Corporate Practices (TRAC) adds an important new dimension in measuring the supply side of corruption. It assesses the extent to which some 500 leading global companies report on the strategy, policies and management systems they have in place for combating bribery and corruption. It finds that most companies fall short of meeting stakeholder expectations of transparency in anti-bribery and corruption reporting. For more, please see:

http://www.transparency.org/policy_research/surveys_indices/trac

Open Budget Index 2008, International Budget Partnership, 2009

How transparent and accountable are national budgeting processes around the world? With the Open Budget Index 2008 and the accompanying report, the Open Budget Survey 2008, the International Budget Partnership undertook a comprehensive evaluation of budget transparency in 85 countries. They found that eighty percent of the world's governments fail to provide adequate information necessary to hold them accountable for managing public money. For more, please see:

<http://www.openbudgetindex.org/>

UNDERSTANDING CORRUPTION

Revolving Doors, Accountability and Transparency - Emerging Regulatory Concerns and Policy Solutions in the Financial Crisis, David Miller and William Dinan, 2009

The financial crisis has given rise to a great debate on the role of regulation in banking and financial services sectors. This report examines the phenomenon

of the 'revolving door' - the implications and consequences of public servants moving to the private sector and of people moving from the private sector into the public sector either in government or regulatory agencies. Their analysis finds that tackling the revolving door is an indispensable part of the process of restoring confidence in both the political system and the financial markets. For more, please see:

[http://www.oilis.oecd.org/oilis/2009doc.nsf/ENGREFCORPLOOK/NT00002B9E/\\$FILE/JT03263759.PDF](http://www.oilis.oecd.org/oilis/2009doc.nsf/ENGREFCORPLOOK/NT00002B9E/$FILE/JT03263759.PDF)

Political corruption and social trust: an experimental approach, Bo Rothstein and Daniel Eek, 2009

How can the great variation in the level of social trust in different countries be explained? Bo Rothstien and Daniel Eek grapple with the causal mechanisms of this variation by building on theories that point to the importance of trustworthy governmental institutions for creating social trust. They conducted parallel experiments in two countries where the levels of corruption and social trust are very different – Sweden and Romania. In both cases they found that trust in authorities influences the perceptions of the trustworthiness of others in general. For more, please see:

<http://rss.sagepub.com/cgi/content/abstract/21/1/81>

Economie Politique de la Corruption et de la Gouvernance, Jean Cartier-Bresson, 2009

In his latest book, Jean Cartier-Bresson analyses the political economy of corruption and governance, looking at the malfunctioning exchanges between public authorities and private actors. He finds that in order to improve the necessary collaboration between the state and social actors in developed or developing countries, four questions need to be answered: 1) how to define and measure governance and corruption; 2) what are the underlying causes of these phenomenon; 3) what are their economic and political consequences and 4) how to fight corruption and bad governance. For more, please see:

<http://www.editions-harmattan.fr/index.asp?navig=catalogue&obj=livre&no=27570>

Global Corruption Report: Corruption and the Private Sector, Transparency International, 2009

Bribery in business is only part of the picture of private sector corruption. Other corrupt practices, such as corporate fraud, cartels and undue influence on public policy, work as destructive forces that undermine fair competition, stifle economic growth and ultimately undercut companies' own existence. Featuring analysis of more than 80 experts, Transparency International's 2009 Global Corruption Report lays bare these and other corruption challenges that cut across countries and industries, exposes weaknesses in existing corporate anti-corruption measures, and examines promising innovation in the sector. For more information, please see:

<http://www.transparency.org/publications/gcr>

FIGHTING CORRUPTION

Anti-Corruption Approaches: A Literature Review, NORAD, 2009

Since the mid-nineties, donors have placed increasing emphasis on anti-corruption efforts in aid, but what are the results so far? This literature review commissioned by NORAD provides some answers to this question. It finds that there are few evident successes, and the results of specific anti-corruption efforts have been limited. For more, please see: http://www.norad.no/items/14192/38/7380757128/Study2_2008.pdf

Governments, NGOs and Anticorruption: The New Integrity Warriors, Luís de Sousa et. al (eds), 2008

This book examines the rise and implications of two new kinds of "integrity warrior" - official anti-corruption agencies (ACAs) and anti-corruption NGOs, through a number of case studies including Taiwan and South Korea, south east Europe, Fiji, Russia and the Baltic states. It provides valuable insight into anti-corruption strategies, policies and groups. For more, please see:

<http://www.routledgepolitics.com/books/Governments-NGOs-and-Anti-Corruption-isbn9780415466950>



Photo: Istockphoto
© Viorika Prikhodko

Eighty percent of the world's governments fail to provide adequate information for the public to hold them accountable for managing their money.

- Open Budget Index 2008

Anti-Corruption Curriculum of the Month

Political Economy of Corruption and Good Governance, Department of Public Affairs, Lafollette School of Public Affairs

The focus of this seminar is on the question: What are the prospects for success in anti-corruption reform and prescriptions, if any, for hurrying good governance along? The seminar has a strong policy orientation: it considers the state of cumulative knowledge on corruption as a policy issue that demands action both within countries and globally by a wide range of players.

Some sample modules and examples of recommended readings are as follows:

Defining Corruption

- Susan Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform*

Measuring Corruption

- Transparency International's Corruption Perceptions Index
- United Nations, International Crime Victims Surveys

Social, Political and Economic Effects of Corruption

- Andrew Wedeman, *Looters, Rent-Scrapers, and Dividend Collectors: The Political Economy of Corruption in Zaire, South Korea, and the Philippines*

How Corruption May Corrupt

- Philip Oldenburg, *Middlemen in Third-World Corruption: Implications of an Indian Case*

Multinational Businesses and Anti-Corruption Agreements

- Jon Moran, *Bribery and Corruption: The OECD Convention on Combating the Bribery of Foreign Public Officials in International Business Transactions*

Democratic Reform of Elite-Mass Linkages

- Michael Johnston, *Syndromes of Corruption: Wealth, Power, and Democracy*

Enforcement, Education and Institutional Design

- Susan Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform*

Anti-Corruption Agencies

- Melanie Manion, *Corruption by Design: Building Clean Government in Mainland China and Hong Kong*

For more details on the course syllabus, please see:

<http://www.lafollette.wisc.edu/Courses/PA857/PA857-Syllabus.pdf>

Ongoing research projects

Governance Assessment Portal now online

As part of the UNDP Global Programme on Democratic Governance Assessments, the Governance Assessment Portal aims to be a hub of information on democratic governance assessments. This website provides access to current reference materials, measurement tools and initiatives on democratic governance assessments. For more, please see:

<http://www.gaportal.org>

Transparency and Integrity in Service Delivery in Africa (TISDA)

This transparency International programme focuses on transparency, integrity and accountability in the delivery of services in the education, health and water sectors. Risk maps will examine forms of waste, inefficiency and corruption in the use of financial resources in these sectors and recommend how local accountability mechanisms and instruments can be made more effective. For more, please see:

http://www.transparency.org/regional_pages/africa_middle_east/current_projects

Research Marketplace:

Jobs

- The **University of Gothenburg** offers two positions as **Post-doctoral Fellow within The Quality of Government (QoG) Institute** at Göteborgs University. The closing date for receipt of applications is 11 January 2010. More information at www.qog.pol.gu.se
- The **International Centre for Asset recovery (ICAR) of the Basel Institute on Governance** is seeking to fill the position of **Financial Investigation Specialist**, who will be responsible for providing training and policy advice to law enforcement authorities in asset tracing, mutual legal assistance and asset recovery. Deadline is 15 November 2009. For more, please see: <http://www.baselgovernance.org/big/job-vacancies/>

INTERNSHIPS

- **Global Financial Integrity (GFI)** offers unpaid internships for college and graduate school students as well as for recent college graduates. Application deadline is November 10th. For more, please see: http://www.gfip.org/index.php?option=com_content&task=view&id=18&Itemid=47

CALL FOR PROPOSALS

- The International Initiative for Impact Evaluation (3ie) will award **up to \$10 million in research grants** for the impact evaluation of social and economic development interventions in low and middle income countries in any sector. Deadline is 27 November 2009. For more, please see: <http://www.3ieimpact.org/openwindow/>

Upcoming Events:

- **Jacques Polak Research Conference: Financial Frictions and Macroeconomic Adjustment**
Organiser: The International Monetary Fund
Location: Washington DC, United States
Date: 5-6 November, 2009
This conference is intended to provide a forum for discussing innovative research in economics, undertaken both by IMF staff and by outside economists. Please see: <http://www.imf.org/external/np/res/seminars/2009/arc/index.htm>
- **Third Session of the Conference of the States Parties to the United Nations Convention against Corruption (UNCAC)**
Organiser: UNODC
Location: Doha, Qatar
Date: 9 – 13 November, 2009.
For more, please see: <http://www.unodc.org/unodc/en/treaties/CAC/CA-C-COSP.html>
- **Rutgers Institute on Corruption Studies Seminar**
Location: Rutgers campus Newark, New Jersey
Date: 9 November 2009
For more information on the program, please see: <http://www.newark.rutgers.edu/rscj/rics/RICS-seminar.html>
- **Governance, Public services and Administrative Reform Conference**
Organiser: Centre for Parliamentary Studies
Location: London, UK
Date: 1st and 2nd December 2009
This conference will explore some of the current issues in global and national governance, and public service and administrative reform. For more, please see: <http://publicsectorreform.org/>



**TRANSPARENCY
INTERNATIONAL**
the global coalition against corruption

Transparency International
Secretariat
Alt Moabit 96
10559 Berlin, Germany

Phone 49-30-343820-0
Fax 49-30-34703912
E-mail:
fnawaz@transparency.org

REFERENCES: CORRUPTION AND THE PRIVATE SECTOR

- ¹ M. Faccio, 'Politically Connected Firms', *American Economic Review* 96:1 (2006).
- ² E. Goldman *et al.*, 'Do Politically Connected Boards Affect Firm Value?', *Review of Financial Studies*, (forthcoming 2009); E. Goldman *et al.*, "Political Connections and the Allocation of Procurement Contracts", EFA Meetings, Ljubljana, 2007.
- ³ M. Faccio and D. Parsley, "Sudden deaths: Taking Stock of Geographic Ties", *Journal of Financial and Quantitative Analysis* 33:3 (2009).
- ⁴ A. Dyck and L. Zingales, "Private Benefits of Control: An International Comparison", *Journal of Finance* 59:2 (2004), 537-600.
- ⁵ A. Dyck, A. Morse and L. Zingales, "Who Blows the Whistle on Corporate Fraud?", Working Paper no. 618 (Chicago: Center for Research in Security Prices, University of Chicago, 2007).
- ⁶ A. Dyck, N. Volchkova and L. Zingales, "The Corporate Governance Role of the Media: Evidence from Russia", ECGI - Finance Working Paper No. 154/2007 (Chicago: Center for Research in Security Prices, University of Chicago, 2006).