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Government integrity holds key to tackling corporate corruption—study

November 20 2019

Word cloud analysis of 'good' CEO traits. Credit: University of Birmingham

Government leaders must set a good example to the business community if they want to eliminate corporate corruption, a new study reveals.

Financial incentives and criminal punishment will not root out corrupt business practices, but a government culture of honesty, integrity and strong leadership could help to cure corruption.

University of Birmingham researchers discovered that corporate governance choices made by business leaders are directly related to government integrity. Dishonest practices are more likely in states where the government operates in a way that is dishonest or unethical.

Professors Amon Chizema and Ganna Pogrebna, from Birmingham Business School, examined World Economic Forum data from 2011 to 2018 on small, medium and large companies in agriculture, manufacturing and non-manufacturing industries—such as mining and quarrying, utilities and construction—as well as services with headquarters in 93 countries.

The researchers published their findings in *The Leadership Quarterly*, also demonstrating experimentally that leaders were more likely to make honest decisions and abstain from bribery and tax evasion when asked what a good leader would do in a particular business situation.

Professor Pogrebna commented: "This simple solution of asking 'what would a good leader do' had a much higher positive effect on leadership integrity than changing financial incentives or increasing the propensity of being caught and punished by the law.

"The world craves credible and sincere leadership. Our policies need to shift from financial and legal solutions of the corruption problem to influencing leadership values and culture at all levels of the society."

When listing most important values in the desirable leadership culture, experimental participants named "credibility" as the most important characteristic of a good leader. Experimental study results demonstrate that Chief Executive Officers (CEO) are more likely to cheat in a corrupt environment than in a transparent one.

Beyond the question of corporate governance, the researchers have unveiled weaknesses in current anti-corruption practices within the business environment.

Where government integrity is low, the corruption problem arises from a gap between what is right and what is mandated by law. This gap may be bridged by instilling acceptable social norms in corporate leaders.

Professor Chizema said: "Humanity has grappled with corruption for decades with many solutions proposed, yet the most widely-used toolkit involves regulation, law enforcement and economic measures, which have failed to eradicate dishonest business practices."

"Governments need to get it right first before expecting corporate citizenry to do the right thing. Norms often precede legislation but are supported, maintained and extended by laws. If those with power to change societal norms do not have the interest or motive to do so, corporate leaders may continue to make bad corporate governance choices and decisions."

The researchers argue that the effect of government integrity must be taken into account—alongside company and CEO characteristics, plus corporate governance mechanisms—when analysing corporate leadership performance.

Their study also has implications for investors—for example, using knowledge of a country's level of government integrity, minority investors may be able to work out how likely they are to suffer from exploitation by majority shareholders or self-interested executives.

Where government integrity is low, minority investors may have to consider mechanisms that allow their voices to be heard—either by pooling resources, engaging more with legal advisors or making use of proxy voting.

More information: Amon Chizema et al. The impact of government integrity and culture on corporate leadership practices: Evidence from the field and the laboratory, *The Leadership Quarterly* (2019). DOI: 10.1016/j.leaqua.2019.07.001

Provided by University of Birmingham