Approaches to Collective Action:
How Businesses Together Can Lead the Fight
Against Corruption

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Article at a glance

• When private businesses are interested in reducing corruption, they can be mobilized to take concrete steps against it. This article introduces available tools for collective action – a strategic approach to mobilizing the business community in order to fight corruption.

• At its core, corruption is an institutional problem, and the institutional framework that sustains corruption must be changed. A key goal of collective action is to reduce the incentives and opportunities for corruption.

• Collective action is a coordinated, sustained process of cooperation among private firms and other stakeholders. In the fight against corruption, a coalition of companies united by a set of principles and standards can have a far greater aggregate impact.

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Introduction

Within the international development and democracy support communities, few issues have risen to prominence as rapidly as corruption. In just the past 15 years, the Organisation for Economic Co-operation and Development (OECD) adopted the Convention on Bribery of Foreign Public Officials, the World Bank established its first formal anti-corruption strategy, and the United Nations adopted the Convention Against Corruption. Today, corruption ranks among the paramount issues facing economic development and democratic consolidation across the globe, and is at the top of public concerns.1

This increased attention to the costs of corruption has engendered more and more reform efforts by governments, international donors, and non-governmental organizations (NGOs). The vast majority of these efforts focus on the public sector, such as through regulatory reform, disclosure, and the creation of new oversight bodies. Meanwhile, awareness has been growing that involve multiple stakeholders and especially private sector actions to addressing corruption.2 The Center for International Private Enterprise (CIPE) has placed private sector approaches at the heart of its anti-corruption programs in emerging markets and nascent democracies.3

A popularly-held view is that business interests fuel corruption because businesses inherently benefit from evading the law. Adherents of this view believe that the use of bribery to circumvent government controls represents de facto deregulation, to the benefit of the bribe payer. However, a growing body of evidence shows to the contrary, that high levels of corruption harm the private sector, with smaller businesses suffering the most.4 Indeed, CIPE projects around the world have demonstrated not only that private businesses are interested in reducing corruption, they can be mobilized to take concrete steps against it. This article introduces available tools for collective action – a strategic approach to mobilizing the business community in order to fight corruption.

Corruption as an Institutional Problem, not a Transactional Problem

Corruption is a symptom of underlying problems in governance. These problems include opaque regulations, weak enforcement mechanisms, barriers to business, inefficient government agencies, excessive discretionary powers in the hands of public officials, absence of public dialogue on corruption, and a lack of checks and balances. Consequently, anti-corruption efforts that identify, punish, and shame individuals by “catching them in the act” leave the underlying problems unaddressed. If individuals are punished, others will face the same set of opportunities and risks that incentivized corrupt behavior in the past.

Efforts to combat corruption must therefore involve more than simply weeding out crooked government officials and company executives. Simply put, corruption is an institutional problem, and the institutional framework that sustains corruption must be changed. A key goal of collective action is to reduce the incentives and opportunities for corruption.

To change the institutional environment of an economy, both the demand and supply sides of corruption need to be addressed. Most anti-corruption initiatives focus on the government – strengthening anti-corruption regulators, tightening conflict of interest laws, reforming public procurement regulations, requiring elected officials to disclose assets, etc. These reforms aim to curb the demand side of corruption by limiting the ability and incentives of public sector employees to solicit bribes and abuse their offices for personal gain. Even demand-side reforms benefit from private sector input because the private sector knows first-hand the regulatory inconsistencies that engender opportunities and incentives for officials to engage in corruption.

Supply-side reforms aim to limit the ability and incentives for the private sector to engage in corruption. These include measures to institute transparency and accountability in the transactions, accounting, and governance of private companies,
as well as efforts to promote ethics and integrity throughout the private sector. Collective action is one strategic approach to unifying the business community around a set of principles and standards in order to reduce the likelihood that businesses engage in corruption.

Each firm can take leadership individually by implementing its own anti-corruption policies, procedures, and controls. In doing so, a company can reduce its exposure to corruption risk and set a positive example. However, efforts by individual firms are ultimately constrained by competitive pressures, the threat of extortion, and doubts about authenticity. If private stakeholders do not pull together to combat corruption, it is possible for some businesses to default and thus receive the temporary advantages of participating in corruption. In addition, individual firms face high hurdles in determining appropriate standards, obtaining information on good practice, and differentiating themselves within a poor business environment.
Collective Action

Collective action is a coordinated, sustained process of cooperation among private firms and other stakeholders. It amplifies the impact of company efforts, brings vulnerable and individual players into a supportive alliance, and levels the playing field. In the fight against corruption, a coalition of companies united by a set of principles and standards can have a far greater aggregate impact.

Collective action may include common commitments, mutual support, information sharing, coordinated campaigning, and the pooling of anti-corruption resources. It can be organized either through business associations or multi-sector initiatives at various levels. These collective efforts aim to reduce the incidence of corruption and improve the business environment through self-regulation and constructive engagement with government.

Within a viable, coherent coalition, the private sector can speak with one voice on the issue of corruption when dealing with the government. This is especially significant for small and medium-sized enterprises (SMEs), which individually lack bargaining power, lack access to government officials, face acute competition pressures, and often have limited knowledge of legal rights. Moreover, an appropriately framed coalition can acquire credibility and legitimacy through representative, transparent procedures and dialogue. In contrast, an effort by a limited group of companies to set higher standards runs the risk of appearing to promote anti-competitive, private arrangements with authorities.

Collective Action Tools and Approaches

There are various types of collective action, each with different degrees of application and enforcement. The nature of a collective action initiative depends upon its purpose, context, methods, and goals.

Project-based Transparency Pacts

A transparency pact is a public but nonbinding declaration to eschew bribery, collusion, and bid manipulation, over the course of a specific transaction or a transaction project. Transparency pacts are most often encountered in government tenders, in which all bidders agree to abide by a broadly defined set of ethical standards and transparency requirements. Such an agreement applies to all parties in the transaction, including the government.

The standards and requirements of the transparency pact need to be defined in advance of the tender, and need to be agreed upon by the government and all interested bidders. For instance, the government might commit that public employees will not solicit or accept bribes, that the tender will follow procedures defined by law, and that the winning bid, along with the selection criteria, be made publicly available after the contract is awarded. All bidders would sign tender documents that include anti-corruption declarations and transparency requirements.

Transparency pacts do not have external monitors to ensure compliance and are not legally binding. However, participating in a public tender governed by a transparency pact does necessitate making public commitments which can be scrutinized, and a failure to comply would be observable. The lack of enforcement, along with the project-specific focus, make transparency pacts a relatively simple and low fixed-cost method of collective action. The impetus for transparency pacts can come from a government or private sector coalitions.

Integrity Pacts

An integrity pact, like a transparency pact, also revolves around a public declaration to adhere to a set of ethical and transparency standards by all parties to a specific tender. But this declaration is in the form of a legally binding contract, and all
parties must submit to an external monitor which verifies compliance. Noncompliance with the requirements of the integrity pact incurs punitive sanctions which are enforceable in court.

All parties must sign a contract, in which bidding companies commit that their employees will not offer bribes or collude with other bidders, and that they will disclose all relevant, non-proprietary information to ensure transparency. The purchaser (typically a government entity) commits that its employees will not accept or solicit bribes and will ensure a transparent and fair tender process. The contract also identifies an independent party that will monitor all transactions, disclosures and meetings in order to verify compliance with the requirements of the integrity pact. Lastly, the contract lays out sanctions for noncompliance.

If effectively implemented, an integrity pact can greatly reduce opportunities to engage in corruption in procurement. This form of collective action is an aggressive and comprehensive attempt to ensure a level playing field among competing companies and to increase transparency and accountability in large-scale government purchases.

Integrity pacts only govern individual transactions, so each tender requires a new and distinct contract. Because these contracts are legally binding, and because they govern large, complex transactions, they can be difficult and
costly to develop. Moreover, an independent third party must be retained that possesses the expertise to monitor the pact. Finally, integrity pacts do not change the business climate.

**Principle-based Business Coalitions and Certifying Coalitions**

To extend collective action beyond specific tenders or projects, private businesses can form a coalition based on shared principles. These principles may be specified in a charter which member companies sign. Transparency International’s Principles for Countering Bribery provide one model. A coalition is a longer-term initiative that aims to change business practices more broadly and to level the playing field within a country or sector in a more sustainable way.

In order to give teeth and credibility to a principle-based initiative, a coalition may establish a verification mechanism that certifies whether or not member companies are adhering to coalition standards. Those who are in compliance could be rewarded, and those who are not might be removed from the coalition. Such a certification mechanism, of course, adds technical complexity to an initiative and requires a robust secretariat.

Between principle-based coalitions and certifying coalitions, there lies a continuum of increasing levels of verification and enforcement. While voluntary codes of conduct are a good step, evidence to date suggests that they are not effective without other measures to implement the codes and discourage non-compliance. An ambitious certification regime, on the other hand,

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**Case Study**

**Russia: Regional Coalitions Representing Small Business**

From 2002 to 2011, CIPE with the support of the U.S. Agency for International Development, implemented an “SME Policy Advocacy” project in Russia to lower barriers to business and reduce opportunities for corruption. Across 17 Russian regions, CIPE helped build advocacy coalitions of 225 chambers and associations, which counted as members 20,000 businesses and accounted for an estimated 2.2 million employees.

As the coalitions identified local barriers to business, they developed regional business agendas to encourage regional governments to implement reforms. Increasingly they recognized that corruption constituted the main barrier to business in Russia, in combination with administrative barriers, complex tax codes, limited access to information, and poor protection of property rights.

Following the coalitions’ advocacy efforts, 138 legislative changes ensued at the regional level, many of them on issues of taxation, administrative barriers, and corruption.

The regional coalitions developed a four-step mechanism for collective action:

1. Share information openly and build consensus among coalition participants, in order to ensure that business speaks with one voice to government officials.

2. Create a common, unified defense against corruption and other barriers to business.

3. Prepare legislative analyses, from reviewing draft legislation to monitoring the implementation of existing laws and regulations.

4. Begin a dialogue between business and government to advocate for needed changes.
Involves substantial investment from a coalition and participating companies, so each coalition must decide on a feasible, sustainable approach.

**Information Sharing and Training**

Coalitions and associations may facilitate the sharing of experiences and anti-corruption best practices among companies. Initiatives that equip businesses with knowledge of anti-corruption regulations and strategies can have a significant impact on reducing the reliance on corruption in order to “get things done” or cope with authorities.

Such knowledge is especially valuable for small and family-operated enterprises, for which the costs of corruption are highest. If companies know their rights and legal protections, and are familiar with strategies for handling common corruption scenarios, they can proactively reduce their exposure to corruption risks and better protect themselves when their rights are violated. Telephone hotlines can target problematic issues and offer advice to members of a coalition.

Individual companies of all sizes benefit from resources and training on internal policies and practices. A coalition can act as clearinghouse and arrange expert training as a benefit to members. This supports greater consistency, quality, and learning among individual company measures to fight corruption.

**Advocacy**

A strong, broadly representative coalition has the option to engage in policy advocacy. Policy advocacy involves marshalling the support of the private sector to address corruption risks in public-sector governance and business-state relations. If firms have already come together proactively to discourage corrupt practices and promote transparency in the marketplace, such a coalition has heightened credibility when advocating for policy reforms.

Advocacy is a systematic effort to influence policies of broad concern through a transparent, inclusive process. It involves mobilizing networks, identifying solutions to shared priorities, and accumulating evidence and community support for recommendations. When targeted to achieve specific governance reforms, advocacy can promote the emergence of a better environment for ethical corporate behavior.

**Conclusion: Choosing a Way Forward**

Collective action is a strategic approach to galvanizing the diverse stakeholders of a country’s business community around the shared goal of reducing corruption. It has the potential to reinforce ethical business behavior by establishing standards, sharing knowledge, and leveling the playing field. In cooperation with other stakeholders, joint private action further can build institutions and a climate of better governance.

A number of successful initiatives have shown different models of collective action to be viable, depending on the situation and the objective. Leaders of collective action must make choices regarding the scope and time horizon of their effort, as well as the level of coordination, monitoring, and enforcement required to achieve their objectives. Building on coalition strengths, they may also incorporate complementary elements, such as by combining knowledge exchange with standard setting, or public advocacy with private action. If they tailor the approach to local circumstances and plan for focused, sustainable programming, coalition leaders can achieve tangible steps toward improved governance.

**Notes and References**

2. Susan Cote Freeman, “Restoring Trust in Business: The


7 Integrity pacts were originally developed by Transparency International.


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