A Thesis Paper

on

Corruption and Corporate Governance: A Literature Review on Corruption, Corporate Governance and Associated Aspects

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Abstract

The purpose of this paper is to review the relevant literature on corruption. Though the review mainly focuses on corruption and governance, the paper also explores the topic in more detail, including related areas such as governance practices of different types of corporations; benefits of corruption; the consequences for companies falling to maintain corporate governance standards; corporate disclosure and governance; failure of audit firms and corporate corruption; corrupt behavior from multinational companies (MNCs); governance requirement for public entities/state owned entities (SOE); democracy; corporate political activity and political corruption; tax administration and its influence on the presence of corruption; the will of political parties and corruption control; the spread of corruption; accountability culture; corruption in the financial system; bribery and politicization culture; anti-corruption campaigns and its overall impacts; and tools to fight against corruption along with governance. Upon analyzing the literature on different aspects of corruption, we find that accountability, political will, and media independence equipped with media literacy are a few key tools to control corruption; and we propose some avenues for future research directions. These findings will potentially contribute to the existing literature and have some policy relevance in controlling corruption, and researchers should explore such areas further.

Keywords: Corruption, Governance, Accountability, Audit Firms, Disclosures, Anti-Corruption Campaign, Bribe, Politicization, Tax Behavior, Media Literacy

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1 Introduction

Corruption is one of the most talked-about economic and political phenomenon today. Indeed, extensive literature has grown about this social phenomenon. During the past few decades, the issue of corruption has attracted attention from many scholars. Over the last three decades, the discipline of social science has spent a great deal of energy on topics related to corruption (Scott, 1972). Experts from a number of disciplines have made investigating corruption a priority. For example, economists have been investigating the causes of corruption in economies, along with its influence on economic development (Mauro, 1995). Political scientists in turn have emphasized the importance of the role of political institutions and freedom of the media in combating corruption (Rose-Ackerman, 1999).

The existence of this literature has made it possible to take a deep dive into the subject, in order to discover more about corruption, governance, and associated factors. In this thesis, we have tried to detail corruption meticulously from different points of view. In general, it appears that corruption is widespread as affects almost every aspect of our social lives. However, to understand the magnitude of its influence we need to first understand its presence. In the next chapter, we will review the relevant literature focusing on the presence of corruption to better understand how the existence of corruption influences our social and economic lives.

In current literature, the tale of corruption has been a mixed one. Though much of the literature has highlighted the negative consequences of corruption, others have spoken about positive impacts. Our study will therefore attempt to draw a clear distinction between the impacts of corruption. The increasing volume of research on this topic indicates an increase in the heterogeneity of their findings (Ugur & Dasgupta, 2011). This heterogeneity invites further research on this topic to develop solid knowledge. However, researchers are also still getting incongruent results from their studies, but that may be the result of the estimation methodology, data sources, and required paradigm they are using.

According to Transparency International (TI), there is no country in the world that does not suffer from this problem; this includes the most developed countries to the least developed ones. This is why TI has produced rankings of countries ranging from least corrupted to the most. Moreover, corruption occurs in both private organizations (including listed corporations) and public entities. The difference in the magnitude of corruption level at both public and private levels has had a profound impact on different economic gauges like investment. For example, the heightened level of public corruption induces multinational companies (MNC) to enter local markets through joint ventures (JV) with local partners; but the pronounced extent of private corruption has provoked them to form wholly owned subsidiaries (WOS) (Sartor & Beamish, 2020). In sections 2, we will discuss the presence and extent of corruption in the private and public sector.

Like corruption, corporate governance is another critical factor for the business world. It establishes the rules and practices corporations must follow to maintain their operations. The subject of corporate governance brings enormous significance to business operations (Shleifer & Vishny, 1997). As a result, it invites debate about the extent of benefits that can be ensured through corporate governance, and what the best corporate governance practices are. Seen through another lens, corporate governance is essential to balance the power of shareholders and the board or management of a company (Angualia, 2010). In addition, it can play a vital role in managing the interests of the different parties, like shareholders, senior management, customers, suppliers, and financiers (Shleifer & Vishny, 1997). Corporate governance codes should be followed to promote practical, entrepreneurial, and prudent management that can deliver long-term value for the company. It can be viewed as a tool for increasing long-term shareholder value by enhancing a firm's performance through the process of enhanced accountability (Shaikh et al., 2011).

In this paper, we will provide a systematic review of the literature on corruption and corporate governance, focusing on the relation of these two factors, the impact of corruption on setting corporate governance requirements, and the role of governance structure in controlling corruption. Needless to say, there have already been many extensive studies on corruption in the fields of social science and business. However, the available literature mainly focuses on government or political corruption (Rose-Ackerman & Palivka, 2016). However, in these circumstances, corruption may occur in both the public and private sectors involving business – something we will refer to as corporate corruption in this study. It is growing and drawing more extensive attention from management scholars.

Corporate corruption is a distinctive empirical phenomenon. It is gaining in importance because, like governments, large corporations are also in a position to influence the public. Furthermore, taxes and other payments from corporations are a significant part of the financial health of governments to render services to its population. Therefore, fluctuations for corporations through corporate governance may affect the public sector as well. Bureaucracies are an inseparable part of both the public and private sectors. This is a significant source of corruption, metaphorically named red tape (Martini, 2013).

From the lens of management theories corruption can be defined with distinct dimensions; for example, we will elucidate corruption from in the light of agency theory, institutional theory and resource-based view. Since corruption is not a recent phenomenon, therefore, it has been evolving into the recent shape expanding the impacts in different social and economic aspects from a long ago. Therefore, the evolvement of corruption can be multi-dimensional including the impacts. However, from the view of the different management and organizational theories, corruption can be explained to find its economic and social outcomes. In different countries, there is a long-standing allegation about misuse of tax money, especially in the developing countries where societies suffer from low or inadequate accountability. Constitutionally, the public are the owner of the state and elected representative should be liable to them for their actions. Unfortunately, it rarely happens that public can make them completely accountable. This situation can be regarded as an example of agency problem, the officials with authority or power work for their interest in absence of proper control mechanism; then it continues. The agency theory can be viewed to explain the rise or recurrence of multiple agency problems in public procurement (Bernheim and Whinston, 1986). However, it does not indicate that agency problem only give rise to corruption for public sector only, rather the private sector is similarly or even more contaminated with this cause. The companies operating in the countries with high corruption tend to generate less returns, in addition to, there is a strong negative relation between stock returns for the industries that are more sensitive to the corruption. Here, the agency problem was exacerbated in the corruption sensitive industries (Magnanelli and Donadelli, 2014).

Like agency theory, institutional theory can be attributed to explain the rise of corruption. Corruption or rent seeking behavior is an opportunistic attitude that could depend on surroundings of the person involved in this. Again, corruption can be defined as the result of institutional failure or inefficiencies. Normally institutions encompass the formal rules, informal norms and different belonging cultural and social practices that shape behavior and interactions within the society. However, any failure to effectively manage behavior would create incentive for unethical behavior, and eventually give rise to corruption. The natural culture (including the macro-level variables) could mediate discretion and accountability (both micro-level variables) – thereby engendering either the arbitrariness or pervasiveness in corruption (Pillay, S., & Dorasamy, 2010). They also acknowledge that the natural culture is an important macro-variable that influence corruption. The impact of power structure and political cultures for causing corruption can be better understood when Collier Michael W. (2002) concluded that current ongoing global anti-corruption programs would fail unless there is a solid reform to power structure and political culture brought on. Sudibyo and Jianfu (2015) asserted that the institutional theory can be used to explain the reoccurrence of corruption in organizational level, where culture of democracy has less influence on corruption in China and Indonesia.

From the context of resource-based view, that the resources and capabilities that firms own might be pivotal for ensuring their business success. Therefore, some business or organizations may attempt to achieve some resources in unfair means which may not support reasonable business practices. In addition to that, many businesses always try to maintain good political connections to win some contracts or deals. However, in that cases they may also follow some unfair ways. In addition to that, for financial assets, corruption effects these. Corruption influences long-run savings growth which in turn affects the economic growth by the patterns of resource used trade and abundance (Barbier, 2010). However, in many cases the large corporations would use it capacity to influence the governments or the official in authority to formulate decision or policy in their favour. Since the large companies have a greater market share, so the government or regulatory entities are not always in the position to implement any initiative against them. Meanwhile, sometimes they organizations appoint the retired government officials in different positions or offer lucrative offers to use their social power. These kinds of activities give rise the use of unfair means, and eventually corruption.

The remainder of this study includes the following parts: Section 2: The Presence of Corruption and Its Impact; Section 3: How Governance Affects Corruption; Section 4: Governance in Public Entities or State Owned Entities (SOE); Section 5: Spread of Corruption; Section 6: Anti-Corruption Campaigns (ACC) as A Remedy for Corruption; Section 7: Combating Corruption; Section 8: Limitations; Section 9: Future Research Directions; and Section 10: Concluding Remarks.

2 The Presence of Corruption and Its Impact

Corruption, arising from different sources and taking different forms, creates a significant challenge to both developing and developed economics. It prevails in all countries or territories in the world, ranging from a minimal amount to a significant degree. Every year, Transparency International (TI) publishes an index indicating the level of corruption in different countries. Most recently the index included the corruption score for 188 countries. The total number of independent countries across the globe is 193, which means corruption is found to some extent in nearly every country in the world. According to the CPI (Corruption Perception Index) Score of 2018, two out of three countries (67% of total countries) have a CPI score of less than 50 (a higher CPI score means a lower corruption level and vice versa). This data indicates how far corruption has spread across the world. And it has not stopped spreading; instead, it has been getting more acute, as can be seen from the deteriorating CPI score of different countries over the last few years. Corruption has already been identified as one of the global community's most significant problems (George et al., 2016). Tanzi (1998) reports that corruption attracted considerably more attention before the 1990s because of the allegations of corruption which caused many prominent politicians (including presidents and prime ministers of different countries) to lose their official positions and even caused many powerful governments to fall. The consequences of corruption are far-reaching, affecting not only the financial health of organizations, but also the broader socio-economic circumstances of nations as well.

Different researchers and scholars have conducted comprehensive studies to find the impacts of corruption from various perspectives such as economic, social, political, environmental, cultural, technological. Most literature finds some adverse effects of corruption. The effects of corruption can be detrimental to economic development or growth: some empirical evidence suggests that corruption reduces financial growth, especially in countries with low investment rates and low-quality governance (Mauro, 1995). It can lead to destroying trust in social institutions (Rothstein and Uslaner, 2005). Other researchers have extended the findings of Mauro (1995). It was possible to increase investment levels just by reducing the extent of corruption, Brunetti and Weder (1998) report. Corruption can also be responsible for lower international trade (Lambsdorff, 1999). Moreover, apart from the economic consequences of corruption, it can also affect a company's lower corporate social responsibilities (CSR) and behavior (Lopatta et al., 2016). It may also lead to sociopolitical insecurity and uncertainty, hampering economic growth (Mo, 2001). Mo notes that a 1% increase in corruption level can reduce growth rate by 0.72% (Mo, 2001). He also indicates that the most common channel for affecting the growth rate is political instability, responsible for around 53% of the total effect. It can be more rampant where other forms of institutional inefficiency are present, like red tape, a low level of law enforcement, or a weak legislative and judicial system. In the U.S.A., states with higher corruption levels experience lower economic development (Glaeser & Saks, 2006). Vaal and Ebben (2011) report that the effect of corruption is highly dependent on a country's or state's judicial setting. Corruption can cause bureaucratic issues like bureaucratic delays by creating an inefficient channel for allocating licenses and permits to productive mechanisms (Ahlin & Bose, 2007). Corruption influences the structure of public expenditure, causing a reduction in the willingness to contribute to public goods or services and thus damaging public interest and affecting the environment for future investment (Beekman et al., 2014; de la Croix & Devallade, 2009). Azfar and Gurgur (2008) found from an analysis of 80 municipalities in the Philippines that corruption is deteriorating the health outcomes of its population.

Since we already know some about the impacts of corruption in different economic indicators. However, the impacts of corruption could be significant for stocks or company share prices. There is a significant power-law dependence between corruption and stock market development (Bolgorian, 2011). In addition, there is a negative relation between level of corruption and stock market improvement (Bolgorian, 2011). This finding was also supported by the findings of Ayaydın (2013). Since corruption facilitates uneven distribution of wealth, so the accessibility for the small companies to their required resources are not always ensured. Therefore, the small corporation suffers from the less opportunities to grow which also create uneven field of competition. Factors like terrorism, corruption and political instability has an adverse on stock exchange performance (Marane et al., 2020). Because of corruption the shadow economy may receive an extra resource, therefore, it prevents mainstream economy, resultantly the stock exchanges also suffer. Most importantly, corruption prevent the free flow of information which is fundamental for stock exchanges.

Supply chain management is another possible source of corruption. Unfortunately, corruption in this sector is poorly understood, therefore it prevents supply chain function of any organization to achieve its desired performance. Any presence of corruption in supply chain system could create a "corruption triangles" (Silvestrea et al., 2017). The author, from the personal experience, has witnessed that the procurement or supply chain function is the most suspectable to unfair practices. Not only for the corporations, the procurement function of governments or local municipalities is also highly contaminated. Almost all the developing countries suffer from this issue of corruption in government purchase. The procurement of goods, service and public infrastructure development are the commonplace for corruption for the South Asian countries (Jones, 2009). Recently, many reform activities have been taken, however, the impacts of these were quite limited. Jones S. (2009) has identified two reasons for the poor output of reform programs, firstly, these programs were not adequately comprehensive to tackle the wide spectrum of corruption to create required legal and framework for the watchdogs. Secondly, there were severe weakness in implementing the reforms, especially translating the legal provisions into everyday practices. The available literature for corruption in procurement mostly focused on the public procurement. However, large corporations silently suffer a lot due to the corruption in their supply chain operations. Lafarge, a French cement manufacturer, in Syria involved in terrorism financing to have some extra benefit in supply chain operations, which was revealed later resulting in penalty of over $775m. There could be many such instances, but unfortunately, these incidents were not regularly exposed like public procurement.

Apart from these effects, corruption also impacts other aspects such as maintaining civil and political rights, foreign direct investment, political structure, social system, brain drain, fiscal deficit, and human capital (Dimant & Tosato, 2018). In Dimant and Tosato's research, the team identified the fiscal deficit, brain drain, and human capital as new effects of corruption. They indicated that corruption is always associated with several unfavorable consequences that may lead to dissatisfaction among people staying in the country compelled by income inequality, deprived social status, poor allocation of resources, high unemployment, and other related issues. So skilled people tend to migrate to other countries if there is a level of corruption in their own country. Nowadays, there is a growing trend among the younger generation in developing countries to pursue their tertiary education abroad. Most of them then choose to settle in those countries after their studies, ignoring family ties in their home countries. The catalyst that works here is the unhappiness results from staying in their home countries; corruption is primarily responsible for that situation. Thus, the cycle of corruption may initially distort economic indicators, and subsequently increase unhappiness and dissatisfaction among people, forcing them to immigrate. This in turn results in their home countries missing out on their skills and services in the long run, and if it continues, the situation worsens.

There are some alarming statistics about the effects of corruption in Pakistan, where around 30 percent of all public work projects go to companies that pay kickbacks and bribes. For Bangladesh, corruption consumes around 50% of foreign investment (FDI) (de Vaal & Wouter, 2011). According to data from the WEF (World Economic Forum), more than 1 trillion USD in bribe payments and corruption can reduce the global GDP by more than 5%. Mo (2001) has developed an estimate that a 1% increase in corruption level reduces the growth rate by 0.72% as mentioned above; alternatively, a unit increase in the corruption index causes the growth rate to go down by 0.545 percentage points. For a corporation, corruption has many other distinctive consequences, such as increasing the cost of equity (Hossain et al., 2021). This situation has similar impacts, as Smith (2016) indicates that firms located in more corrupt areas maintain less cash and greater leverage to limit the possibility of expropriation by corrupt local officials. The greater leverage pushes the cost of borrowing to increase. Moreover, corruption can add significant costs to shareholders in the U.S. The impacts of corruption are exacerbated for companies operating in the low-rent product market, though it can be substantially mitigated by external monitoring from the government or regulatory bodies or any disclosure requirements for transparency (Brown et al., 2021).

As a result, some countries and international organizations are working towards reducing corruption in order to stimulate economic growth. Different intergovernmental organizations have formed international conventions, such as the Organization for Economic Cooperation and Development's (OECD) Anti-Bribery Convention (1997; Appendix 1.5). Even national governments are working to develop and implement legislation to eliminate it, for example, the American Foreign Corrupt Practices Act (1977), or the establishment of the Anti-Corruption Commission (ACC) in 2004 in Bangladesh. Ironically, even in 2019, according to the Corruption Perception Index (CPI), more than two-thirds of the world's countries, including some of the world's most advanced economies, are downsizing their anti-corruption movements (Transparency International, 2019). Though the effectiveness of such institutions or legislation reducing corruption is being questioned, many countries need help to control corruption even after establishing such institutions or introducing legislation.

However, as indicated earlier, there is a mixed tale about corruption and its impacts. A group of researchers claim that corruption may also have some positive impacts. In their opinion, corruption can work as grease or lubricant for the wheels of growth, especially in countries where corruption is more severe and bureaucratic difficulties continue to prevail. Eisenberger et al. (1986) claim that corruption offers some assistance in overcoming repetitive bureaucratic controls and cultivating economic development. Such a scenario has been observed in the United States, at least historically: corruption in industrial corporations supported economic growth in the U.S. in the 1880s. From an investor's perspective, corruption can generate some extra gain for them: firms located in more corrupt U.S. states tend to provide a higher payout to their shareholders (Hossain et al., 2021).

While acknowledging the positive impacts of corruption, here the question of sustainability of this approach arises. The second largest economy of the world, China has also experienced a dramatic growth in economy while undergoing higher corruption. In addition, some top developing countries in the world (including India, Bangladesh, Cambodia, Thailand and so on.) are also experiencing high corruption in their public practices. So apparently, it may seem that some level of corruption could facilitate economic growth. This perception comes with the question of sustainability. Is the economic growth associated with higher level of corruption sustainable? There is no direct answer till now for this question. Though, while encountering the high growth rate, most of the countries also initiated different anti-corruption campaigns which may indicate that further growth facilitation through may not be feasible or sustainable. Aidt (2010) indicated that corruption reduce growth in genuine wealth per capita, and it leaves the economy in unsustainable corridor where its capital gets battered. Even apart from the economic sustainability, corruption threatens the response indicators towards ecological sustainability (Morse, 2006). Therefore, undoubtedly, the level of corruption would challenge the sustainability of economic growth or ecological balance in the long run.

Corruption may include a wide range of activities, including giving and taking bribes, making favorable decisions for someone, issuing policies or laws considering the interest of some entities and so on. In most cases, such activities are legally prohibited; however, these practices still take place within national and international boundaries. From another viewpoint, corruption can be treated as an alternative to correct bureaucracy, as Leys (1965) and Bayley (1966) have argued. In addition, corruption can be viewed as a phenomenon which is backed by different causes, and simultaneously it may have some association with other factors like economic indicators, corporate social responsibility, financial disclosures, audit failures, corporate governance, investment, corporate payouts, and peace index. Corruption has been categorized according to the prevailing state laws of different countries or states. The categorization or definition of corruption varies within different legislative boundaries.

3 How Governance Affects Corruption

Governance is the system of managing organizations in a way that promotes the rule of law, human rights, and development. Here, corruption is the act of using public office for private gain. Governance and corruption are closely related in that they both influence the functioning of institutions. Good governance can help to prevent corruption, ensuring efficient and effective use of resources. On the other hand, bad governance creates options for corruption to weaken law enforcement and credibility, as well as hampering public welfare. In the following discussions we will highlight more how governance can affect governance.

3.1 Significance of Governance in Determining Corruption

In the previous section, we discussed some of the adverse consequences of corruption. The global economy experiences a periodic crisis from corruption that threatens robust international trade and commerce (Di Pietra & Melis, 2016). Though nearly two decades have passed since the disastrous accounting and financial scandals in the early part of this century, some countries and financial institutions are still at risk of facing another catastrophic situation. For example, recently Goutam Adani, owner giant business group, Adani Group in India, was ranked as the second richest man in the world even January 2023. However, a report published by the U.S. based short-seller Hindenburg Research on January 24, 2023,[1] claiming that the Adani group was involved in shameless stock manipulation and accounting fraud for over a decade. As a resultant, a massive

[1] India Stock Market: Adani Shares Fall After Flagship Firm Pulls Equity Sale - Bloomberg; available at https://www.bloomberg.com/news/articles/2023-02-02/adani-stock-rout-deepens-after-flagship-firm-pulls-share-sale

fall in the share price of Adani Enterprise[2] removed its owner from the list of the top 25 wealthiest persons in the world by March 2023. When such a catastrophe happens, investors are the first victims. To protect the investor interests and safeguard their invested money, different regulatory bodies have introduced a set of rules, practices, or standards that the business needs to follow, known as governance. For example, in 2002 the U.S. passed the Sarbanes-Oxley Act, and in 2010 the United Kingdom passed the UK Bribery Act in 2010. These governance standards apply not only to business organizations but also to other types of organizations like non-profit, social, political and government entities.

Governance is not the output of coordinated demands imposed by market efficiency but constitutes rationalized norms that recognize the adoption of good governance initiatives (Di Pietra & Melis, 2016). Corporate governance not only assigns rights to a range of stakeholder groups, however: it additionally imposes obligations and duties on them (Luo, 2007). It creates a defined structure and offers suitable procedures to run business operations. A proper corporate governance structure would comprise business ethics and corporate social responsibility. Continuously adopting these standards would help organizations to keep away from corrupt practices. For example, if there is a strong board, they will enhance the transparency of financial statements. This in turn will attract better appreciation from investors, making it easier for corporations to raise capital when needed.

However, one question still needs to be answered about how effective governance is in controlling corruption. Many scholars have shed light on this controversial issue. The issue starts with

[2] Adani Enterprise is the parent company of Adani Group.

globalization, and it causes both opportunities and challenges for a governance structure that accelerates corporate governance's conjunction to a universal standard (Khanna et al., 2001). On the other hand, globalization intensified competition among businesses, making it difficult for small and less efficient firms to survive. Therefore, some firms may opt to pay bribes to survive (Wu, 2005). Kaufmann (2005) further strengthens the notion that better governance leads associated with greater competitiveness for a country. So, if competitiveness is higher, there will be better governance; accordingly, less corruption will take place. Kaufmann used the GCI (Growth Competitive Index) to measure competitiveness and COC (Control of Corruption) to measure corruption. This makes clear that governance standards matter radically to enhance a country's business competitiveness.

3.2 Multinational Companies (MNCs) Operations and Scope of Corruption

It may be informative to consider this issue from the opposite point of view, where companies are distressed or require investment. They try to enhance transparency and accountability to clarify the business picture for prospective investors and influence them to invest. Upon getting investment from investors, it helps the businesses to stay competitive in the market. Corporate governance thus contributes to promoting competitiveness. Company valuation should be positively impacted since good corporate governance ensures better transparency and accountability (Bertram et al., 2019). Fund managers want to allocate a more significant share of their portfolios to companies with solid governance systems (Das, 2014). So, corporations with better corporate governance will attract more foreign investment. As a result, foreign companies or MNCs are supposed to follow better corporate governance (CG), limiting the scope of corruption.

On the other hand, the opposite notion has been found that instead of reducing corruption through integrations from multinational companies (MNCs), these have been noticed with increased corruption. Zhu (2017) argues for the generalized process of reducing corruption from the entry and presence of MNC activity. He conducted a case study in China, in which he found that provinces or territories with greater MNC activities were closely associated with greater corruption. In his study he also indicates that the MNC might be involved in rent creation for domestic countries leading to a higher level of corruption for those nations. Such findings could have significant policy implications for developing countries. Frequently, we learn from news reports that different MNCs face anti-trust complaints in different overseas countries. Some governments or regulatory bodies think that welcoming an MNC would benefit their economy and create more employment opportunities; however, the actual situation may be different in that no corporation in the world will invest in a country for charitable purposes only. Their primary goal is to make money; generating employment and tax revenue for the government are related consequences of their investment strategy. Another motive for the MNCs to enter developing or emerging markets is to have a significant market share enabling them to exercise monopoly actions when required. Again, in some countries, MNCs with significant market share tend to remit dividends to their parent corporations instead of investing their profits to maintain the quality of service they provide. For example, Grameenphone, belonging to Telenor group of Norway, the largest telecom operator in Bangladesh, even after fielding numerous complaints about service quality, were able to declare a 220% dividend in 2022.

There are many instances where MNCs have failed to follow enough CG standards or are involved in corruption. The list of such incidents is long. For example, Xerox has been penalized in India, IBM in Argentina, and Siemens in Singapore. The LafargeHolcim group pleaded guilty to terrorist financing by the U.S. Justice Department and has agreed to pay a penalty of U.S.$778 million (U.S. Justice Department, 2022).

Here we should keep in mind that not all MNCs are likely to offer bribes to enjoy unusual gains. There are many similar instances of domestic firms who are involved in paying bribes. Developing countries are frequently ranked as the top corrupt countries according to TI. It is widely noted that domestic firms tend to offer bribes to public officials to be awarded different deals and contracts. So when MNCs enter into a local market they will employ domestic firms as their agent or representative without taking any responsibility arising for the actions of these domestic firms. As a result, the MNCs indirectly reap benefits from employing other entities for corrupt behavior. On the other hand, there are many instances as well where the MNCs do not compete well due to corrupt practices from local entities. For example, the GlaxoSmithKline (GSK) and Sanofi, two multinational pharmaceutical companies, ended operation in Bangladesh in 2018 and 2019, respectively. They blamed local market practices where domestic manufacturers provide different illicit incentives to physicians or doctors to recommend medicines of their brands. If there were an established framework or directives from the drug administration of Bangladesh, it would create a more level playing field for such companies along with promoting healthy competition. Apart from this, in different Asian countries, the trend for corrupt practices among officials is generally widespread, with the exception of Singapore and Hongkong, which both have strong political structures and can rely on effective anticorruption agencies (Quah, 2018).

It is highly unlikely that corporations from first world countries like the U.S.A. are immune from corruption. Indeed, some companies with origins in the U.S.A., have been accused of corrupt practices. Some years ago, the New York Times circulated an investigative report accusing Wal-Mart de Mexico as the creative corrupter, offering a significant payoff to get what customary laws banned (Zhu, 2017). The report also accused Walmart of being the critical player in initiating low wages, forcing employees not to form unions, and pushing prices down to remove other retailers from the market. Walmart is already notorious for being the largest retailer in different countries like U.S.A., Canada, and Mexico, and has positioned itself to become the largest company in the world in terms of revenue. Therefore, it possesses considerable power to make autocratic decisions. The opening sentence of the New York Times report was instructive: "The company that ate America is now swallowing Mexico" (Weiner, 2003; Zhu [2017], p. 97). On average, a unionized supermarket worker earns $19 per hour in the U.S., whereas at Walmart, they hardly earn $9 per hour without a union. This is a simple estimate of how much Walmart exploits common labor to maximize its profit. In 2006, Transparency International (TI) conducted a survey among 11,232 executives from 125 countries and came to the surprising conclusion that foreign firms from giant exporting countries had a greater inclination to pay bribes in operating countries, and especially in low-income or developing countries (Zhu, 2017).

To sum up, the MNCs presence or operation does not guarantee any state to be less corrupt or demonstrate a higher level of corporate governance. Rather, the MNCs always run their operation focusing on how they can maximize their profits.

3.3 Ownership Structure, Corporate Disclosures, Audit Firms and Corruption

The ownership structure of a corporation may contribute to its attitude toward maintaining governance. Usually, public companies have more regulatory requirements than privately held companies. Therefore, these companies have to disclose many financial and non-financial pieces of information to different regulatory bodies than private ones. However, the nature, quantity, and manner of disclosing information may differ according to the practices adopted by companies, requirements of stock exchanges or according to demands from pressure groups like investors. This information definitely includes governance and compliance. Dela Rama (2012) notes that the dominant shape of private sector business operations, e.g., family-owned business groups in Asia, deal with different forms of corruption while running their typical business operations. In this region, the relationship-based business model is predominant; therefore, business operations mainly depend on business owner philosophy since ownership is mainly concentrated here. Hence, corporate governance of the business groups is heavily influenced by the owning and controlling stockholders and continues merely as the 'rubber stamps' of the dominant owners (Young et al., 2008).

Corporate disclosure is one of the essential pillars of corporate governance, and quality disclosures work as a tool for enhancing corporate governance (Huber & DiGabriele, 2021). Public listed companies must disclose their business practices to ensure better corporate governance, reduce the scope of agency problems, and simultaneously minimize the risk of corruption. The quality, quantity, and manner of information disclosures really matter for adequate transparency and governance (Huber & DiGabriele, 2021). However, some audit or accountancy firms are appointed to verify these disclosures and their authenticity. If the audit firms fail to do their job, it may cause information risk, resulting in poor corporate governance. There are lots of examples of such failures that caused corporate collapse. Unfortunately, such incidents are taking place during the period that was marked by the massive expansion of company auditing and assurance services by accredited professional accountancy firms. Surprisingly, the growth of the auditing and accountancy professions is striking worldwide, but they still fail to provide reasonable assurance about the accuracy of financial statements and leave room for corruption. In the UK, there were 50,000 family doctors, but there were over 280,000 professional accountants, including those who were not practicing (Shore, 2021). The global audit market is more than $217 billion, even bigger than the GDP size of 144 countries[3] [4]. Four big firms mainly dominated this market, usually known as the "Big Four": Ernst and Young (EY), PricewaterhouseCoopers (PwC), Deloitte, and Klynveld Peat Marwick Goerdeler (KPMG). All of the four have been involved with at least some sort of serious fraud with professional misconduct resulting in monetary penalties and the imprisonment of a few key partners. Audit firms seem to be one of the largest sectors for paying fines and penalties worldwide. Repeatedly, audit firms fail to detect accounting fraud, even though sometimes they associate with business corporations in this regard. The facts indicate that those who are assigned to ensure proper corporate governance lack a sense of governance among themselves. Interestingly, while reading studies for this part of the thesis, it became clear that among the "Big Four" participants, three belong to the top 30 private companies in the world in terms of revenue, and the fourth one belongs to the top 60 private companies in terms of revenue.

[3] https://www.marketdataforecast.com/market-reports/auditing-services-market

[4] https://www.worldometers.info/gdp/gdp-by-country/

Since these audit firms are privately held, ownership is concentrated without further requirements for regulatory control and disclosures, and they enjoy complete freedom to manage their operations as controlling stockholders' demand. Accordingly, it has proven impossible to find any audit firms across the globe that are publicly listed. This means the firms are responsible for ensuring good governance for listed firms without having any accountability to ensure their own corporate governance standards. Since these firms work for fees, to retain this revenue they may silently overlook any misstatements their clients may have made. In that case, the task of verifying financial statements to ensure corporate governance from audit firms poses a serious risk.

This situation has come about because the market is dominated by four key players; the current situation represents the problem that became a mantra in 2008, that they are "Too Big to Fail." Even if either one of the four firms collapsed, the market would still be controlled by the other three firms; indeed, they would then be even better able to continue their oligopolistic practices. In other words, if the state was corrupt, it would help the audit firms to grow their business. In the U.S., the auditors charge higher fees for their services to organizations with headquarters located in the more corrupt states (Jha et al., 2021). The rise of the four giant accounting firms is the result of the collapse of other audit and accountancy firms, a result of their questionable accounting practices. Deloitte merged with Arthur Andersen back in mid-2002, which was associated with the Enron and WorldCom scandals resulting in two high-profile bankruptcies in the U.S.[5] These firms often portray themselves as "integrity warriors" (Sampson, 2005), but they are primarily engaged in creating and exploiting the market for the kind of services they provide (Shore, 2021). Some

[5] https://en.wikipedia.org/wiki/Arthur_Andersen

UK MPs have even expressed their reservations, noting that the "Big Four" are even more powerful than the government (Hudson et al., 2014). So, it might not be wise to expect high governance standards from firms that originated from the collapse of another firm because of corruption. Nevertheless, the irony is that these firms are still regarded as the best professional service providers in the field of accountancy and auditing.

So far in this section, we have examined how corruption and governance are associated, and that less governance invites more corruption. Similarly, more governance leaves less room for corruption that will invite foreign investment from multinational companies, as the literature supports. However, it is unlikely that the presence of MNCs would help to reduce corruption further since many instances indicate MNCs are more inclined to corrupt actions to enhance their own gain. Accordingly, some domestic organizations are also prone to corrupt initiatives for business profitability. In some Asian countries, bribery practices are more prevalent, resulting in an increase in audit firms appointed to verify disclosures made by publicly listed companies. Unfortunately, these firms are familiar with different accounting scandals and have faced significant penalties worldwide. These firms are more focused on maximizing their revenue and expanding their markets. Furthermore, these firms usually remain unlisted to enjoy more freedom for managing their operations and less accountability. As a result, there is less motivation from different corporations and audit firms to practice better corporate governance, and as result the extent of corruption continues to rise.

4 Governance in Public Entities/State Owned Entities (SOE)

In the previous sections, we note how important effective governance is in controlling corruption. However, it is equally true how governance shortcomings can give rise to corruption in public entities or state-owned entities (SOE). In this section we will explore some areas such as corruption in government entities, and tools available to government entities to control corruption. Here too democracy is a central component of governmental systems, so its role in controlling corruption may also reveal problematic issues. Some government entities are responsible for collecting tax revenues and tax law enforcement for their respective countries, such as the Internal Revenue Service (IRS) for the U.S.A. and the Canadian Revenue Agency (CRA) for Canada. Managing the relationship between such institutions and clients could prove a source of corruption. There have already been many studies regarding corruption in tax administration and possible ways for controlling such corruption. Therefore, we will also focus on tax administration from the perspective of people or corporations and attempt to answer how this can give rise to corruption.

4.1 Government Entities and Corruption

In the previous section, we learned about governance in organizations with private ownership. However, private companies and public entities or SOEs (State Owned Enterprises) need governance to ensure better fund utilization, provide quality service to the public, and establish trust. Nevertheless, the difference between privately owned and state-owned corporations lies in their profit-making objective. As mentioned earlier, the need for governance for public sector entities is associated with the collapse and scandal of big corporations because the public entities frequently work as watchdogs for private corporations. Though there is no specific example of public governance failure, the need for public governance still carries much importance. However, there are many complaints that public services entities are much slower to render services than private corporations, and the quality of service also suffers. The situation is not only valid for developing countries but also applicable to many other financially advanced countries.

Furthermore, public entities also suffer from a low level of accountability, unlike private corporations. Therefore, the continuous tendency to excel in rendering quality service might be absent for government entities. Again, for most countries, public entities are owned and operated by governments themselves, and the ruling political party usually appoints the top official for that organization, so they will be interested in implementing their political philosophy across the organizations. The ruling political party frequently changes, causing changes for the public entities and their operations. Another reason for poor governance standards is that public entities require less access to external sources of funds like long-term borrowing from financial institutions or issuing stocks in the capital market because governments are more likely to finance these organizations, so they are not required to present the CG standards to its prospective lenders. This scenario is most common in developing countries, but it can be observed in developed countries as well. Eventually, the practicing governance standard acts for the public entities. All these factors create uncertainty for public entities in determining their capability of rendering quality services consistently in accordance with citizen expectations.

Effective and efficient governance is also necessary for building confidence in public institutions, which is compulsory for them to be capable of meeting their objectives (Wadie, 2013). Moreover, there might be a high concentration of wealth in the public sector and SOEs, enabling them to play critical roles in society. Effective governance within these organizations would help ensure the efficient use of resources. Transparent, effective, and accountable institutions can cause fundamental changes for citizens, societies, and economies; and without inclusive public sector governance, the prospect for economic transformation is likely to be sacrificed (OECD.ORG). Corporate governance is the necessary element to maintain balance among authority, management, guidance, responsibility, administration, and control. The government of BC admitted to the Office of the Auditor General of British Columbia report, Public Sector Governance: A Guide to the Principles of Good Practice, "Government agrees that good governance is essential to the success of organizations, regardless of whether they are in the public, private or not-for-profit sectors" (Auditor General of British Columbia, 2008, p. 39). Alqooti (2020) has studied the impact of governance on reducing rule violations from government entities and has found a significant effect of stewardship and the rule of law principle to reduce the total number of violations. Mulyadi et al. (2012) have conducted research in the Indonesian Tax office and found that public sector corporate governance is the crucial factor in improving or maintaining service quality for the beneficiaries where taxpayers were used as the research objects. Consequently, public sector governance has become one of the central issues at the global, national, and regional levels.

4.2 Governance Tools for State-Owned Organizations (SOEs)

For public entities, governance plays a crucial role in ensuring effective functioning of the organizations. These organizations, ranging from governmental agencies to municipal bodies and state-owned enterprises, are entrusted to work in the best interest of the public. To ensure better transparency, accountability, and appropriate service delivery in an efficient manner, a diverse set of governance tools needs to be implemented. Also, increasing allegations of corruption in public sector entities have drawn attention to implementing governance tools. In recent years, many developed and developing countries have thoroughly re-evaluated governance for public sector entities. In different jurisdictions, different corporate governance frameworks for public entities have been implemented. However, in an efficient governance tool, only a few dynamics need to be present, such as a legal framework, performance measurements, transparency measures, and public participation. Barrett (2002) points out that the best practice of public governance includes the effective integration of core components for corporate governance within a holistic framework supported by effective communication throughout the organization, along with the corporate culture of accountability, transparency, commitment, and integrity. The Council of Europe has developed a governance toolkit emphasizing 12 principles of good democratic governance that includes participation; representation and fair conducts of elections; responsiveness; efficiency and effectiveness; openness and transparency; rule of law; ethical conduct; competence and capacity; innovation and openness to change; sustainability and long-term orientation; sound financial management; human rights; cultural diversity and social cohesion; and accountability. In a publication of The Institute of Internal Auditors, entitled *The Role of Auditing in Public Sector Governance*, emphasizes public sector audit activities which need organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, competent stuff, stakeholder support, and professional audit standards (Institute of Internal Auditors, 2012).

Though the initial guidelines for the concept of corporate governance (CG) in the public sector were developed in the UK, based on the Cadbury Report[6] (Committee, 1992; Mulyadi et al., 2012). According to the Report, three important principles for corporate governance include openness, integrity, and accountability. Since 2000, increasing attention has been given to the governance issues for the public sector in the UK. Also, according to the report, corporate governance has two aspects which include compliance and performance. Here, compliance consists of two elements: monitoring and supervising the performance of management; and maintaining accountability.

On the other hand, performance consists of strategy formulation and policy making (Tricker, 1984). For privately owned entities, the conformance aspect carries more emphasis, whereas for public sector entities, both the performance and conformance aspects carry equal importance (Hodges et al., 1996). Several frameworks for public governance are already in action, including the following:

a) "The international framework: Good governance in the public sector," issued in July 2014 by the IFAC and CIPFA. (See Appendix 1.1)

b) "The good practice guide on public governance" (2011) developed in Singapore for the Asia-Pacific Economic Cooperation (APEC) (See Appendix 1.2)

[6] The Cadbury Report is a report to the Cadbury Committee which was formed to identify the financial aspects of UK private sector corporate governance.

c) "The role of Auditing in public sector governance" published by the Institute of Internal Auditors (IIA) in Jan 2012 (See Appendix 1.3)

d) "Public sector governance – the best practice guide" issued in June 2014 by ANAO. (See Appendix 1.4)

e) Key principles of corporate governance developed by OECD (1999) (See Appendix 1.5)

The frameworks mentioned above should play adequate roles in controlling corruption in public entities and political corruption if these are appropriately maintained. Another influential factor in controlling corruption is democracy. Thus, it is usually assumed that a strong democracy will prevent corruption or establish a system that encourages less corrupt behavior. The risk of corruption can be significantly reduced by a good form of democracy (Brueckner, 2014). However, the U.S.A. takes pride in having the world's most powerful democracy. Does it make the country free from corruption? Jetter et al. (2015) suggest that democracy can reduce corruption, but this can only work in economies where the GDP per capita has already crossed $2000. They also indicate in the same research paper that democratization can be blamed for greater corruption in poorer countries. However, they propose an explanation for the finding: in poorer countries, when the GDP lowers, there are not enough opportunities for people to work in the productive sectors, so people may take advantage of misusing public funds. Sung (2004) identifies a shortcoming in that researchers look for the linear effect of one aspect on another. However, this is not even linear, rather a complex one. He outlines the earlier political circumstances and final democratic accomplishments that determine the magnitude of political corruption in a country. The reasons for the differences in opinion regarding the relationship between corruption and democracy is most likely the multidimensionality of the concepts of "democracy" and "democratization."

4.3 Democracy and the Control of Corruption

Democracies are based on sound legal foundations that ensure a better suitable framework for economic activity. To operate this framework efficiently, the politicians want to get reelected; more specifically, they feel insecure about their prospects. This situation leads to a paradox of stability. More security of tenure can further pollute the arrangements. Simultaneously, too much insecurity can have the same effect (Rose-Ackerman, 1999). For a stable democracy, a fair election is the most fundamental pillar. However, political parties, irrespective of belonging to power, are always motivated to influence elections in their favor. So, even after winning an election, the victorious political party keeps an eye on the next election to win with some other corrupt behavior. Accordingly, it works as a vicious cycle of corruption where getting a taste of corruption induces further corruption.

Fundraising for election campaigns is a legitimate action in many countries. However, in other countries, such activity is banned. However, political parties in countries where fundraising for election campaigns is not permitted, frequently take bribes from large corporations to fund such activities. In exchange, the ruling political party offers undue favors to the corporations. This type of practice is common in different Asian countries like India, Bangladesh, Pakistan, Thailand, and Vietnam. Corporations want to influence political parties in their actions, which can be termed a corporate political activity (CPA). Apart from this, there are many other ways to conduct CPA by corporations, for example, by influencing political parties to nominate their preferred candidates in the poll, influencing the legislative system to reduce punishment if a company violates any rules, and not imposing any corrective actions on such companies. Sometimes, businessmen even participate in the election to better secure their interests, so that companies they belong to can win relevant government contacts or influence the proper authorities to enhance the budget for contracts and infrastructure. Accordingly, CPA disrupts the democratic process by excluding citizen presentations from public decision-making, citizen voices from public deliberation, and citizen interests from political preferences (Nyberg, 2021). Hence the association of corporations with politicians creates a win-win situation for them and a two-edged sword for ordinary people.

4.4 Tax Administration and the Scope of Corruption

Like democracy, tax administration proves to be another important part of the central governmental system since it provides a significant part of monetary support required to run government systems irrespective of state boundaries. Because revenue collecting agencies like the Internal Revenue Service (IRS) or the Canadian Revenue Agency (CRA) belong to government revenue entities, we can explore here how governance can improve tax administration systems. At the same time, tax administration provides another possible source of corruption since the incentive for someone to engage in this is obvious (Antonakas et al., 2013). Therefore, managing tax administration free from corruption can prove quite a challenge for countries.

Corruption has become an issue of increasing interest in political and academic discussion. Tax administration is an attractive sector for corruption to take place as the opportunities and incentives to engage in illicit activity are numerous for both tax officials and auditors as well individuals or corporations. There are several factors that can work as a catalyst: the complexity of tax laws, a high discretionary power for tax agents, the low cost of punishment, the complicated bureaucratic way to resolve disputes – all provide opportunities for the appearance of corruption in tax revenue agencies. Utilizing these tools, some companies and individuals register their business in countries with low tax rates, also known as tax havens. The recent leaking of the many documents collectively called "The Panama Paper" has intensified the issues. There has been a long-standing accusation that large corporations register their offshore business units in different tax haven jurisdictions to avoid applicable taxes. The Panama Papers disclosed millions of documents containing sophisticated personal and financial information. However, offshore business units are not illegal. Along with that, differences in accounting practices and tax rules among countries sometimes induce the wealthy class to do that. Different researchers have found that these seem to have been managed for illicit motives like fraud, tax evasion, avoiding international sanctions and so on (Panama Papers, 2023). However, even tech giants like Google, Netflix, Amazon, Microsoft, Facebook, and Apple have been accused of such tax issues (Neate, 2019). Companies are interested in tax evasion since these can save business costs and enhance shareholder value. Therefore, the connections between taxation policies and corporate governance standards are bi-unique (Sartori, 2008). As a result, the ways corporate governance rules are formed affect how corporations settle taxation requirements. The ways tax designs (from the government's perspective) and tax strategies (from the corporation's perspective) are prepared affect corporate governance standards (Sartori, 2008). Another researcher, Kourdoumpalou (2016), examined the association between corporate governance practices and tax evasion among listed companies in Greece; she found that there was less possibility of tax evasion if the ownership is concentrated, like when the chairman of the board is also the owner of the company. On the other hand, these findings contradict the traditional codes of corporate governance. Some dimensions of corporate governance impact tax avoidance, like a board of managerial ownership, independent directors, audit committees, and audit quality; institutional ownership does not impact tax avoidance (Sunarsih & Kartika, 2016). They also suspect institutional ownership could be used as a tool for monitoring the decisions taken by managers regarding management performance related to tax evasion. Yee et al. (2018) studied the relationship between tax avoidance and firm value for Malaysian companies and found that the incidents or practices of tax avoidance can negatively affect firm valuation. They conclude that general shareholders do not value tax avoidance; instead, it is value-reducing. However, corporate governance can play a moderator role in the relationship between tax avoidance and firm value (Yee et al., 2018). There is a counterargument, that tax behaviors like tax evasion and avoidance are the results of tax designs (the tax structure and tax rate set by governments). Namazian et al. (2021) found a significant relationship between the effective tax rates, tax evasion and corrupt behavior of companies listed on the stock exchange. Taking advantage of tax evasion is a strategic action taken by corporations but simultaneously challenged by the tax authorities. Still, it is a big question, even for the U.S. economy, whether tax evasion is a crime. Many people assume that getting an advantage from tax evasion is not a serious crime since it is the responsibility of the tax authority to find who is underreporting or avoiding reporting; on the other hand, tax avoidance is a pretty fair issue as long as individuals can present the documents or necessary proof for such transactions. Karlinsky et al. (2004) surveyed the seriousness of tax evasion with respect to other crimes in society. The results showed that people ranked tax evasion as the 11th most serious crime among the twenty 21 offences surveyed, meaning that average people viewed it as only somewhat serious. They viewed it below accounting fraud, violation of child labor rights, and insider trading, equal to welfare fraud and higher than violations of minimum wage laws (Karlinksy et al., 2004). However, regarding fraud or corrupt behavior, Mohd

Yusof and Lai (2014), using an integrative model, discovered that individual cognitive traits, elements of the "Fraud Diamond Theory" (Wolfe & Hermanson, 2004), and organizational factors, including normative and control factors, could drive managers to commit corporate tax fraud.

In addition to these factors, a company's political connections can also play a role in determining tax behavior. Abdul Wahab et al. (2017) indicates that politically connected firms are more aggressive in their tax behavior in Malaysia. They also note that corporate governance plays no role in mitigating the influence of political connections in promoting tax aggressiveness. In other words, political connections tend to outweigh the benefits of corporate governance, and in general political connections are more powerful (Abdul Wahab et al., 2017).

In this section, we have examined some of the political or governmental institutions affected by corruption. Sometimes the philosophy of the political parties works as a catalyst for spreading corruption in a country. The motives and determination of the political parties can bring significant changes in the corrupt behavior of public entities and corporations. Different international organizations have already proposed several corporate governance frameworks to improve corrupt behaviors in public institutions. However, problems have arisen during the implementation of these frameworks. There are also some counterarguments for the limitation of corporate governance and controlling corrupt behavior. In some respects, corporations want to influence political parties and politicians for personal or corporate gain, which further deteriorates the governance system and enhances corruption through corporate political activity. The political institution has evolved as an integral part of the system if someone wants to think about imposing governance to control corruption. The tax behavior of corporations and individuals to avoid legitimate tax burdens can also be considered political corruption. Unfortunately, people do not consider tax evasion as a serious offence, and they rarely take proactive actions to fix this. As a result, a lack of discipline exists in the taxation system, that is prone to encouraging corruption. The literature suggests there is enough room for strengthening governance to curb corruption behaviors. However, political setbacks need to be addressed first, especially in cases with relatively ineffective democracy or a close political affiliation of corporations.

5 The Spread of Corruption

The literature on corruption suggests that a lack of governance induces corruption that affects both private and public sectors. However, the answer to the question why corruption is so contagious remains elusive. A few influential factors make corruption so contagious across the globe. First, there is a socially accepted norm for determining people's behavior in ethical dilemmas (Ariely & Garcia-Rada, 2019). However, others conclude that corruption is also contagious despite social or cultural settings because people are inured to corrupt practices just seeing corruption can cause people who are not considered bad to engage in corrupt practices (Peterson, 2023). But speaking from experience, researchers believe that social and cultural settings have an impact on individual's attitude to corruption. Generally speaking, it seems that in some highly corrupt developing countries people get involved in corruption with the distribution of relief products. On the other hand, in some financially advanced countries, people get involved in corrupt actions, lured by the possibility of huge financial gains from things like price fixing. Hence, social, and cultural settings along with financial need can shape a person's corrupt actions; someone who is starving would not likely hesitate to get involved in corruption. Similarly, a person who wants to live a luxurious life but cannot afford it, could get involved in corruption as well. But ultimately, whether any of them would be involved or not totally depends on social and cultural surroundings and individual ethical standards. In the next section, we will focus on the pace at which corruption spreads, where it spreads especially in the financial sector, and the kind of behavior that predominantly gives rise to corruption.

5.1 Corruption and The Pace of Its Spreads

It is a common concern all over the world that corruption is spreading so rapidly. As mentioned earlier, almost all independent countries and jurisdictions are more or less affected by this. However, if we pay close attention to the CPI (Corruption Perception Index), we find that there is a pattern for developing countries to be more affected by this issue. Nine out of ten developing countries scored less than 50 in 2018; five out of ten developing countries scored less than 30 in CPI 2018, and the top ten most corrupt countries, according to CPI 2018, are developing ones (Desta, 2019). There is a common question why corruption is so severe in developing countries. Olken and Pande (2012) found convincing evidence that corruption acts in accordance with standard economic incentive theory, meaning that economic incentives influence individual willingness to become involve themselves in corrupt behavior. According to them, someone's "greed" will draw them into corruption. If we delve further into their need for more money, officials of developing countries generally render services more cheaply than in other more developed countries. Moreover, adequate social and public benefits are not provided by their governments and yet they always leave them in a situation in which they need to earn more money. Furthermore, income disparity is an acute problem in these countries where ordinary people see a few rich and politically powerful individuals enjoying greater amenities unavailable to them. This can generate dissatisfaction among ordinary people, forcing them to earn more money and creating the sentiment that earning more money is the only way to enjoy greater amenities in society. The income disparity therefore contributes to the spread of corruption in two ways: earning money to meet basic needs, and earning more money to uphold social status irrespective of how this additional money is acquired.

Demographic characteristics like race, gender, religion, geographic location, generation, culture are considered to add important dimension in determining corruption. Therefore, if we look at the corruption map published by Transparency International (TI), we can find that some countries from the same region belong to the states with low corruption perception index (CPI), and vice versa. For example, most South and East Asian countries have low CPI score, and simultaneously some European and north American countries have higher CPI score. This simple instance tells us that the geographical location can be used to explain the perception or practice of corruption. In addition, from the perspective of gender, women are more likely to perceive that corruption is driven by need rather than greed because of their greater care taking responsibilities in professional and personal arena (Bauhr, 2020). Therefore, women may assume people convicted for conducting unfair practices because of need, not for greed. Again, when we consider religion for explaining corruption some controversial results found. For example, for the top 10 countries for the religion index published by US news, CPI score is above 60 for only two countries, includes Israel and United Arab Emirates. And, for 7 countries CPI score belong to below 50 which indicate there are substantial amount of corruption in the countries. But, in fact the result should be reverse that the top religious countries should have higher CPI score (higher CPI indicates for lower corruption). In a greater extent, corruption is a cultural component, that indicates in many social surroundings some practices are considered unfair or unlawful, however, the same practices are considered totally legitimate in other states or countries. Therefore, the concept of corruption would vary among the people for their cultural or social backgrounds. Human orientation practices, uncertainty avoidance values, individual collectivism practices would impact to build the general theory of corruption culture (Seleim & Bontis, 2009).

This kind of corruption can take place in various sectors of the economies of developing countries, but it seems particularly prevalent in the construction sector. Developing countries experience more economic growth, so to support this growth, there is a continual need for physical infrastructure, more than in developed countries. As a result, governments usually rush to draft policies to facilitate the construction sector. However, at the same time, they also plant the seed for massive corruption in the future. Kenny (2007) reports that the construction industry can be ranked as one of the most corrupt sectors in developing countries. Corruption covers not only bribe payments to win contracts, but also extends to poor quality infrastructure with low economic returns. In particular, a small number of large conglomerates in developing countries are able to win the majority of construction bids.

5.2 Spread of Corruption in Finance Sector

Corruption has spread to almost all sectors of society. However, it is most pernicious in the financial sector. Immediate and certain financial gain is the prime motive for individuals to be involved here in corrupt ways. Both the developing and developed countries are affected by this problem, and the banking industry is generally considered the worst victim of corruption. Indeed, the corrupt, unethical, and imprudent practices in the global banking industry have been marked as one of the major reasons for the global financial crisis (GFC) (Miller, 2018). Park (2012) finds that corruption significantly exacerbates the problem of bad loans (non-performing loans [NPL]) in the banking industry. This includes the misallocation of funds, where bad projects get better access to funds compared to good ones, eventually slowing down economic growth (Park, 2012).

There is no doubt that a sound banking system is essential to a solid financial system. But the banking arrangement should be more inclusive to facilitate the smooth flow of funds. Unfortunately, the banking system of many developing countries suffers from less participation for low-income segments of society (Sharma & Kukreja, 2013). Moreover, the banking system of developing countries has been severely affected by non-performing loans (NPL) and poor access to bank loans for firms due to corruption. Frequently, it seems that approving loans in these countries focuses less on the creditworthiness of the borrowers, and more on the muscle power or political power. When politically connected individuals receive better access to loans, the regular borrower will suffer due to this lack of access. The effective allocation of funds works as a fundamental pillar for promoting economic growth, but corruption distorts this. Liu et al., (2020) studied the relationship between corruption and a firm's access to bank loans and discovered that a lower level of corruption allows firms to have better access to bank loans, while a high level of corruption hinders firms from getting access to bank loans. This is true not only for traditional banking systems but applies to the Islamic banking as well. The Islamic banking system was developed to facilitate the pathway to poverty reduction as well as economic development, but the very soundness of Islamic banks is threatened. Corruption intensifies the problem of the efficient flow of funds by channeling them to bad projects rather than to good ones. Rehman et al. (2020) made a similar discovery, that more stringent actions to control corruption would leave fewer NPL.

A high level of NPL creates pressure on the financial system and the economy. A low loan recovery rate threatens the existence of financial intermediaries. Poorly run institutions lie at the root of such problems, further exacerbated by poor corporate governance. Developing countries also suffer from a low level of governance, further contributing to the presence of poorly run institutions.

The discussion above may suggest that only the banking system of developing countries suffers from corruption, but in reality, the banking system of developed countries frequently also suffers from corruption. In the U.S.A., there are many instances where corruption supported by lack of sound governance has caused severe stress on financial systems. For example, Theranos, a company founded by Elizabeth Holmes, claimed to have developed technology that could test for hundreds of diseases with just a drop of blood. She promulgated this technological invention and asked for investment from venture capital firms and other investors; eventually she was successful in securing sufficient funding to launch her company. However, later it became clear that this technology is unreliable and inaccurate, leading to significant financial loss for investors as well as misdiagnoses for patients. Ms. Holmes was found guilty of conspiring to defraud investors, something that also prevented future startups from funding in Silicon Valley. The decades-long fraud at Parmalat between 1990 and 2003 (Rimkus, 2016) is another example where corruption caused a severe strain on the overall financial system. Examples like these can lead to a complete lack of trust in the traditional financial system and create much volatility. Zhang (2012) has found a strong correlation between corruption and financial market volatility that suggests corruption creates more volatility in financial markets.

In addition, the patterns for corruption differ in developing countries over time and from society to society because of the political, economic, and other contexts. Accordingly, the common practice for businesses also differs from country to country. In order to understand why corruption is customary in these countries, we need to understand the differences in business contexts. Other important drivers making corruption customary in developing countries include the frequent politicization of civil services, weak law enforcement mechanisms, lack of accountability and sufficient transparency for public entities and SOEs, and excessive and opaque regulations (Desta, 2019). Among these factors, the politicization of civil services turns out to be the prime one that influences the rest of the factors to worsen.

5.3 Bribe Behavior as a Source of Corruption

Bribe behavior is another criminal activity that gives rise to corruption in developing countries. According to a survey from the World Bank of 18005 firms from 75 developing countries, bribe culture is mostly a supply-side phenomenon (Gauthier et al., 2020). But corruption in tax administration is a demand-side phenomenon. The survey results indicate that bribes requested by public officials were associated with a 16 percent increase in revenue that was not reported for taxation purposes. For procurement and sourcing issues, the bribe issue is normally initiated by the contractors or suppliers who are vying to win bids. The firms interested in providing bribes without any prior request from public officials tend to provide 17% more in bribes than situations where bribes are requested by officials. The supply-side bribe is thus three times more effective than demand-side bribery (Gauthier et al., 2020). The bribery culture has a massive effect on economic growth, hampering investment and employment and increasing political and social instability. Developing countries usually propose deficit budgets and frequently rely on foreign aid for implementing annual budgets; however, at the same time they miss a huge among of national revenue from taxation administration due to the bribery culture and related corrupt behavior. This bribery culture also creates moral hazards for the people. For example, when an individual finds that his or her coworkers are profiting for themselves from taking bribes and not punished because of poor law enforcement system, such a situation will inspire him or her to get involved in this corrupt behavior as well.

Thus, one of the things that drives the growth of corruption in developing countries is the wide-spreads politicization. But it is clear that a weak political will is mainly responsible for this politicization culture, which is in turn deeply influenced by the level of democracy and accountability. So, developing better democratic standards and creating a culture of accountability would definitely help to control corruption in developing countries.

6 Anti-Corruption Campaigns (ACC) as a Remedy for Corruption

It has been already recognized that corruption is a significant concern for us. However, in response of this several actions are being taken across the globe by different institutions and regulatory bodies. However, we are still in a position which is far away from the desired state in reducing corruption. The nineteenth century has marked with a rise in corruption which took place because of increasing scale of government and economy. The US has experienced the peak in corruption in late 1870s; experienced substantial decrease in corruption from 1870 to 1920 (Glaeser, 2004). Therefore, the story of the US should offer a lesson how to reduce corruption through reforms.

Glaeser and Goldin (2004) have indicated three reforms in their literature that includes welfare maximizing, revisionist and political entrepreneurs. These welfare maximizing focuses on institutional reforms that policies proposed by reformed would benefit the society. The revisionist reforms argues that reforms should be controlled by the well-organized special interest groups. These interest group could be some big firms. It has been patronized considering some business interest and social interest could be aligned well. The political entrepreneurs view indicates the reforms raised by politicians who want to be elected or manipulate popular opinion or the tools of governance. There three theories broadly explain the changes in the US history over 150 years to carry down corruption level. The rise of the reforms was necessary because contemporary institutions were unable to check the increasing incentives of corruption. Accordingly, later other different governments or regulatory bodies of different countries are initiating different actions which are broadly termed as Anti-Corruption Campaigns (ACC). Anti-corruption campaigns (ACC) have been widely thought to be a remedy for corruption. But this not a straight-forward matter, because there have also been mixed results when ACCs are introduced. No doubt ACCs can help to control corruption in different manners. However, there are many undesirable consequences associated with this. This section will focus on the associated consequences of ACC activities like its impact on the economy, political victimization through ACCs and the impact of ACC on corporate social responsibility.

6.1 Anti-corruption campaigns (ACC) and Its Impacts on The Economy

The magnitude of corruption has already received the closest scrutiny ever seen. It is not a question of the present only; rather, it has been receiving attention for years in plans to control corruption effectively. Different international organizations have been formed to address this issue effectively. Many countries have passed a variety of acts, established different independent regulatory bodies, and introduced legislative reforms; and many international laws have been enacted as well. As a result, on December 9 every year, International Anti-Corruption Day is celebrated across the globe. And yet there is a long distance to go to reach the desired level of comfort in controlling corruption. Anti-corruption initiatives involve a set of actions taken by regulatory bodies or governments with a view to controlling corruption or corrupt behaviors. There has been much debate about the effectiveness of anti-corruption actions in the real world. The literature suggests that corruption limits economic growth by lowering investment and employment opportunities. On the other hand, researchers have identified anti-corruption campaigns as being negatively associated with economic growth (Hindess, 2005; Kennedy, 1999; Nie et al., 2016; Rotimi et al., 2013; Wang, 2016). For the healthy growth of an economy, private sector investment plays the most important role, even more significant than public entities. But anti-corruption campaigns cause a lack of confidence for private investors in the financial system and discourage them from making further investment resulting in a slowing down of economic growth. In China, the current anti-corruption movements help to constitute the development of SOEs at the expense of private industries' growth (Nie et al., 2016). Araral, et al. (2017) report that the current Chinese President Xi Jinping's anti-corruption campaign was associated with a 1.3% decrease in the growth rate for 31 administrative regions of China. The effect of such movements is even more acute for the provinces with high income and more industrialization.

6.2 Political Victimization Through ACC

One problem of using ACCs to combat corruption is the reality that such campaigns are frequently politically motivated. Indeed, several allegations against anti-corruption campaigns have emerged, alleging that the government intentionally runs these against persons who belong to opposition parties or hold views opposed to the Chinese Communist Party (the CCP). Under weak governance, these anti-corruption agencies are prone to being misused for political victimization (Shah & Schacter, 2004); in that case, the ruling political group works as the catalyst. Even before an election or a meeting of a public congress, ruling political parties try to create the impression that they are in control of governance and have legitimacy, and are in strong support of law and order among ordinary people. They run some sort of anti-corruption campaigns as a commitment to long-term goals, thus creating a particular impression, but upon election situations change, and ruling governments start working in their own favor. Hualing (2015) notes that the CCP periodically runs anti-corruption campaigns to eliminate their political opponents and restore public confidence in their ability to rule the country. Surprisingly, political leaders in China find such methods expedient. They use such campaigns simply to consolidate their political strength, and secure legitimacy and credibility in the eyes of the ordinary people. Ironically, this is not the situation only in China; instead, many developing countries suffer from this issue. Furthermore, through the anti-corruption movement governments can remove political enemies and create vacancies where their supporters can be placed. It is a highly politicized system in which they run investigations selectively, not all. Hence individuals and corporations who are able to maintain good ties with the ruling parties can generally avoid such negative consequences.

6.3 The Impact of ACC on Related Business Performance

In addition to financial performance, there are some other associated aspects business entities need to perform, such as escalating innovation, corporate social responsibility, health, and safety (H&S), compliance with regulations, goodwill, environmental protection, and employee satisfaction (measured by an employee satisfaction index [ESI]) and so on. In this section, we will examine the influence of ACC on innovation and corporate social responsibility. Comprehensive anti-corruption campaigns can have severe repercussions in other sectors such as innovation, corporate social responsibility (CSR), and dividend payout. Unlike other methods, ACC has a positive influence on matters like innovation and corporate social responsibility. Stronger anti-corruption efforts make it easier for the companies to secure funding from different external sources, so these companies can allocate a greater share of their budget for research and development. Thus, new innovations and the number of new patents goes up (Xu & Go, 2017). Gan and Xu (2019) found a positive correlation between stronger ACC and corporate R&D investment. The same thing happens in the case of green innovation (Wu et al., 2022). The impacts noted above are based on Chinese information. These developments relating to the effects of the anti-corruption campaign that President Xi Jinping launched in 2012. A reason for such a positive relationship with innovation may be that corporations in China receive substantial subsidies from the federal government. After initiating such activities, access to subsidies by corporations probably became easier, so innovation went up accordingly.

Similar circumstances also affect corporate social responsibilities as well. After an anti-corruption campaign, firms generally engage more in CSR, conditional on their corruption-related expense (Xue et al., 2022). Accordingly, ACC efforts retain a positive relationship with CSR disclosures as well (Xu et al., 2019). The introduction of ACC efforts against any company, publicized through the media, may negatively impact their social reputation. As a result, in order to improve their goodwill, they will become more engaged in CSR. This result supports the findings of Wu et al. (2022) and Hossain & Kryzanowski (2021), that firms located in regions with a more extended corruption culture have lower CSR.

Thus, anti-corruption initiatives slow economic growth, but they have some positive impacts on innovation and social responsibility. The findings of many researchers support the greasing-the-wheels hypothesis about corruption. That is why it may well be advisable to reach a Pareto optimality point, or, in other words, to maintain a balance between economic growth and ACC when there will is no further economic slowdown because of ACC.

7 Combating Corruption

In an earlier section, we witnessed some potentially undesirable consequences of Anti-Corruption Campaigns (ACC). Nevertheless, in addition to ACC, there may be some other steps that could make the presence of corruption less attractive. These include improving governance status, establishing accountability and policy formulation, and improving media literacy. Later in this section, we will further discuss these issues with a view to combating corruption.

7.1 Improving Governance to Control Corruption

Corruption is not a new phenomenon but rather an age-old one. The fight against it started many centuries ago. Around 350 B.C.E., The Greek philosopher Aristotle suggested in *The Politics* that

“. . . to protect the treasury from being defrauded, let all money be issued openly in front of the whole city, and let copies of the accounts be deposited in various wards” (Aristotle, ca. 350 B.C.E./1778/1947, *Pol.* 5, 8; p. 1309a10-14; cited in Shah & Schacter, 2004a, p.1). But in recent years, the tension for controlling corruption has mounted among all levels of governments as well as organizations. However, in the first place, corruption is an entirely man-made behavioral phenomenon, though today its magnitude is world-wide. Since it originates entirely from human rent-seeking behavior, greed, or moral hazards, the first and foremost thing about curbing corruption is to control human behavior and attitude. At the same time, it may prove an extremely difficult task as well because controlling human behavior is well-nigh impossible.

According to a model Shah & Schactar (2004) have proposed, corruption developing countries can be divided into three categories: “high,” “medium,” and “low,” suggesting that high level of corruption correlates with a low quality of governance, a medium level of corruption suggests a fair level of governance, and low level of corruption implies a high level of governance. So, corruption can be described as a function of governance or even a failure of governance. In many instances, poor governance fails to provide the necessary support to control corruption or graft. In weak governance countries, agencies often suffer from low levels of credibility and may even encourage rent creation. In Tanzania, the government’s Prevention of Corruption Bureau produces only six verdicts in a year, mostly against low-profile offenders. In Pakistan, the National Accountability Bureau does not have any power to run investigations against powerful military forces. In many countries, the ruling party employs its favorite person as the top official of their ACC activities to mitigate the risk of any such campaign being initiated against the ruling party or persons belonging to the party. There are many additional allegations about the ineffectiveness of the ACC and associated agencies.

It seems prudent to attempt to improve governance, in order to help control corruption. But enhancing governance standards is another long-term fight, like curbing corruption. However, good governance comes from accountability; and works as the main component of good governance. Accountability means being responsible for answering questions about taken actions. It can be defined as holding people to account for their impact on the lives of people (Shah, 2007). Accountability brings along with its answerability, being accountable with the obligation to respond to questions regarding decisions and actions (Brinkerhoff, 2017). A strong culture of accountability fosters an environment where good governance prevails. For example, if managers were accountable to a board of directors (BOD) and the board is properly accountable to the investors, then it would create an example of good governance in the company. Similarly, when public servants are in the position of being accountable to an appropriate division of the government, and the government is itself accountable to its own citizens, this will produce a sound governance system, ensuring everyone has equal concern and responsibilities for their own jobs. Accountability is not only about democratic control and integrity of operations; it includes transferability, answerability, and enforceability; it will also include horizontal and vertical dimensions, that is, workers in such a system will ideally be responsible for others on the same level, and for others above or below them in the hierarchy of the organization or government department. It can play a very important role in creating good governance activity as part of enhancing public confidence in government performance (OECD, 2014). Establishing accountability means identifying who is accountable, for what, how, to whom and with what outcome (Khotami, 2017). In addition, for corporations, there are a few corporate governance models, but four are the most common: the Anglo-American Model, the German model, the Nordic model, and the Japanese model. However, there is lots of debate about the supremacy of the models. These models were developed based on the varying nature of the corporations in substantive ways.

Furthermore, there are many instances in the corporate world where firms went through distress because of their poor governance framework and implementation. For example, Nworji et al. (2011) report that in Nigeria a new corporate governance code could curtail bank distress if it is properly implemented and can curb the tide of distress. Manzaneque et al. (2016) discovered negative relation between corporate governance tools like board size and the possibility of distress.

However, in addition to promoting governance, proper utilization of technology could be another tool in this regard. The advancement of technology is one of the greatest blessings in current human civilization. This technology has been using almost every aspect to make our living easier. However, in financial sector, it has already brought a revolution that help to ensure better transparency as well as maintain confidentiality in financial transactions. The role of technological advancement is so prevalent that it does not carry any need to further explain this. Therefore, the innovative and effective use of technology could be a great tool to check corruption. Unfortunately, there has not been sufficient literature available that exclusively focuses on the role of technology in controlling corruption. However, information and communication technology (ICT), would support anti-corruption programs by influencing public scrutiny in different ways like strong reporting for corruption, promoting transparency and accountability (Adam, 2021). The initiative of e-government helps to increase transparency of decision making by allowing information accessible (Grönlund, 2007). In the other turn, there are drawbacks of using mass-scale technological tools because here ensuring information security is another challenge. Here, ICT opens another door for corruption like dark web, hacking and so on. Köbis (2022) has indicated the AI based anti-corruption tools (ACT) can pose new corruption risks. Therefore, exploring this area could be another area of interest for interest for future researchers.

7.2 Establishing Accountability, Policy Formulation, and Governance

Accountability is an elusive term – like responsibility but not precisely (Licht, 2002). As a result, norms of accountability will differ from company to company, just as the accountability of an MNC differs from a public entity. Moreover, accountability is a reciprocal condition where both parties must participate to make it effective. For example, investors should be aware of and exercise their rights to know how managers are using their invested money or how much value has been generated from investments (agency theory), not just enjoy their annual dividends. Similarly, ordinary citizens make their governments or ruling parties responsible if they fail to improve the well-being of people. Accordingly, the personnel of associated departments of a government should be more aware of whether any individuals or corporations are evading their duties. Awareness of all people belonging to all groups is the first and foremost condition for ensuring society-wide accountability.

Policy formulation can be another important step in controlling corruption with governance. Damania et al. (2003) points out that the stringency of environmental policy depends on the level of corruption, and corruption reduces the environmental policy stringency. It is not only effective for environmental policies but also for other trade simulations as well (Graycar, 2015). As a result, any policy initiated by governments or other regulatory bodies for controlling corruption or enhancing accountability will be affected by the current level of corruption which will threaten the effectiveness of such initiatives, requiring stringency from policymakers and enforcing bodies. Graycar (2015) has suggested TASP (Types, Activities, Sectors and Places) as a mnemonic framework for identifying and processing actions to control corrupt activities. They also indicate that more precise classification and categorization of the nature and types of corrupt behavior is a precondition for designing the necessary anti-corruption steps.

7.3 Improving Media Literacy

Media is a crucial factor in building an informed and active citizenry (Martinsson, 2009) that promotes active public participation and active citizenship in the form of media literacy. Media literacy can enhance public sentiment that can in turn promote mass awareness among citizens. For this to work, the media should be independent and free from all biases. But these two things rarely happen together. Dyck and Zingales (2002) indicate that greater media attention will induce politicians to introduce new corporate law reforms and affect managers as well as board members to behave more responsible socially, thus paving the way for sound governance to bring societal norms to the forefront in corporate governance debates. However, some other critical issues may also be involved here. In some cases, media content sometimes fabricated in the interest of some corporations or individuals who belong to these or own the media, which can form a serious barrier for media independence and impede the process of establishing or enhancing governance. Intermediaries play the most pivotal role in building solid systems like banking systems for economic development; accordingly, media work as information intermediaries for developing governance and accountability, and thus can alleviate corruption.

Kofi Annan, formal Secretary General of the United Nations and Nobel laureate, introduced a strong definition of the “rule of law” that covers issues involved in governance: “[The “rule of law” is] a principle of governance in which all persons, institutions, entities, public and private, including the State itself, are accountable to laws that are publicly promulgated, equally enforced and independently adjudicated, and which are consistent with international human rights norms and standards. It requires, as well, measures to ensure adherence to the principles of supremacy of law, equality before the law, accountability to the law, fairness in the application of the law, separation of powers, participation in decision-making, legal certainty, avoidance of arbitrariness and procedure and legal transparency” (UN Secretary General, 2004, p. 4). From this definition, we can see that law, governance, and accountability are closely connected in such a manner that establishing a properly organized law and order society will certainly promote accountability and governance and contribute to reducing corruption.

8 Limitations

For this study, we have consulted many papers with a variety of different focuses perspectives, but these papers may in turn have their own blind spots. There is thus some possibility that not all perspectives have not been considered. I have tried to cover as many research papers or articles as possible, from a variety of sources before preparing this paper; however, it is always possible that other points of view have not been included. Hence the discussion presented here has been crafted based on publications listed in the reference section. We have tried to focus on different issues related to corruption, such as governance, accountability, the role of audit firms, policy formulation, the severity of corruption in South Asia, corporate political activities, and CSR. Still, we admit there are many other areas that have not been touched in this literature.

In addition, the literature on corruption has grown into such a complex subject that many researchers have presented contradictory results in their research which makes it more difficult to find new directions to explore. Furthermore, the context of corruption is itself a convoluted topic that can affect many spheres, such as social, economic, corporate, technological, cultural, and human rights, to name just a few. At the same time, we face the challenge of conceptualizing the effects of corruption in a variety of aspects and suggest possibly recovery actions. Despite these limitations, this study provides a good overview of the literature on corruption, the relationship between corruption and governance, and some possible ways to control corruption for economic advancement with at least some policy implications.

9 Future Research Directions

The findings of this study open new windows for future research opportunities. First, the study focuses mainly on corruption, its spread, and remedies. However, in most cases, corruption takes place in association with both government and private officials, and that often happens without the knowledge of civil society; hence, establishing the role of civil society in controlling corruption could be the next object of research. This study makes clear among other things, that media can play a role in the fight against corruption, but there has been little attempt to quantify such a role, though the issue of media independence has been closely connected. In addition, a growing trend indicates that people are using social media to express their opinion as well as to protest against any illegal activities. The use of social media in this way sometimes creates or influences movements against corruption. It therefore deserves a comprehensive study of its own.

This study imagines a scenario where audit firms are responsible for verifying the transparency and authenticity of financial data of other corporations, but they do not face any obligation for their disclosures to be kept private. Future research should focus on promoting better accountability of audit firms so that they can perform their jobs well to protect investors' interests. Though ACC can be used as a tool to control corruption, we found that ACC also slows down economic growth. Anne Wrede (TI, 2019) indicated four challenges for ACC: growing pressure on freedom and democracy, rising inequality and populism, continued fragmentation of global power, growing challenges of technology (Neate, 2019). This implies that further research is required to quantify how much these factors could influence future ACC and to develop ACC tools or new ACC designs that would not hamper growth.

While completing this study, the need to develop a coherent theory that includes both corporate corruption and political corruption together became abundantly clear, because most existing literature focuses on political corruption and the demand side of corruption; but corporate corruption is receiving more attention with corporate governance norms, investors' protection, business failures and scandals.

Earlier, it has been indicated that technological invention could play a role in controlling corruption. There is no sufficient established literature in this regard. So, there should be adequate research how technology can be effectively used to control corruption considering the possible challenges of this. In addition, the recent time has experienced the rise of artificial intelligence (AI) and machine learning (ML), and at the same time it is also experiencing the associated ethical risks of using mass scale AI and ML. Therefore, further research should be carried out to develop tools for finding unauthorized or unfair application of these technologies.

10 Concluding Remarks

This paper investigates the literature on corruption, how it is related to governance, the roles of different factors in corruption, and a few possible remedies. However, the main findings include governance as the core element of corruption, with an inverse relation between these two. Though it is a totally man-made phenomenon, therefore, governance can play a crucial role in controlling it. Again, a strong culture of accountability fosters the environment of governance; as a result, individuals or corporations who operate under the circumstances bounded by accountability, are prone to contribute to curbing corruption. Corruption exists worldwide, but it has a particularly acute effect in some southeastern Asian and sub-Saharan countries. Though many institutions are formed, and laws have been passed against corruption across the globe, the hoped-for success has not yet materialized; this failure usually results from policymakers or other persons or agencies responsible for implementing these programs and laws being themselves involved with corruption.

This paper also highlights the failure of audit firms to verify the transparency and authenticity of disclosures from corporations, leading to further corrupt behavior, and thus posing a threat to the investors' stakes. It has been recommended to promote an accountability environment for audit entities. However, for public entities, the corruption is even more severe, because of weak democracies and low levels of accountability. Simultaneously, a strong political will is absent from the very politicians who should be controlling corruption, but who hold on to power for long periods of time. Frequently, government agencies and governments themselves run anti-corruption campaigns with a view to controlling corruption, but the literature reveals that the process slows down economic growth, and therefore attempting to reach a Pareto efficiency point might be wiser in such cases.

Corruption is an infection of society as well as of the country, but no panacea has been developed to cure the problem overnight. Raising awareness at the widest level, with media independence and population equipped with media literacy, the practice of solid form of democracy among the political groups, prudent policy formulation and active citizenry may someday present a way to reduce corruption.

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Abbreviations

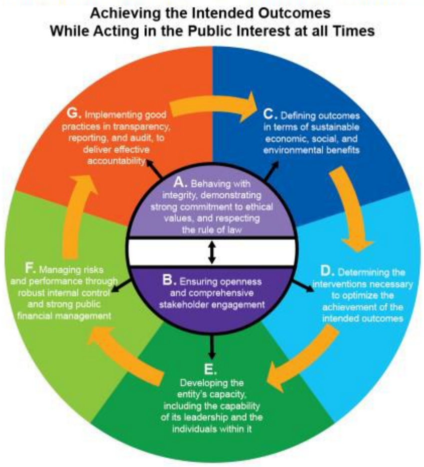
ACC	Anti-Corruption Campaigns
AGM	Annual General Meetings
APEC	Asia-Pacific Economic Cooperation
ANAO	Australian National Audit Office
BOD	Board of Directors
CCP	Chinese Communist Party
CG	Corporate Governance
CIPFC	Chartered Institute of Public Finance and Accountancy
COC	Control of Corruption
CPA	Corporate Political Activities
CPI	Corruption Perception Index
CSR	Corporate Social Responsibility
CTO	Chief Technical Officer
EY	Ernst and Young
FAA	Federal Aviation Administration
GCI	Growth Competitiveness Index
GDP	Gross Domestic Product
IFAC	International Federation of Accountants
IIA	Institute of Internal Auditors
KPMG	Klynveld Peat Marwick Goerdeler
MNC	Multi-National Companies
NPL	Non-Performing loans
OECD	Organization for Economic Cooperation and Development
PwC	PricewaterhouseCoopers
R&D	Research and Development
SOE	State Owned Enterprises
TI	Transparency International

Appendix 1.1

"The international framework: Good governance in the public sector" issued in July 2014 by the IFAC and CIPFA

The International Framework: Good Governance in the Public Sector was developed jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants (IFAC). The framework is intended to enhance the development of robust governance in public sector entities by establishing a benchmark for sound governance. It includes a series of principles for good governance in the public sector, including behaving with integrity; demonstrating strong commitment to ethical values; respecting the rule of law; ensuring openness and comprehensive stakeholder engagement; defining outcomes in terms of sustainable economic, social, and environmental benefits; determining the interventions necessary to optimize the achievement of the intended outcomes; developing entity's capacity including the capacity of leadership and the individuals within it; managing risk and performance through the robust internal and strong public financial management; implementing good practices in transparency, reporting and audit to deliver effective accountability. The framework is intended to help public sector organizations understand the principles in a way that is suitable for their structures, the framework also includes additional in-depth explanations for each of the principles, along with examples, consideration questions, referrals to external resources, and developing the entity's capacity, including the capability of its leadership and the individuals within it.

Figure 1: Relationships between the Principles for Good Governance in the Public Sector



Source:

Chartered Institute of Public Finance and Accountancy (CIPFA), and International Federation of Accountants (IFAC). (2014). *The International Framework: Good Governance in the Public Sector*. CIPFA and IFAC. Available at: https://www.ifac.org/flysystem/azureprivate/publications/files/International-Framework-Good-Governance-in-the-Public-Sector-supplement-IFAC-CIPFA-June-2014.pdf.

Appendix 1.2

The good practice guide on public governance” (2011) developed in Singapore for the Asia-Pacific Economic Cooperation

As stated by APEC (2011) there is no standard framework for public governance among public entities, however particular principles of good public governance apply to them. The most common principles that should be included in the framework are:

a) Rule of law: In connection with the presence of regulations, legal structures, and an independent judiciary. It implies that everyone is treated equally under the law, regardless of his standing.
b) Transparency and openness: Pertains to the public citizen's right to obtain full information regarding public agencies' operations and results.
c) Accountability: Implies that everyone involved in a public body is accountable for their choices and actions, and that the law plays a role in imposing penalties on those who violate good management practices.
d) Public sector ethics and probity: Relate to acting with honesty and integrity and adhering to moral standards.
e) Stewardship: Relates to the use of resources for the benefit of the public.
f) Leadership: Refers to the role of leaders in public entity in supporting the principle of good public governance

Sources:

Alqooti, A. A. (2020). Public governance in the public sector: literature review. *International Journal of Business Ethics and Governance*, *3(3)*, 14-25.

APEC. (2011). *Good Practice Guide on Public Sector Governance*. APEC. Available at: https://www.apec.org/Publications/2011/03/Good-Practice-Guide-on-Public-Sector-Governance.

Appendix 1.3

Supplemental guidance “The role of Auditing in Public Sector Governance” Published by the Institute of Internal Auditors (IIA) in January 2012.

The second edition of “The Role of Auditing in Public Sector Governance” (January 2012) issued by the Institute of Internal Auditors has been issued as a result of growing demand for guidance related to auditing in public sectors required to ensure effective governance. There are a few key elements mentioned in the articles which are needed to maximize the value of audit activities in the public sector. These include organizational independence, a formal mandate, unrestricted access, sufficient funding, competent leadership, objective staff, stakeholder support, and professional audit standards.

The auditors of public sector organizations play a pivotal role in managing effective public sector governance. The common principles of corporate governance differ based on the policies, processes, structures used by the organizations to manage and control their operations to achieve their predefined goals and protect the interests of diverse stakeholders’ group. The basic governance principles for public sector organizations included in the articles includes setting direction, instilling ethics, overseeing results, accountability reporting, and correcting course. In addition to these, principles of accountability, transparency, integrity, and equity are also essential for the public sector.

The document also indicates the roles of the auditors to support effective audit function includes oversight, detection, deterrence, insight, and foresight. The types of services auditors usually provide to public sector entities include risk management systems and controls, performance (performance audits might assess effectiveness, efficiency, economy, compliance, data reliability, policy and other prospective evaluation, risk assessment), financial integrity, and finally advisory, assistance, or investing services. Many companies include audit committees as a part of corporate governance mechanisms; but in a broader context this depends on individual circumstances, the nature of audit activities, and legislative requirements.

Source:

The_Role_of_Auditing_in_Public_Sector_Governance.pdf. [online]. Available at: http://bibliotheque.pssfp.net/livres/THE_ROLE_OF_AUDITING_IN_PUBLIC_SECTOR_GOVERNANCE.pdf

Appendix 1.4

"Public sector governance – the better practice guide" issued in June 2014 by the Australian National Audit Office (ANAO).

"Public sector governance – the better practice guide" was issued in June 2014 by the Australian National Audit Office (ANAO). The previous ANAO public sector governance guide has been superseded with this one. Its significantly updated material improves the essential components necessary for sound governance and builds on them to meet current governance difficulties and issues faced by public entities. To improve policy outcomes, the handbook places a strong emphasis on leadership, building positive stakeholder interactions, and collaborating across entities, legislative, and sectoral barriers. It also focuses the significance of a highly effective public sector, especially in light of financial limits and public beliefs in continuous service improvements, more open procedures, and higher levels of involvement with stakeholders and common citizen.

Source:

Australian National Audit Office (ANAO). (2003). *Public sector governance – the better practice guide*. 2 vols. in 1 (loose-leaf). Vol. 1: *Framework, Processes, and Practices.* Vol. 2: *Guidance Papers.*

Appendix 1.5

Key principles of corporate governance developed by OECD

The Organization for Economic Co-Operation and Development (OECD) established a framework for corporate governance in a document called "OECD Principles of Corporate Governance". In addition to offering guidance for stock exchanges, investors, corporations, and other parties involved in the development of good corporate governance practices, the principles are meant to help governments evaluate and improve their legal, institutional, and regulatory frameworks for corporate governance. The principles include five key areas: the rights of shareholders; the equitable treatment of shareholders; the role of stakeholders in corporate governance; disclosure and transparency; the responsibilities of the board.

Each principle is headed by a single title and followed by a number of supporting recommendations. These principles are non-binding by law and do not have the legal power to prescribe any national legislation. Rather, they have relevance for policy makers and market participants for developing their own governance frameworks considering their business operations and needs.

Source:

OECD. (2015). *G20/OECD principles of corporate governance*. OECD Publishing. Available at: https://doi.org/10.1787/ed750b30-en