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# Private-to-Private Corruption

A survey on Danish and Estonian business  
environment

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## Summary of key findings

The aim of the report is to present data on the extent and forms of private corruption in Estonia and Denmark. It will also discuss consequences, the reasons for private corruption and the measures for countering private corruption.

The report is based on a comparative study of 1000 managers, 500 each in Estonia and Denmark, working in the private sector. Prior to the study, pilot interviews in Estonia and a pilot focus group in Denmark were conducted. A polling company conducted a survey in August 2015 via telephone interviews. The target group consisted of top managers and mid-level managers of companies with two or more employees. Following the study, Estonian businesspeople were invited to comment on the proposed anti-corruption measures in five separate regional focus groups.

### Forms of corruption and frequency

- The following forms of private corruption are more frequent in Estonia compared to Denmark: kickbacks, conflicts of interests, bribery, fraud and extortion. **57% of Estonians and 51% of Danes have encountered at least one type of corruption within their business sector.**
- In both countries, the most common forms of corruption are **kickbacks and conflicts of interest**. Bribery, fraud and extortion were reported relatively less frequently. In the case of extortion, accepting goods is more common than taking money.
- In general, corrupt practices are not personally acceptable; however, bribery and fraud are accepted far less than kickbacks and conflict of interest (helping family and friends).
- The problem is more serious among small companies, younger managers and men.

### Excuses of corruption

- 20% of Estonian managers, compared to 40% of Danish managers, believe that Estonians/Danes respectively will never bribe.
- **The main cause (or excuse) for bribery is pressure from the management.** 50% of Estonian and 54% of Danish managers believe that people would bribe under executive's order.
- 48% of Estonian and 42% of Danish managers believe bribes are justified when competitors bribe.
- Companies with fewer than 10 employees and companies financed mostly by domestic capital invoke excuses to a markedly higher degree than larger companies and companies where the majority of the capital is foreign.

### Consequences

- Managers are well aware of the negative consequences of corruption, but managers from Denmark are more concerned than Estonians.
- Consequences are mainly seen in terms of **damage to the company's reputation as well as financial losses.**

- Danish managers are more concerned about the impact that a case of corruption within their company may have on their personal career.
- Managers from small companies are more concerned about financial loss and loss of business networks.
- Male and female managers are equally concerned about the negative consequences. However, male managers are more concerned about the negative effects on their own careers than their female colleagues.

#### **Individual acts as anti-corruption measures**

- Managers generally react to corruption: only 3% and 10% of managers in Estonia and Denmark say they would not report a case of corruption.
- In both countries, the choice is predominantly to report within the company to either the management/board or directly to the person observed participating in corruption.

#### **Company-level anti-corruption measures**

- More than 90% of respondents in both countries find that **the personal example of the manager is an effective anti-corruption measure**.
- Developing internal control systems and focusing on sanctions by ending employment contracts are seen as effective prevention measures in both countries, but should be supplemented by guidelines and public awareness.
- Anonymous hotlines may be an option but establishing an institution of trustees with similar functions should be considered. This is especially relevant in the historical context of post-Soviet Estonia.
- Danish managers believe more in ethical standards and training than Estonians do.
- Only 27% of the Estonian managers find law enforcement (police or prosecutors) effective, compared to 72% of the Danish managers.

## Recommendations and considerations

Corruption in the private sector takes many forms and has consequences for firms and society. It is in the public interest to reduce corruption in the private sector, but changing peoples' behaviour is not an easy task. Following up on the results from the survey and the focus groups, it is therefore recommended that 1) awareness about the costs of corruption and the forms it takes be increased and 2) tools to enhance corporate conduct be developed.

### *Awareness and costs: punctuating the myth that 'everybody else is doing it'.*

The PrivaCor study shows that although many have encountered at least one type of corruption, few find it acceptable and even fewer actually participate in it. Even so, common excuses for engaging in corruption are that 'everybody else is doing it' or that it follows from the practice of the firm, presumably not on written instructions but understood as an informal instruction from the management. Both excuses are rooted in the fear of losing business if the company plays by the book while competitors continue to use illicit methods. Furthermore, there is an understanding among businesspeople that there are risks and costs associated with corruption: costs that can be meted out for both the firm and for the manager.

The myth that corruption is normal or is standard business practice must be punctured. This is because the moral hazard of engaging in corruption increases as perceived corruption declines. It is therefore recommended that awareness about the forms and costs of corruption to the manager, the firm and society should be increased, and this should be coupled with the managers' own message of corruption's being less common and unacceptable.

How to reach the business community should be carefully considered. A public campaign may be counterproductive and may decrease public trust in those playing by the book. Criminology states that once branded as a thief, you will begin to steal. The recommendation is therefore to include the relevant business associations, those who are already partners in the PrivaCor project, in designing targeted programs about the types, commonality and acceptance of private sector corruption. A core undertaking of the program should be to highlight the cost of engaging in corruption to the employee, firm and society.

Future business leaders should be involved. This report recommends undertaking a review of the curriculum and ethical training at business schools and colleges. This could be a joint effort of business associations, business schools and colleges, and, initially, experts.

**Recommendation 1:** Based on discussions between MoJ and business, a one-page manual for how to recognize business corruption should be developed and made available for all employees.

### *Corporate control: ethics and procedures*

Control and self-control through ethics are important factors in eliminating corruption. The PrivaCor Study supports the findings and conclusions of the ACFE (2014) review. Corruption and fraud are most likely discovered through tipoffs, mostly from employees, and through management review and internal audit procedures. Danish and Estonian businesspeople are quite aware that effective prevention lies in

the combination of getting the tip, i.e. whistleblowing, to the leadership and in developing internal control systems. Nevertheless, self-control through training and best-practice exchanges plays an important role as well. Corporate ethics and the personal examples of managers should not be underestimated. The role of managers in the occurrence of private-sector corruption and actions taken is notable in both decision-making and in being the role model for the rest of the members of an organization.

**Recommendation 2:** A toolkit to help firms identify areas where integrity may be at risk in their processes should be developed. Once the 'hotspots' are identified, training, review and audit procedures can be strengthened. It is important to stress that no optimal or 'one-size-fits-all' solution exists. The prevalence and types of corruption vary between sectors, markets and according to the size of the firm. Moreover, the analysis of critical areas will involve all aspects of a firm's activities, and management review and audit procedures will have to be specifically adapted to each firm.

Developing a 'clean' business environment within the firm depends on whom is employed. Thus, hiring the right people is essential. If enough managers and employees are clean, the chances of other companies enriching themselves through corruption decreases.

**Recommendation 3:** Based on the Finnish example, developing access to background checks during the hiring processes could be recommended. This is, however, an instrument that should be used with caution. First, strict rules must be followed to prevent misuse; and second, background information must be transparent and known to the person in question.

**Recommendation 4:** Procedures for reporting should be specified, known and made available through multiple channels. This can include hotlines or the appointment of independent trustees in collaboration with business and employees' associations, being mindful of detecting and balancing conflicting goals.

Organizational culture and the beliefs, attitudes, and experiences of managers could be the main source of variation with regards to behavioural practices. In other words, practices follow values and attitudes related to private corruption in organizations and society in general.

## Introduction

### *Why this study on private corruption?*

The EU decided to combat corruption in the private sector in 2003,<sup>1</sup> and thus, it has been at the forefront of harmonising definitions related to private corruption in the private sector. Yet in practice, most EU countries lack information about the extent and forms of corruption in the private sector. This study, supported by the European Commission<sup>2</sup>, aims to overcome these lacunae by collecting empirical data from Estonian and Danish businesspeople about the extent and forms of private corruption. It will also look at the causes and consequences of private corruption, while also proposing measures to counter the vice.

Estonia and Denmark belong more or less to the similar cultural sphere (Ronen & Shenkar, 2013), but the societies were part of different socio-economic systems for 50 years. Denmark is known for high ethical standards with relatively little corruption in the public sector, while Estonia occupies a middle position in Europe and still seeks to free itself from the Soviet mind-set. A Eurobarometer (2015) survey shows that whereas only 11% of Danish businesspeople believe corruption to be widespread in their country, 62% of Estonian businesspeople find the same. In short, the expected differences between Estonia and Denmark should allow for meaningful explanation through the study of the variance between them.

There is little information on private-to-private corruption when compared to the number of public-sector corruption studies (Argandoña, 2003; Gopinath, 2008). One reason is that competition is thought to penalize inefficient behaviour in the long run. Another reason is that firms' and managers' efforts to prevent employees from behaviours that could harm the company's interests are more successful than the measures applied in the public sector; or that public servants are somehow less moral than people in the private sector. None of these explanations is sufficient and research suggests that the causes of public and private corruption need not be the same (Lucas and Gutmann, 2015).

As a starting point, it is necessary to measure the extent and pose questions on the causes of corrupt behaviour. Based on this background, preventive measures can be suggested. This is not only a legal opinion – that is, whether the act of asking or demanding a personal favour in exchange of business opportunities is criminalized – but also a moral perspective, as the person asking or demanding a favour is misusing his position (Gopinath, 2008; 748). The business environment in which a person operates activates explicit or implicit norms (Kindsiko, 2013) and, as the temptation to cheat and engage in corrupt deals increases with unchecked discretion (Klitgaard, 1998), it is also a question of establishing oversight, transparency and channels through which reporting misbehaviour can take place. Causes and prevention thus concern ethics, patterns of behaviour and institutional measures.

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<sup>1</sup> This was done through Council Framework Decision 2003/568/JHA of 22 July 2003 on combating corruption in the private sector.

<sup>2</sup> The study is a part of the project "Reducing Corruption: Focusing on private sector corruption" (HOME/2013/ISEC/AG/FINEC/4000005200), which was co-funded by the Prevention of and Fight against Crime Programme of the European Union.



### *What is private corruption?*

Private-sector corruption means that a manager or employee chooses to act for his own benefit, and contrary to his duties and responsibilities (Argandoña, 2003; 255). Selfishness, however, may not be the only consideration. For example, an employee may believe he or she is acting in the interest or wellbeing of the company, e.g. securing an order through a bribe. Corruption in the private sector thus compares to political and administrative corruption, where the civil servant or politician takes advantage of the public office for his own benefit. It is, however, more difficult to see who is being 'cheated' when looking at private-sector corruption compared to the public sector.

*"Reducing corruption in the private sector is of societal interest."*

There is a watershed of difference depending on whether an employee or a manager engages in corruption with the consent of the owner or without it. In the first case, the owners are not directly cheated, as they are aware of the mischief, but the consent is evidence that corruption has become ingrained as a practice and it reflects the business culture. Furthermore, although the owners may not be directly cheated, the company and society will lose in the end. If caught and subjected to legal procedures and public condemnation, the very existence of the company may be jeopardized. Moreover, selling through corruption can also short-circuit the internal processes that ensure product development and quality. In the long run, the company will lose its competitive edge. In addition, as products and services may be delivered at higher prices and lower quality, it can pose a risk to public health.

*"Private corruption is the misuse of entrusted position for private gain at the expense of the interest of the company and society."*

On a grander scale, corruption in the private sector interferes with market mechanisms, resulting in economic losses through inefficiency and misallocation of resources (Argandoña, 2003). Furthermore, there is a risk of spill-over effects between the private and the public if the recruitment patterns include a continuous flow of employees between the public and the private sector, allowing bad practices and closed networks developed in the private sector to be transferred (Johannsen, Pedersen & Pivoras, 2015). These considerations are exacerbated by increasing difficulties in distinguishing the public sector from parts of the private sector following privatization or outsourcing of public services.

Following this discussion, private corruption is the misuse of an entrusted position for private gain at the expense of the interests of the company and society.

### *The survey and the method*

Corruption is inherently difficult to research because of the illegality and, perhaps in particular, because of the moral stigmatization and thus the sensitivity it entails. Even in countries where corruption is

widespread, it is morally condemned: all world religions teach that corruption is unjust and unacceptable (Johannsen & Pedersen, 2011: 95). Accordingly, standard survey methods tend to under- or overestimate the commonality of corruption.

When surveys investigate personal experiences by, for example, asking whether a respondent has ever had to pay a bribe, few, even given anonymity, are ready to report their own participation in corrupt relationships. Thus, due the sensitivity of the question, relying on reported encounters will underestimate corruption (Pedersen & Johannsen, 2006: 320). On the other hand, when asking respondents how common they perceive corruption to be, answers are often influenced by scandals reported in the media and are hence overestimated. (Melgar et al 2010). In methodological terms, the actual level of corruption is amplified depending in particular on the existence of free investigative journalism and media, and accentuated by the frequency at which stories of corruption are revealed (Pedersen & Johannsen, 2006: 312).

This PrivaCor study addresses these methodological risks by supplementing standard survey methods with two in-survey experiments.<sup>3</sup> The report is based on a comparative study of 1000 private sector managers, 500 in Estonia and Denmark respectively. Prior to the study, pilot interviews were conducted in Estonia and a pilot focus group in Denmark. Following the study, Estonian executives were invited to comment on the proposed anti-corruption measures in five regional focus groups, in Tallinn (2), Jõhvi, Pärnu and Tartu.

TNS Emor carried out the study in August 2015 via telephone interviews. The target group was top managers and mid-level managers of companies with two or more employees. In companies with 2 to 49 employees, only senior managers were interviewed, whereas in the case of bigger companies half of the sample consisted of top managers and the other half of mid-level managers from specific areas such as production, finances, or procurement. The sample is representative of Estonian and Danish businesses. A stratified random sampling was used to take size, sector and region into consideration.<sup>4</sup>

The reliability of the study was increased through two measures. First, an initial focus group interview was conducted in Denmark, where morality and incidences of private-to-private corruption were discussed, and thus input for the questionnaire was obtained. Secondly, pilot interviews were carried

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<sup>3</sup> Following the recommendations of Gains et al. (2007), respondents were randomly assigned different questions. In the first – the framing experiment – two groups received specific but different cues (see Druckman, 2001) in otherwise similar questions, allowing the researcher to see if the cue made a difference. This way the PrivaCor study could check if it mattered in terms of acceptability whether bribes were received in cash or kind. In the second – the list experiment – one group received an extra answer option (see Glynn, 2013). In the PrivaCor study, the first group had to count how many of four possible acts they had done. The second group received the same task but with an additional fifth option asking about taking a bribe. Comparing the means between the two groups, it was possible to calculate how many of the respondents were willing to accept a bribe.

<sup>4</sup> The response rates were 7 per cent in Denmark and 38 per cent in Estonia. The very low response rate in Denmark is a puzzle, but may reflect the simple truism that Danish business and the public in general is overwhelmed with surveys and questionnaires, e.g. a consequence of survey fatigue. Other causes could be the method being telephone interviews, in contrast to web surveys where the respondent chooses his own time, and that the survey took place just after the summer vacation, when business is especially busy. However, low response rates in this field are quite common (Walburg, 2015: 33).

out in Estonia to identify faults and misinterpretations in the questionnaire. Finally, validity was strengthened through the participation of a post-survey focus group in Estonia (four groups were held in Estonian and one in Russian) where the major findings and measures to prevent private corruption were discussed. Ideas collected in these focus groups are presented in parallel with the findings from the survey.

It should be acknowledged that the present study is limited in that it is only the perceptions and beliefs of the business managers that are surveyed. While giving a coherent and much needed insight into how managers cope with corruption and their recommendations, it must be recognized that managers' viewpoints only represent one voice within firms. It is not self-evident that an average employee does not necessarily have the same perceptions or recommendations.

The report is structured as follows: First, a report on the consequences of corruption – as the managers in the survey perceived them – is presented. Then, a report on the causes of corruption or, perhaps rather, the excuses that managers employ to justify the participation in corruption will follow. In the third section, the prevalence of five different types of corruption is measured and differences in the acceptability are noted. In the fourth section, measures recommended by the managers to change business practices are discussed. Throughout the report, Danish and Estonian responses are compared and, where applicable, sizeable differences between sectors, ownership structure and large and small companies noted. In the final section, implications and recommendations are highlighted. An annex includes recommendations and discussions from the Estonian focus groups.

## 1. Consequences of private corruption

*Managers are well aware of the possible costs if a corrupt employee is caught. Danish managers are more concerned than Estonian managers about the possible consequences. Both emphasize the damage to the company's reputation, but whereas Estonian managers see the risk of financial losses, Danish managers worry about the damage it will do to their own careers.*

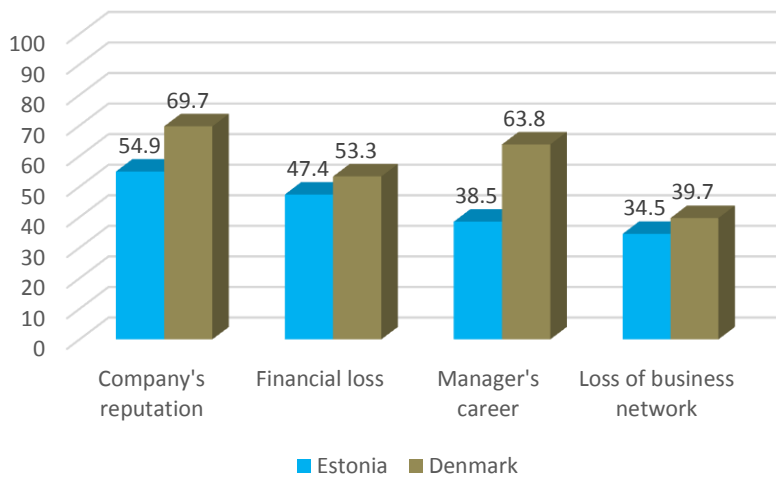
*Managers employed in small companies (10 employees or less) are more concerned about financial loss and loss of business networks compared to managers employed in larger companies.*

In order to identify how business actors assessed the consequences of corruption, the respondents were confronted with a scenario where an employee is caught asking for a bribe from a subcontractor. The respondents were asked to assess four possible consequences the act could entail if it became known. The consequences given to the respondents involved economic and reputational damage to the firm and/or to the manager. More specifically, the managers were asked about possible financial loss, loss of business networks and reputational damage to the company. In addition, they were asked whether it could damage the manager's personal career.

The study shows that managers in general are not only able to pinpoint the negative consequences but they also believe that these consequences are highly probable. Overall, however, Danes appear more concerned about the consequences of corruption than the Estonians do. Figure 1 reveals that managers in both countries find that loss of reputation is most probable, although they are more outspoken in Denmark - two thirds of the Danish managers believe that corruption will damage the company's reputation. Furthermore, Danes appear more concerned about the damage that such a case could do to their own career (63% compared to only 38% in Estonia). About half in both countries acknowledge possible financial losses.

*"Danes appear more concerned about the consequences of corruption than the Estonians do"*

Besides country differences, the size of the company appears to matter. Managers employed in small companies (10 employees or less) are more concerned about financial loss and loss of business networks compared to managers employed in larger companies. This can be explained logically by the higher vulnerability of smaller companies, as they have fewer resources to overcome a slump if faced with this scenario. Regarding personal characteristics, it is notable that male managers are more concerned about their own careers compared to their female colleagues, although among other consequences there are no gender differences.



**Figure 1.** Percent expressing that damage is highly probable if an employee is caught asking for a bribe (Note: Highly probable expresses the % of those answering 5, 6 or 7 on a scale from 1 to 7 where 1 is very low probability and 7 is extremely high probability.)

In conclusion, managers in both countries are quite aware of the damage that dishonest business practices can do to the company or to their own careers, even if they do not condemn the behaviour. This awareness, however, does not guarantee a clean business environment. Awareness may be a necessary component to the solution, but it is not sufficient, as business practice is determined by several occasionally competing factors.

## 2. Causes and excuses for unethical behaviour

*In terms of a culture of finding general excuses for bribery, peer pressure (under managers' orders) is the main excuse for corrupt behaviour. This excuse is most popular in the primary sector with more than 60% of the respondents subscribing to it.*

*The rationalization excuses are more often applied by the managers of domestic companies rather than foreign companies.*

*Estonians are more lenient in rationalising corruption than Danes: 20% of the Estonian managers, compared to 40% of the Danish, believe that their countrymen would never bribe.*

Wrongdoers are likely to justify their actions through excuses for bribing. The majority of managers can name at least one excuse. One will seek to justify unethical behaviour through a strategy of rationalization, e.g. to question the illegality, deny responsibility, appeal to higher loyalties, or any combination thereof (Rabl & Kühlmann, 2009).

The managers were given a scenario in which an Estonian/Danish company operates through a subsidiary in a country known for its corrupt business practices. The subsidiary employs two Estonians/Danes; the remaining staff consists of locals who know the local rules of the game very well. Experience shows that without bribing the right people, it is difficult to get the job done. This question aimed at identifying which rationalization mechanisms would be in place or whether respondents believe that Estonians/Danes would not bribe in any circumstances. The question was phrased in a collective manner ("people from Estonia/Denmark") as it would be unlikely to elicit reliable answers if the managers were asked directly about what they would do. In turn, the answers provide important clues about the culture of corruption – in this case, how unethical behaviour is rationalized. The PrivaCor study asked managers to reflect upon four strategies and deem whether these were probable excuses or causes for bribing – the most specific and best known form of corruption.

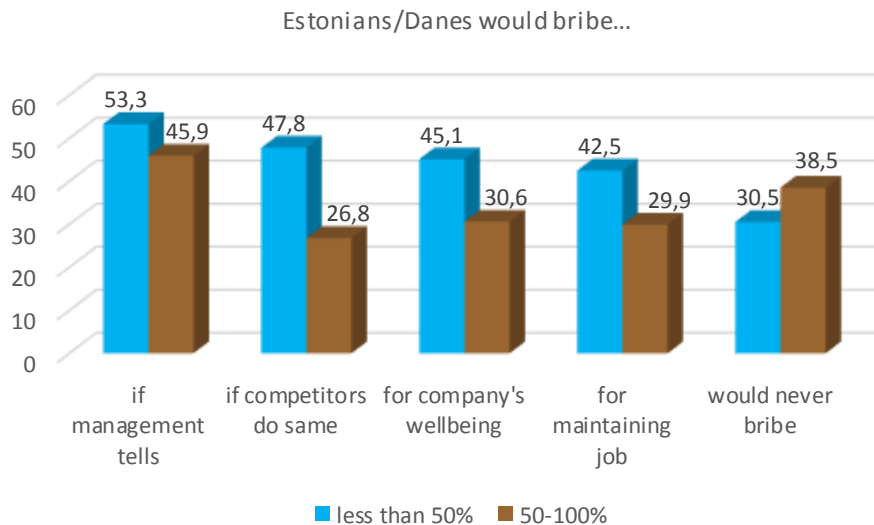
- First, the 'everyone-else-does-it' argument which normalizes unethical behaviour by suggesting a socially acceptable norm even if it is not legal (Ashford and Anand, 2003); that is, managers can justify bribery by arguing that competitors are doing it.
- Second, circumstances beyond their control also work as a rationalization strategy. Referring to peer pressure or that one was only following an executive order are typical for the denial of responsibility (Anand et al., 2005).
- Third and fourth, perceived positive effects or conflicting goals also serve as justifications (Höffling, 2000 cf in Rabl and Kühlmann, 2009). This rationalization strategy can take either a collective or an individual form. In the PrivaCor study, the

"85 and 79% of the Danish and Estonian managers, respectively, agreed with at least one of the excuses."

managers could therefore argue that bribing took place because the company's wellbeing depended on it and/or that it helped keep a job.

These excuses proved to be highly relevant to the managers. On average, about three rationalization strategies (mean = 2.8) were found relevant by the managers and no less than 85 and 79% of the Danish and Estonian managers, respectively, agreed that at least one of the rationalization strategies was common.

With respect to the individual excuses, figure 2 demonstrates that more than half of the managers in both countries found it likely that their compatriots will bribe if they are under an executive's order to do so. Two channels, authority and power, amplify the executive's impact. The former implies that subordination has an important role in shaping behaviour patterns and the latter involves all the tools held by leaders. The second-most popular excuse among Estonian managers is that 'competitors are doing it', whereas the Danish managers stress the company's wellbeing before competition and personal goals of securing employment. The wellbeing of the company is a less important explanation for Estonian managers but differences both within and between the countries are small. However, when confronted with the control option that "people from Estonia/Denmark will not bribe under any circumstance," differences loom large. 20% of the Estonian managers, compared to 40% of the Danish, believe that people will never bribe. This suggests that when confronted with a corrupt culture, Estonians are more lenient, but equally important, it also suggests that Danes are not immune.



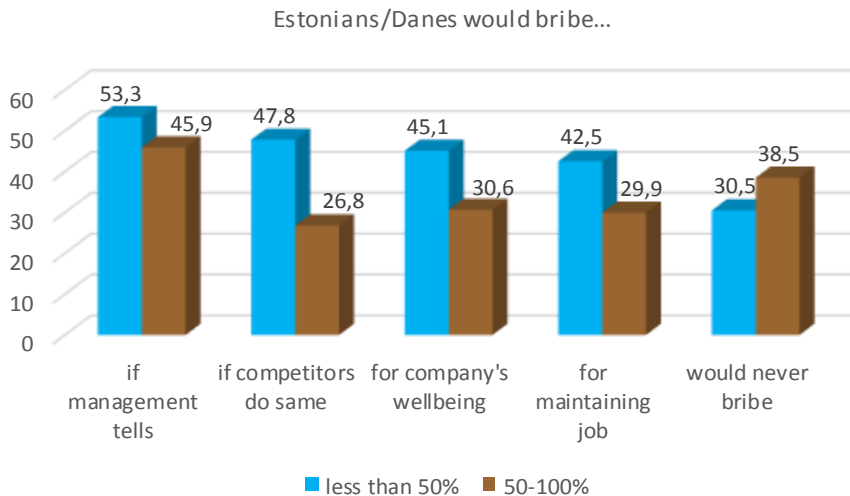
**Figure 2.** Rationalization strategies: Percentage expressing it is highly probable that people will bribe under certain conditions. By country. (Note: Highly probable expresses the percentage of those answering 5, 6 or 7 on a scale from 1 to 7 where 1 is totally disagrees and 7 is totally agree.)

The excuses vary across sectors, but are remarkably consistent in terms of which excuse is most often applied. For all sectors it is foremost a question of whether one is told to bribe by higher placed management or by the board that is denying responsibility. This excuse is most popular in the primary

sector, with more than 60% of the respondents subscribing to it. This pattern mirrors the excuses across the size of the companies. There are hardly any differences between medium-sized and larger firms. In contrast, managers from smaller companies (with fewer than 10 employees) invoke pressure from competitors either in the form that the competitors are already bribing and that the company's wellbeing depend on it. Consequently, keeping a job is also found to be a predominant excuse in smaller firms.

Foreign owned companies bring healthier business ethics.

Perceptions of rationalization strategies could be expected to reflect national business cultures. In figure 3, it is shown that companies with less than 50% foreign capital invoke excuses to a markedly higher degree compared to companies where the majority of the capital is foreign. From this, it cannot be concluded that unethical behaviour is a purely domestic problem. But it is remarkable that only a quarter employed by foreign owned companies choose to excuse bribery as customary, i.e. that the competitors are doing it. In a similar fashion, companies that operate in foreign markets also invoke fewer excuses. In this sense, foreign-owned companies bring healthier business ethics with them.



**Figure 3.** Rationalization strategies: % expressing that it is highly probable that people will bribe under certain conditions by foreign capital share in the company. (Note: Highly probable expresses the percentage of those answering 5, 6 or 7 on a scale from 1 to 7 where 1 is totally disagrees and 7 is totally agree.)

Recall that the questions reflect the culture of finding general excuses for bribery rather than personal arguments. Looking at individual characteristics, the Estonian group of managers is more homogenous than the Danish. Sociodemographic characteristics do not play a significant role in allocating excuses. The fact that the Estonian group of managers is rather homogenous suggests that the excuses are part of a shared business culture, and hence even more difficult to change.

The Danish pattern, however, is more diverse, as age, tenure and gender differentiate in different directions. For example, gender resulted in differing opinions in Denmark, as male managers are more



likely to bring up these excuses compared to their female colleagues. In a similar vein, younger Danish respondents believe it to be more likely that people will bribe for the sake of the company's wellbeing or to maintain one's job, and older managers (>50) are more certain that people will not bribe under any circumstances. Finally, with respect to tenure it appears that the familiarity, or perhaps misunderstood loyalty, associated with longer tenure makes a difference. Here, those employed for more than 6 years believe that more people will bribe for the benefit of the company or in order to maintain their job. All in all, the Danish pattern remains a puzzle and it is likely that different statistical tools outside the scope of this report should be applied to shed more light on this question.

### 3. Corruption in the private sector – not accepted yet common

*Estonians perceive corrupt practices to be more common compared to Danes: 56.7% of Estonians and 51.2% of Danes have encountered at least one form within their own business sector.*

*It matters if your line of business is in the primary sector, if payments are in cash, if competitors are expected to bribe, and if you are a man.*

*5% of managers will take bribes themselves.*

*Bribery involving money makes a difference. Managers think that bribery in the form of goods is more common (18.2%) than in the form of cash (13.8%).*

#### *Managers' encounters with private corruption*

Private corruption can take many forms. Goel et al. (2015) draw examples in which private vendors bribe procurement officers at other businesses to secure contracts; restaurants offer free meals to secretaries who send catering orders their way; and hotel staff get kickbacks from cab companies they patronize. Argandoña (2003) mentions commissions, gifts and favours, and facilitation payments, and adds another dimension by distinguishing according to initiative.

In the PrivaCor study questionnaire, four types of corrupt practices are distinguished depending on the situation and the actors involved.

- **Kickbacks:** when a mediating company is to provide a firm with a service but instead of recommending the best and cheapest offer, the mediating company recommends another firm that in turn *kicks* 10% of the sales *back* to the mediating company.
- **Conflict of interests:** when an employee responsible for procurements or purchasing goods and services gives the order to a close friend or relative.
- **Bribery:** when an employee responsible for procurements or purchases receives 5% in cash or goods in return for an order.
- **Fraud:** when an employee responsible for inventory management makes fictitious account entries and instead of storing the goods, resells them.

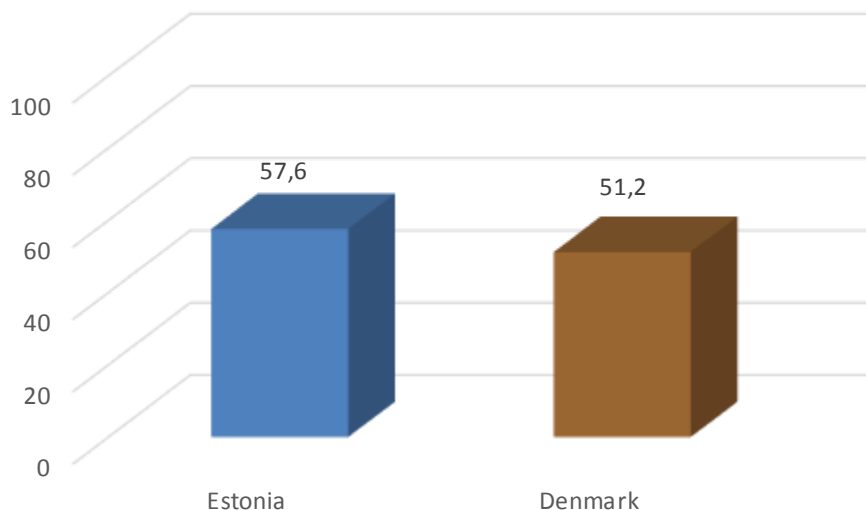
The four types of private corruption differ with respect to legality and the extent of the damage they may pose on the company. **Kickbacks** are often so-called grey zones. In one of the Estonian focus groups, this was made explicit: “kickback is not corruption but a mediating fee. The mediator accepts money for the contacts and know-how”. However, kickbacks are opaque acts where the mediating company increases its own pecuniary income without the consent and knowledge of the contracting firm. **Conflict of interest** – making deals with family and friends – is often seen as the least damaging act for one reason. Using your network, family and friends, reduces

“Treats are spread [common], mostly in the form of gifts, not in cash. “

*Estonian businessman*

the transaction costs involved in finding the right offer (Lambsdorff, 2007). The proverb that ‘blood is thicker than water’ is in this case a specific rationalization strategy with roots in culture. **Bribery** relates to acts where the employee breaches his loyalty to the firm in his own interests. When bribes are requested, it becomes a case of extortion. **Fraud** does not usually count as a form of corruption as it does not involve counter-service, yet it bears with it a distinct notion of illegality, making the wrongdoer responsible under the penal code, which case is included in the study.

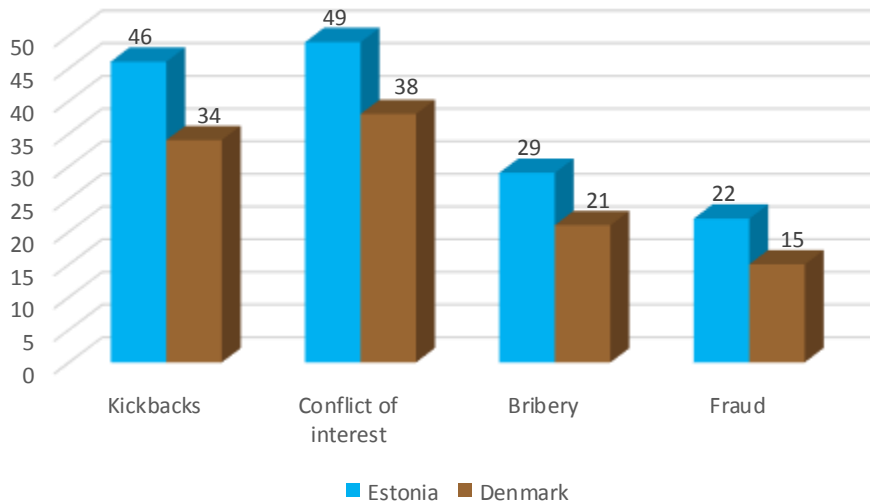
The managers were asked to consider how common each type of corruption is, and to what extent each type is acceptable behaviour. Taking the first four dimensions together, 56.7% of Estonians and 51.2% of Danes have encountered at least one within their own business sector (figure 4). This means that over half of the managers in both countries are familiar with at least one form of corruption and even though there is a difference, it is remarkably small. Moreover, the four types are positively correlated; that is, if one type is encountered within the business sector the others are also likely to take place.



**Figure 4.** Percent of managers having encountered at least one form of corruption

The result that more than half of the respondents have encountered at least one form of corruption appears to be a dramatically high share. When Goel et al. (2015) examined corruption in Croatia, they found that only 5% of respondents have similar experiences. However, the PrivaCor estimations are based on a more nuanced scale and reflect perceptions rather than experience. In the list experiment discussed below, the PrivaCor reaches a number similar to the Croatian study, meaning that 5% will pay cash in secret in connection with a deal. This number, however, is specific for only one form of corruption.

Looking into each of the four types, more variation is found (figure 5). The perceived frequencies of kickbacks and conflicts of interests are higher in both countries compared to bribery and fraud. 34-46% of Estonians and Danes admit encounters with kickbacks, while 15-22% admit the same for fraud. This may reflect the different sense of illegality and explicitness connected to the acts.



**Figure 5.** Community of corruption: % finding corruption commonplace within their line of business (by type and by country) (Note: Highly probable expresses the percentage of those answering 5, 6 or 7 on a scale from 1 to 7 where 1 is totally disagrees and 7 is totally agree.)

**Firm size** matters. Managers from small companies perceive corruption to be more common than managers from medium-sized and large companies (not shown). Also in the Croatian study, it was found that smaller firms are more likely to engage in bribery (Goel et al., 2015). Similarly, in the Estonian corruption study, smaller enterprises differed – they believed corruption to be more widespread and had more encounters with it; they were more tolerant towards corruption and defined corruption more narrowly; and would be ready to act corruptly. They also considered corruption to be a hindrance to entrepreneurship (Sööt & Vajakas, 2010). According to another study on corruption and unethical behaviour in Danish companies, small companies were more vulnerable when losing a business contract compared to larger companies (Lindgren, 2004; 35). This could make them more sensitive and thus, perceive corruption more often. An alternative is that larger companies are stricter in having regulations, codes of ethical conduct and internal control mechanisms in place.

More corruption is perceived in the **primary sector** than in other sectors. Some of the participants in the Estonian focus groups commented upon this and thought it likely that the infusion of EU subsidies triggered corruption as “easy money-in”. Others found that agriculture is characterized by a shadow economy. This is thought to be a way of life in rural areas.

**Age** matters as well. Younger managers perceive corruption to be more common than their older colleagues. The impact of firm size and manager’s age on the perceived commonality of corruption nicely corresponds to the fact that managers from small businesses

“Corruption is a daily phenomenon in the construction sector, but it is universal, you can find it everywhere.”

*Estonian businessman*

and younger managers are also the ones more open to one or several rationalization strategies or excuses.

The answers to how common corruption is are based on the respondents' perception within their business sectors. Perception data is often reflected as real facts. We do caution against this interpretation. On the other hand, the respondents being business managers, we can expect them to have more hands-on knowledge about the actual extent of corruption than other population groups. As Walburg (2015) notes, corporate managers may not give an adequate estimation of actual scale and scope of corruption; however, they serve as the best experts to reflect certain trends.

#### **Box 1: Predicting the perceived extent of corruption**

Advanced statistical analysis (GLM univariate regression) was used to predict the perceived extent of corruption, i.e. kick-backs, bribery, conflicts of interest and fraud formed a one-dimensional factor representing the underlying forms of corruption.

The statistical model confirmed the differences between Estonian and Danish business realities in that **Estonian managers** perceived more corruption. Managers from **small companies** reported more corruption whereas it was not possible to distinguish between medium-sized and large companies. The model predicted that the managers' excuses for bribing (for example, that competitors would do the same or that the company's wellbeing depended upon it) were important in explaining the extent of corruption. As for personal characteristics, **younger managers** perceive more corruption than their older colleagues.

Awareness of the consequences of corruption did not have a bearing on the extent of corruption, nor did the question of whether the company operates in foreign markets nor if the company was foreign owned.

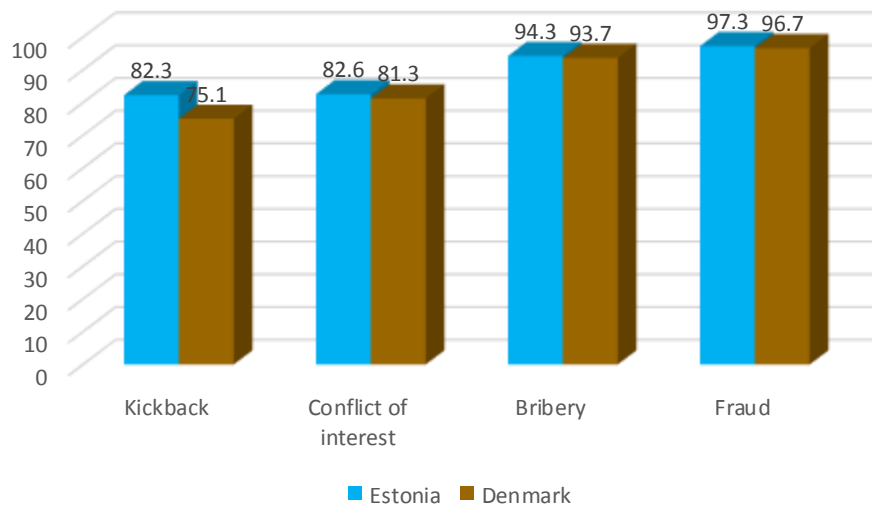
#### *How many take bribes?*

The PrivaCor study measured the extent of bribes in the list experiment. In the experiment, the respondents were divided into two groups and asked to say how many – not which – of a number of activities they had done. The first group was asked about four activities and the second was asked about the same four activities and one extra, being whether they had taken a bribe themselves. The four activities mentioned to both groups concerned, firstly, activities not related to corruption, such as shopping during lunch time and buying private goods on the internet during working hours, and secondly, activities somewhat related to corruption, such as paid weekends either with business partners or with family. Observing the mean differences between the two groups, it is possible to single out how many admitted to having taken a bribe.

The experiment shows that 5% will take bribes themselves. There are no differences between Danes and Estonians. Only a few systematic differences exist, with the largest systematic difference between those taking and those not taking bribes being gender - women are less willing to take bribes than men. This gender effect is also found in the Croatian study (Goel et al., 2015).

### Acceptability of corruption

Commonality, however, does not mean that the act is personally acceptable. Only a few managers express acceptance of any type of corruption (figure 6). There is no significant difference between Estonians and Danes in considering corruption as unacceptable. Although disapproval is general, it differs with respect to the four dimensions. Bribery and fraud are much less accepted than kickbacks and conflicts of interest. For example, around 94% of both Danes and Estonians do not accept bribes, while 75% of Danes and 82% of Estonians do not accept kickbacks. This may relate to estimates saying that the expected consequences in terms of financial loss following fraud is much more severe compared to kickbacks (PricewaterhouseCoopers, 2014).



**Figure 6.** Non-Acceptance: Percentage saying they can ‘hardly at all’ accept corruption.

(Note: Non-acceptance expresses the percentage of those answering 1 on a scale from 1 to 7 where 1 is “Hardly at all” and 7 represents “To a very large extent”.)

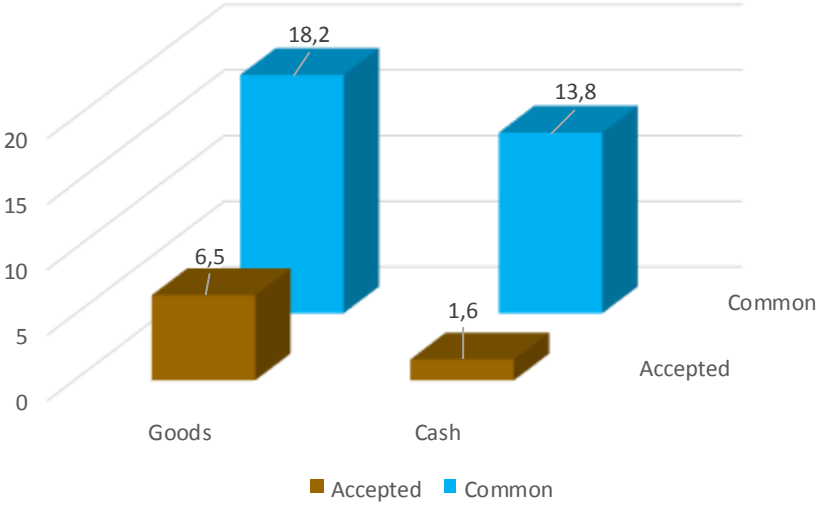
Taking the analysis a step further, one may ask whether there is a relationship between what is personally acceptable and the perception of how common different types of corruption are. Recall that when ‘everyone else is doing it’, an unethical behaviour becomes a socially acceptable norm - even if it is not legal (Ashford and Anand, 2003). This is more evident with the cases of a mediating company receiving a kickback and when family and friends are given preferential treatment. Here, strong correlations between acceptability and commonality are observed. Fraud and bribery are different in this respect: the correlations are weak here. Thus, it takes more for bribery and fraud to become acceptable, whereas there is a higher risk of kickbacks and conflict of interest, whether in the form of nepotism or cronyism, becoming systemically accepted - a situation where wrongdoing becomes the norm.

### Cash or in-kind?

Bribery may take the form of either cash or products. This can make a difference for both acceptability and commonality. The effect was tested through a framing experiment where half of the respondents

were randomly given the cue 'money' and the other half 'free products' to a question where a procurement officer requests payment from a supplier in exchange for a deal. The questions were otherwise the same and the respondents were asked if it was common to request cash/goods in the sum of about €3000.

The result (figure 7) shows that involving money makes a difference. Managers think that bribery in the form of goods is more common (18.2%) than in the form of cash (13.8%), while also thinking that bribery in kind is more acceptable (6.5%) than bribery in cash (1.6%).



**Figure 7.** Cash or goods? Communalities and acceptability. (Note: This figure reflects findings from the consolidated dataset)

Money 'stinks' and the fact that goods are more accepted suggests that some might think non-pecuniary gifts should not count as a bribe. The differences do not depend on country, firm size, sector or the individual characteristics of respondents. In general, extortion is the least common type of corruption, and incidences drop even further when conducted in cash instead of goods. This is probably because goods are easier to 'hide' in accounts for the giver, and the receiver – the extorter – can rationalize the bribe by convincing him- or herself that it is a gift. This is less easy to do with cash. Notably, the difference in acceptability between the two forms is even more marked than the differences between acceptance and commonality for the four other types of corruption.

## 4. Steps to prevent private corruption

*A positive personal example by top managers is considered to be the most effective anti-corruption measure in both countries (~93% consider as an effective measure), while raising salaries in Denmark (13.2%) and setting up an anonymous hotline in Estonia (28.1%) is least appreciated.*

*Danish managers consider ethics codes and their related actions more effective as a preventative measure than the Estonian managers.*

*Only 3% in Estonia and 11% in Denmark would not do anything upon discovering that a colleague has paid a bribe, while only 15.8% of Estonians and 49.6% of Danes would report the police.*

### *Solutions to private corruption*

If corruption is to be reduced, it is important to change incentives, temptations and oversight or control for both employees and at the firm level. At the individual level, Donald Cressey (1983) argues that corruption (or fraud) is based on need, opportunity and justification. Thus, minimizing needs, diminishing opportunities and disqualifying any justification strategy would be expected to reduce corruption. This highlights both institutional as well as ethical issues in the internal dialogue between individuals, but also the collaborative efforts at the firm level often cloaked into CSR. CSR is broadly understood as 'policies and practices that reflect business responsibility for some of the wider social goods' (Matten and Jeremy, 2008: 405) and in the narrower sense, adopted here, as responsible, ethical and sustainable conduct of businesses.

Considering corruption, strategies to minimize corruption generally fall into three categories: 1) awareness and ethics; 2) control and detection; 3) punishment and discouragement, (Johannsen and Pedersen, 2012). Policies addressing awareness and ethics range from adoption of specific ethical codes of conduct to training courses with an ethical content. Establishing control and detection is more a question of internal control systems, e.g. setting up anonymous hotlines, or as an alternative nominating a trustee within the company whom it is safe to approach with knowledge, and declaration of financial interest that allow for transparency before decision-making, if for example an employee has personal economic interests with a firm he is in charge of trading with. Discouragement may come in the form of salary cuts, firing, or taking the case to official authorities. These categories not only overlap each other (developing a transparent culture for example lies between detection and ethics) but are also mutually reinforcing and at the same time constitute several trade-offs. Developing a trusting culture may for example encourage people to declare their interest and come forth when in doubt, whereas diligent detection and punishment may lead to mistrust. Anonymous hotlines, which protect whistle-blowers through anonymity, may have a similar effect. In sum, there is no perfect policy, and anti-corruption measures will constantly have to be iterated according to the context.

For each preventive measure presented to the respondents, the respondents were asked to estimate how effective they believed it to be. Broadly, three types of measures appear (factor analysis): ethics and personnel management-related; control and punishment-related; and salary-related. **Ethics and personnel management**-related measures include ethics training, declaration of interests, setting up a



hotline, and nominating trustees. **Control and management**-related measures involve internal control, punishment by dismissal, and reporting to law enforcement. **Salary**-related measures are either increasing the salary of personnel as a general counter-measure or decreasing the salary of the wrongdoer.

**Table 1:** Measures for preventing misuse. Estonia and Denmark. Percentages and rankings

	Estonia		Denmark	
	rank	% highly agrees	rank	% highly agrees
Positive personal example by top managers	1	92.9	1	93.3
Develop internal control system	2	85.8	3	86.5
Punish wrongdoers by terminating employment contracts	3	84.7	2	87.2
Punish wrongdoers by decreasing salary, demotion etc.	4	57.6	8	48.4
General ethics training to all employees	5	50.4	6	67.8
Declaration of (financial) interests	6	45.2	7	56.8
Adoption of code of ethics and/or instructions	7	41.8	4	86.3
Raising salaries	8	38.5	11	28.1
Nomination of a trustee with the company	9	27.8	9	41.1
Reporting to law enforcement (police, prosecutor)	10	27.2	5	71.8
Setting up of an anonymous hotline	11	13.2	10	35.8

*Note: Highly probable expresses the percentage of those answering 5, 6 or 7 on a scale from 1 to 7 where 1 indicates ineffective and 7 indicates very effective measure*

The managers preferred positive managerial examples, internal control mechanisms, and terminating the contract of the infringer as the most effective counter-measures, all of which received more than 80% of the support by managers in both countries.

All agree that effective policies include the development of internal control systems such as closer monitoring by management and transparency in decision-making. As found by ACFE (2014), the development of such systems is responsible for discovering about 30% of cases. However, they may not need to be in a one-size-fits-all form, but could instead be adapted to the company and, not least, the size of the company.

According to managers' opinion, punishment does have a discouraging effect. In both countries, the managers, however, believe that for punishment to be effective, there needs to be 'zero-tolerance,' meaning that if caught, the person loses his/her job. Other sanctions, such as decreasing salaries or relocation, are believed to be efficient but to a lesser degree. In the first instance, firing the wrongdoers is thought to be effective by more than 80%.

<p><b>Box 2: Increasing salary as an anti-corruption measure</b></p> <p>Around half of respondents believe that decreasing the salary will be an effective</p>	<p><b>Box 3: Anonymous hotline and whistleblowing</b></p> <p>Evidence from cases across the world stresses that to come forth and report corruption, a</p>
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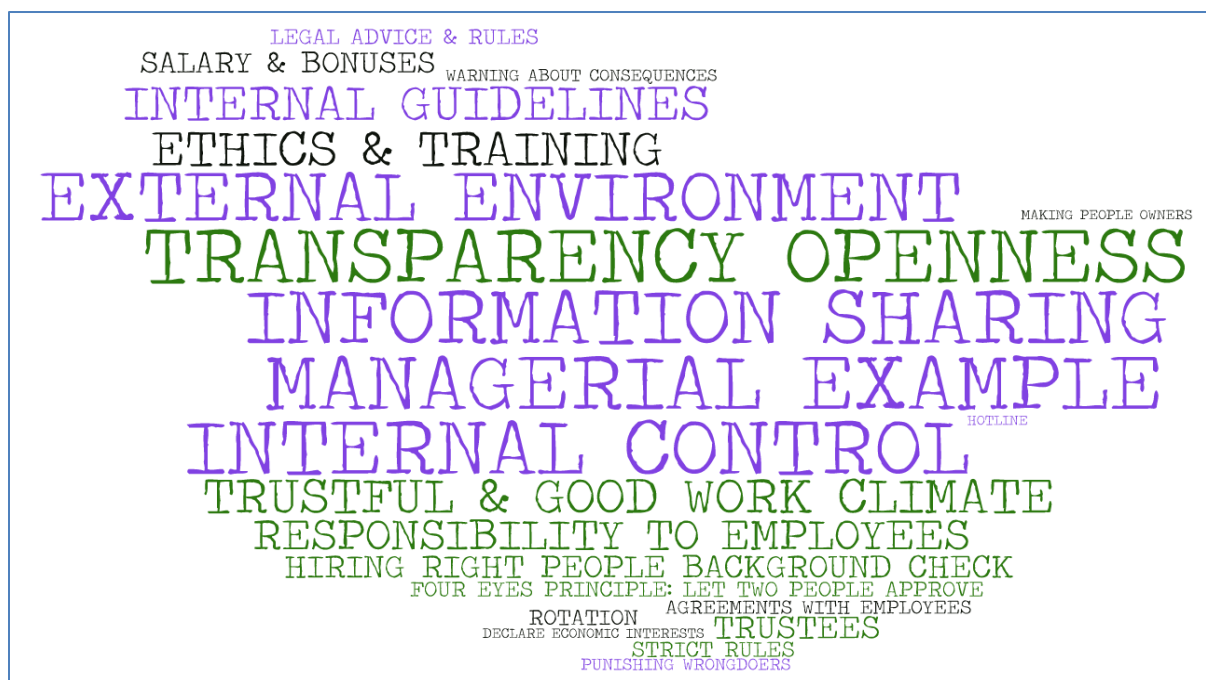
discouragement. The opposite of cutting salaries is to increase them! – According to economic theory low salaries increase the temptation to secure bribes. It is simply a question of need. This is debated, in particular with reference to civil servants (Rijkeghem and Weder, 1997; Wei, 1999) but when more Estonian managers than Danish find that increasing salaries could be an efficient tool against corruption, it is a sign that low salaries in Estonia may be part of the problem. It can be interpreted from two angles. First, it might be misleading because corruption theory states that higher salaries cause higher bribery. Second, another principle says that it is the relative salary compared to what can be obtained elsewhere that triggers bribery. If, for instance, the salary level is lower among public employees than what they could likely get in the private sector then this will lead public employees to accept bribes. Thus, even if the difference in the general level of salaries between Estonia and Denmark and the reported effectiveness of salary increases curbing corruption nicely square with economic theory, it could only explain differences insofar as Denmark and Estonia constituted one perfect labour market. Rather, in conjunction with the belief in salary reduction as punishment, it rather suggests that the managers believe individual need or greed to be an explanation of corruption.

whistle-blower must not only trust the person to which the report is made but also have a feeling that the case will be acted on sufficiently (Keil et al., 2010; Miceli et al. 2009). One way of reporting would be through an anonymous hotline.

The subject of anonymous hotlines raised a most heated discussion in the Estonian focus groups. Although being disciplining in nature, the anonymous hotline did not receive approval among managers. Aiming to protect whistle-blowers, it embodies negative connotations stemming from the Soviet past, when people were deported to Siberia based on anonymous information – not necessarily truthful. Consequently, Estonians are more in favour of the idea of nominating a trustee within the company. In this case, it is possible to come forward with information without being known and simultaneously minimizing the risk of unsubstantiated accusations. Even without the connotations of Soviet past, whistleblowing is a double-edged sword, since employees as well as companies must be protected against wrongful accusations and possible drawn-out and costly legal processes.

### *Suggestions by businessmen*

In addition, the survey gave managers an opportunity to propose additional measures for preventing private-to-private corruption. In general, managers thought the questionnaire covered the appropriate measures. However, in the open answers, the Danish managers proposed twice as many measures as the Estonian managers did (respectively 187 and 76). As the 'word cloud' indicates, there are numerous paths to enhancing a corruption-free business environment.



**Figure 8.** Suggestions on countering corruption by businessmen (Note: the word cloud reflects the open answers from the survey)

Looking more closely into the Estonian focus groups, four measures stand out (see annex 1 for more details).

First, there was an emphasis on the need for **social condemnation and attention**. How to do so was, however, disputed. Media attention may be counterproductive in two ways. If citizens are made to believe that corruption in the private sector is more common than it actually is, attention may increase corruption. Here, a side effect must be mentioned too: namely, it can lead to the rationalization strategy of private sector corruption. Cressey (1973) points out that rationalization is a defence of one's actions. The notion that 'everybody else is doing it' may work as an excuse which overrules the moral standards. At firm level, social condemnation can take forms that are more practical. For example, it was mentioned that a manager's behaviour was crucial. Although underreported cash wages were not considered directly linked to corruption, it contributes to a culture more tolerant of corruption if it is an accepted practice.

Second, **internal controls** were debated intensively. Two measures were repeated: the possibility of rotation – that is, changing duties and responsibilities among employees as a means of cutting closed networks – and the so-called four-eye principle, with essentially the same effect. In both cases, there was a bias against small and most likely also medium-sized companies where rotation and doubling is not economically feasible.

Third, the question of **anonymous hotlines** raised strong objections. Recalling the survey data, 38.5% of Danish managers recommended setting up anonymous hotlines in contrast to 13.2% of the Estonian managers. Although the main problem with corruption is how to become aware of the acts, using

anonymous hotlines is a tool that should be used with caution. The suggestion from the focus groups of appointing trustees to function as a hotline, simultaneously securing anonymity for and honesty by the whistle-blower, may be a sound solution.

Fourth, a point worth noting is the problem of **hiring honest people** and not corrupt individuals. This is indeed important, as we know that there is a tipping point where one extra dishonest person may tip the whole culture towards becoming corrupt, yet it may well go the other way if the extra person is honest.

To sum up, each sector and company faces different challenges and no optimal or 'one-size-fits-all' solution to corruption exists. The Danish and Estonian businesspeople are also quite aware that there is no panacea, and it should be emphasized that, due to national sentiments and experiences, what will work in Denmark may not necessarily work nor be accepted in Estonia – and vice versa.

#### *Different managerial cultures in Estonia and Denmark*

Following the difference in attitude toward changing norms, most of the Danish proposals fall under the category of better communication in the company, information sharing, transparency and openness. Danes prefer promoting organizational culture and ethics, while the Estonian managers prefer hiring the right people accompanied by background checks on new employees, as well as communication. None of the Estonian managers proposed ethics-related measures like the introduction of internal codes of conduct and training as anti-corruption measures. This finding confirms that Danish managers are aware of the social and organizational grounds of private sector corruption and the Estonian managers target more individual-level aspects like hiring and checking.

The personal example of integrity set by top managers is considered the most effective measure by Danes and Estonians alike. In both countries, nearly 93% of managers believe this to be an effective counter-measure to corruption. Yet the way in which this measure is related to the other measures differs significantly in the comparison of Danish and Estonian managers. The separate grouping data from the Danish and Estonian sample reveals that the positive managerial example implies several other measures for the Danish managers too, but for Estonian managers this measure has no significant relationships with the rest of measures. In other words, for Danish managers the positive managerial example is a part of the behaviour pattern and deeply integrated into the behaviour repertoire, while for Estonian managers this is one single behaviour act, which may or may not activate other related measures. The former group has learned that positive managerial example is an important part of managerial job and the latter group believes that this is an important behaviour pattern but does not relate it to the broader context of managerial job yet. The positive managerial example also reported by Kaasa and Parts (2013) deeply rooted in the Danish managerial mind - set: the positive example always occurs together with other measures. Although equally mentioned by Estonians, the difference is that it is

“Corruption is a social phenomenon. You do it in order to get the job and to keep the people in the company.”

“Society loses but business develops”

*Estonian focus group*

always included in the Danish package of solutions.

Although both Danes and Estonians share a certain scepticism about the effectiveness of ethical training and the adoption of an ethical code compared to the effectiveness of punishment and detection, Estonian managers are far more sceptical than Danes. For example, 67.8% of Danish managers believe training to be effective compared with 50.4% of the Estonian managers. The difference with respect to the adoption of a code of ethics is even more marked, where twice as many Danes as Estonians believe a code to be effective: 86.3% of Danes and 41.8% of Estonians consider a code of ethics to be an effective measure.

“Control is good, but trust is cheaper and more fun.”

*Comment from a Danish manager*

Using open answers in the survey, several Danish respondents raised the importance of transparency, ethics and trust. Thus, where Danes find “talk with colleagues” to be a likely and possible route for handling bribes, it may reflect a more open and transparent culture within Danish firms. Increasing trust and transparency as well as awareness of where and how to report a case of bribery addresses the development of CSR policies, e.g. what companies can do and what they find efficient to do. With a stronger tradition for CSR policies in Denmark, it is perhaps little surprise that Danes rank ethics and awareness higher than their Estonian colleagues, who in turn chiefly support the development of detection and discouragement policies. This is a crucial difference, because it indicates that Danes rely much more on ethics as a prevention measure and Estonians more on control. Perhaps this difference is a reflection of the legacy of the command-and-control policy found among public organizations in former communist countries (Pedersen and Johannsen, 2004).

The fact that Danish managers focus more on ethical standards and training than Estonians does not make them naive. ‘Softer’ policies go in tandem with punishment and detection. As a Danish manager commented in an interview: “The measures mentioned should be used in combination”. Differences between Danes and Estonians become clearly visible when comparing the ranking of measures. The Danish managers are more ethically minded and more likely to report to law enforcement than Estonian managers.

#### *How will an individual act when encountering bribery or other forms of corruption?*

Managers prefer to get the tip about the wrongdoing as quickly as possible. However, when confronted with a case of bribery, individuals may react in different ways. ‘Doing nothing’ is a tempting choice, especially if one is not personally affected, and by doing nothing one does not risk retaliation due to the breaking of a social code within the firm, nor does he or she expose him- or herself to criticism or sanctions if the bribery took place with the tacit or active acceptance of management (Miceli et al. 2009; Bjørkelo et al. 2011). Leaving this specific issue aside, much management theory and work with Corporate Social Responsibility (CSR) instruments specifically concerns how managers can encourage employees to report wrongdoing or unintended behaviour (Miceli et al. 2009). Getting the right information at the right time to the right person is imperative.

The closed nature of corruption makes corruption difficult to detect. In a study from the Association of Certified Fraud Examiners, a total of 1.483 reported cases from over 100 countries found that more than 40% had been discovered through tips, mostly from employees, and 30% discovered through management review and internal audit procedures (ACFE, 2014). This finding highlights both the importance of internal reporting by employees to management and the development of effective procedures for review and auditing. The ACFE study also shows a somewhat banal observation that the earlier management is informed or the earlier wrongdoing is detected and acted upon, the less damage is done to the company.

In this regard, it is a small minority in each country – only 3% in Estonia and 11% in Denmark – who would not do anything if discovering that a colleague has paid a bribe in a transaction with a foreign company (table 2). From the available options for reporting, managers from both countries prefer to report the case to the board or a superior manager. This is the prevailing choice for 9 out of 10 managers in both countries. The table presents two types of findings - the percentage of managers who agreed that the certain act is appropriate reaction to the bribery case, and the ranking of those acts for both countries.

**Table 2:** Who will you report to (Estonia and Denmark)?

	Estonia		Denmark	
	rank	% highly agrees	rank	% highly agrees
... tell the management or other members of the board	1	92.3	1	89.4
... talk with that colleague	2	48.1	2	42.7
... talk with other colleagues	3	45.1	3	55.2
... talk at home/with friends (not colleagues)	4	19.4	4	55.2
... go to the police	5	15.8	5	49.6
... contact an anonymous hotline	6	8.3	6	26.4
... do nothing	7	3.0	7	10.9
... go to the press	8	1.5	8	4.9

*Note: Highly probable expresses the percentage of those answering 5, 6 or 7 on a scale from 1 to 7 where 1 indicates ineffective and 7 indicates very effective measure*

Reporting to the board and managers is only one indication that the preferred choice is to keep the information within the firm. Close to half will confront the colleague or discuss the case with other colleagues. This can contribute to clearing, i.e. finding out what exactly took place, but can also be a forum for transparency and discussions on ethics. Choosing to report to actors outside the firm, such as the police, or go to the media is less popular, particularly in Estonia. It is also notable that Estonians seem to refrain from discussing work-related issues at home or with friends compared to Danes: less than 20% of Estonian respondents would share a corruption case outside the firm while the majority of Danes would do so.

The general unwillingness to attract media attention, i.e. “washing dirty linen in public”, may not only reflect an anticipated risk of financial loss and/or loss of business partners but may also expose the whistle-blower to harsh sanctions, either official or social, from within the firm. Similarly, reporting to the police is not a preferred choice. This is particularly true in Estonia, where only 15.8% find it likely that they would report the case to the police, compared to 49.6% of Danes who would report to the police. In general, Estonians trust the police (Kuntjak, 2008), and thus the reluctance to contact official authorities may reflect a lack of knowledge, an explanation that also covers the fact that Estonians are more reluctant to use anonymous hotlines.

“only 15.8% [of Estonians] find it likely that they would report the case to the police”

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## ANNEX 1. Measures for preventing corruption and managers' opinions about them

Some notes: In the five discussion groups in Tallinn (2), Jõhvi, Pärnu and Tartu, Estonian businessmen could comment on the proposed anti-corruption measures. They were read 48 measures (some overlapping) and were asked to reach a decision on its suitability as an anti-corruption measure. A complete list of measures is attached below in the Estonian language (as a special request from the businessmen). Measures that raised the most discussion are reflected below.

**Societal condemnation** was highlighted as the most important corruption deterrent, as, like they said, it is difficult to cheat when others condemn it. Therefore, managers see the creation of a generally anti-corruption climate as a necessary cornerstone for anti-corruption policy. This could be achieved through guidelines, ethics training, sample case studies and constant focus on the topic, and in a broader sense, through managers', state's and politicians' personal examples. Negative stories in newspapers (and social media) were mentioned as channels to creating intolerance towards corruption. In Tartu, internal codes of conduct and rules were mentioned as measures for minimizing corruption, while in Jõhvi, although ethics principles were seen to be important in preventing corruption, they were deemed idealistic in their nature, and therefore punishing wrongdoers was repeatedly mentioned as a means of curbing corruption. While the idea of **weekly meetings** to discuss corruption-related issues was not considered to be a sensible measure in most focus groups – they were rather seen as a waste of time – it was still admitted that common discussions in the form of **ad-hoc meetings** could be effective. Yet, in another focus group weekly discussions were praised, while problem oriented ad-hoc meetings were disdained as reminders of the Soviet party meetings where the issues of non-conformist persons were discussed. **Communication** between management and employees was seen as an important aspect of anti-corruption culture, and parallels were drawn with companies' general objectives, which often tend to remain unreachable because of employees' unawareness about these objectives. Therefore, constant reminders about certain principles is important. It was proposed that there should be **active reciprocal communication** between management and holders of certain jobs that are more susceptible to corruption (like sales managers). This would create social ties and serve as a guarantee against misuse of one's post as "you would not steal from your own family". **Managers' own positive example** is crucial, as for example, underreported cash wages and envelope salaries – issues not directly linked to corruption – could still contribute to a culture that tolerates corruption, as through testifying practices like these in the firm, employees find excuses for corrupt behaviour.

The subject of an **anonymous hotline (or whistleblowing)** raised the liveliest discussion. Although being disciplining in its nature, the anonymous hotline did not find approval from managers, as it has negative connotations stemming from the Soviet past, when people were deported to Siberia based on the information from local people (a fact specifically mentioned in Jõhvi), and is considered to be denouncing. The managers insisted that the report should be personal, while the corruptee must not know the whistleblower, although setting up a separate box for reports was also mentioned as an option. The aim of reporting, according to the managers, would be informing the manager, and therefore the managers also proposed that the trustee or a specialist could have the same function in the company as the hotline. Appointing a trustee was seen as an appropriate measure specifically in big companies. Understanding that whistleblowing could also serve the interest of the company, for example in a case when managers are involved in corruption, was nearly missing in the discussion. The availability of managers was mentioned as a key to a firm's success and problems. However, it was

forgotten that the “open-door policy” does not often work because of various responsibilities and the busyness of managers: managers are not constantly available. In addition, the method of reporting to the manager was discussed, whether it should be a phone call or application of some kind, thus indicating the need for certain procedures within the company.

**Internal control and audit** is believed to be beneficial for big companies, while in the case of mid-sized and small companies the cost of conducting an internal audit would be too high, and instead, the service could be outsourced. The managers argued that because of close relations between people in mid-sized companies it would be difficult for one employee to check another, while external auditors who lack emotional ties with employees are better at discovering transgressions. Managers said that the control system must be in place and employees should be informed about checks and controls, which has a disciplinary character on its own. The size of the company also determines possibilities for **rotation**: in bigger companies rotation is necessary and possible for preventing corruption while in smaller companies rotation is nearly impossible. The same applies to the **four-eyes-principle**, according to which at least two people are involved in deciding the transaction.

**Allowing employees to be owners** was not found to be a suitable anti-corruption measure as “a thief is a thief, regardless of the position.” As an alternative, some proposed making employees part of the management. **Involvement of employees and sharing of responsibility** might, according to the managers, blur responsibility, specifically in big companies.

**Raising salaries** was deemed a short-term measure, as “an employee is happy with his/her salary for two months after raising it”. Instead, they proposed that money-related transactions should be clear.

**Recruiting honest people** is a “must” according to the managers, although almost impossible to implement as background checks are done only in certain limits. On the other hand, as the choice of employees is limited or non-existing, it is not possible to choose between honest and dishonest people; moreover, as was stressed, people are capable of changing, referring to the importance of ethics-based training in the company. Explaining to new hires the consequences of transgression was not seen to be an appropriate activity, as this indicates a company’s negative perception of the new employee, as though he or she were already a suspect.

**Table 1.** Measures for preventing corruption

“1” indicates suitability of the proposed measure according to the participants of focus groups, “0” means non-suitability and “0.5” indicates that common decision was not reached.

		Tallinn	Tartu	Pärnu	Jõhvi	Tallinn2	KOKKU
1	Tippjuhid on oma isikliku käitumisega positiivseks eeskujuks.	1	1	1	1	1	5
2	Õiguskaitseorganite (politsei, prokurör) teavitamine.	1	1	1	1	1	5
3	Asutusesisese kontrollsüsteemi rakendamine, s.t. läbipaistvus otsuste tegemisel ja protseduurides ning juhatusepoolne järelevalve.	1	1	1	1	1	5
4	Rahade liikumise kontroll.	1	1	1	1	1	5
5	Ettevõttes vastava kontrollorgani rakendamine, nt sisekontrolliosakond.	1	1	1	1	1	5
6	Ettevõtte väärtussüsteemi kujundamine ja personali värbamise poliitika läbiviimine.	1	1	1	1	1	5
7	Eetikakoodeksi ja/või näidisjuhtumeid sisaldavate juhiste vastuvõtmine.	1	1	1	1	1	5
8	Protseduurireeglid juhiks, kui keegi peaks firma töötajale altkäemaksu pakkuma.	1	1	1	1	1	5
9	Töötajatega piisav suhtlemine. Inimestega tuleb suhelda ja töötajaid tuleb informeerida hangetest ja finantsidest.	1	1	1	1	1	5
10	Miski ei tohi tähelepanuta jääda, juhtumid siis.	1	1	1	1	1	5
11	Hea ja usalduslik tööõhkkond. Meie-tunde kasvatamine. Vaimsuse, mentaliteedi tekitamine. Sotsiaalsete sidemete tugevdamine kollektiivis. Töötajate moraali kõrgel hoidmine.	1	1	1	0,5	1	4,5
12	Võimalikult palju vastutust töötajale. Igaühel on oma vastutus, sh vastutab tulemuse eest. Kui töötajad saavad juhtida, saavutavad nad ka parima tulemuse. Töötajate kaasamine otsustamisprotsessi.	1	1	1	1	0,5	4,5
13	Omaenda valvsus olukordade hindamisel.	1	1	1	1	0,5	4,5
14	Ühiskondlik hukkamõist on tähtis	1	1	1	0,5	1	4,5
15	4-silma printsiip. Kõikides olulisemates otsustes ja tehingutes vähemalt kaks inimest, kes vastutavad või võtavad vastu otsuse.	1	1	1	1	0,5	4,5
16	Head tingimused töötajatele.	1	1	1	1	0	4
17	Sõnaline tunnustamine.	1	1	1	1	0	4
18	Selge protsess, selge kontroll, selge vastutus. Selged reeglid ja suhtumine asutuse poolt	0	1	1	1	1	4

19	Ettevõtte ise karistab üleastujat töölepingu lõpetamisega.	1	1	0	1	1	4
20	Töötajate üldine eetikaalane väljaõpe. Eetikaalased kursused.	1	1	0	1	1	4
21	Usaldusisiku määramine (Töötaja, kellele kaevata ja kellega tööasju arutada, kui organisatsioonis toimuvad ebaselged ja kahtlased intsidendid). Või usaldusisikute kollektiiv	0	1	1	1	1	4
22	Vahetada töökohustusi, et mitte ainult üks inimene ei tegeleks konkreetse valdkonnaga, vaid seda vaheldumisi saavad teha ka teised töötajad	1	1		1	1	4
23	Juht peab olema kättesaadav töötajate jaoks.	1	1	0	1	0,5	3,5
24	Panna lepingusse sisse säte, mis tagajärg kaasneb, kui toimub kuritarvitamine.	1	1	0	0	1	3
25	Ärikeeld töötajatele, kes on rikkunud. Luua "must nimekiri".	1		1	1		3
26	Konkreetne kriminaal- ja administratiivne vastutus	0	1	1	0	1	3
27	Regulaarsed ettevõtte töötajate koosolekud, kus ollakse tema suhtes avatud ning räägitakse juhtumid läbi. Kui avalikult rääkida, on vähem valesti tõlgendamisi. Koosolekutel, aruteludel osalevad ka nõ tavatöötajad.	1	1	1	0	0	3
28	Vihjeliin (mitte anonüümne) – juht peab olema informeeritud.	1	1	0	0	1	3
29	(Majanduslike) huvide deklareerimine (vajalikel ametikohtadel).	1	1	0	1	0	3
30	Tulemuspalk. Tuleb anda inimestele piisavalt teenimisvõimalusi, et neil oleks võimalik peret ülal pidada ja ei tekiks tahtmist kõrvalt raha teenida. Palgaga motiveerimine. Preemiad võiksid olla (motivatsioonipakett).	0	1	1	1	0	3
31	Rangemad karistused	0	0	0	1	1	2
32	Kaamerad, uksekontrollerid. Videojälgitamine	0	1	1	0	0	2
33	Olukorra selgitamine coachingu stiilis	0	1	0	1	0	2
34	Iganädalased koosviibimised, et arutada probleeme. Juhtkond peab olema kursis firmas toimuvaga	0	1	0	1	0	2
35	Asjaajamise avalikkus. Läbipaistvus – otsused ja tehingud on avalikud.	0	1	1	0	0	2
36	Vara konfiskeerimine sellelt töötajalt. Keelata sellel töötajal edaspidi (elu lõpuni) vastutavatel ametikohtadel töötada	0	0	0	0,5	1	1,5
37	Ettevõtte ise karistab üleastujaid palga vähendamisega, teisele ametikohale viimisega	0	0	1	0	0	1

	vms						
38	Inimeste värbamisel võtta tööle ausaid inimesi, et ei peaks neile eraldi kontrolli peale panema. Inimeste tausta peab enne tööle võtmist uurima. Uurida sõpradelt, tuttavatelt jne	1	0	0	0	0	1
39	Hea tahte või eraldi lojaalsuslepingud töötajatega	0	0	0	0	1	1
40	Tuleks selgeks teha, et eksida võib ainult üks kord ja siis ka tagajärjed tõsised. Info levimine teemal, et kui midagi taolist juhtub, siis kaasnevad sellega need ja need riskid. Juba tööintervjuul selgitamine, mis juhtub, kui on rikkumised.	0	0	0	1	0	1
41	Mida madalam organisatsioon, seda parem. Vähem hierarhiat.	1	0	0	0	0	1
42	Lahutada erinevad rollid ettevõttes, nii et hanketingimuste seadjad ning hindajad oleksid erinevad (suuremate ettevõtete puhul)	1	ei küsitud	ei küsitud	ei küsitud	ei küsitud	1
43	Kontroll (audiitor) väljastpoolt	ei küsitud	ei küsitud	1	ei küsitud	ei küsitud	1
44	Kui firma on ise aus (ei maksa ümbrikupalka)	ei küsitud	ei küsitud	1	ei küsitud	ei küsitud	1
45	Usalda, aga kontrolli	ei küsitud	ei küsitud	1	ei küsitud	ei küsitud	1
46	Nende inimestega, keda on võimalik öra osta (ostujuhid jne), nendega rohkem suhelda ja läbi käia, et saaks aru, mis inimene ta on	ei küsitud	ei küsitud	1	ei küsitud	ei küsitud	1
47	Ähvardamine ja tööst ilma jäämine	0	0	0	0	0	0
48	Hea oleks inimesi omanikuks teha, mis tekitaks neis huvi firma käekäigu vastu	0	0	0	0	0	0