



# Combating Corruption Through Collective Action

*Circumstances that make a company take part in collective  
action agreements*

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## Abstract

Many international firms and local companies are operating in markets that are exposed to corruption. Corruption increases the cost of doing business and has harmful consequences on the society. Multinational corporations publish compliance and anti-corruption declaration on their home pages, where they claim they resist demands for bribes. Firms can go beyond legal compliance and corporations can take a more active role in the prevention of corruption. This thesis studies collective action as an anti-corruption tool and identifies circumstances where it is more likely that a company will be part of collective action agreements.

We find that a deterioration in the business environment works as a trigger for companies to join collective action. Further, we find that a facilitator has a positive influence and that multinational enterprises are more active in initiating collective actions than smaller companies. To find these circumstances, we use literature on collective action, theories and research on cartels and Hirschman's exit, voice and loyalty framework to develop hypotheses. We then compare these hypotheses to cases where collective action is used to fight corruption.

Our findings highlight that companies need a long-term perspective, not just in words and good intentions but in evaluations that lead to bonus payments. A further implication of our study is that the companies' moral responsibility exceeds the legal responsibility. It is important that MNEs are made aware of collective action as a tool that can be used against corruption. Our findings indicate that facilitators can have an important role in initiating collective action in industries with small companies.

## Preface

This thesis is written as a part of our Master of Science in Economics and Business Administration at the Norwegian School of Economics (NHH). Andreas is taking his major in Strategy and Management, while Andrea is taking hers in Business Analysis and Performance Management.

Both of us decided to take the course *Corruption - incentives, disclosure and liability* in the spring semester of 2016 when it was offered for the first time. Andreas attended the excursion to Georgia. These experiences gave us an increased awareness of how important it is to deal with corruption and gave us motivation to write a thesis within the field. It feels meaningful to write about a topic that can contribute to positive change in the world.

We would like to thank our supervisor, Professor Tina Søreide, for giving us constructive feedback and helpful advices throughout the process. We are grateful for her engagement in our research question, and for sharing her knowledge on both corruption and economics.

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## Acronyms

ACODAL	Asociación Colombiana de Ingeniería Sanitaria y Ambiental
BSR	Business for Social Responsibility
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
FCPA	Foreign Corrupt Practises Act
G20	Group of 20
GDP	Gross Domestic Product
ICCA	International Centre for Collective Action
IGO	Intergovernmental organization
MACN	Maritime Anti-Corruption Network
MNE	Multinational Enterprise
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium-sized Enterprises
SRI	Socially Responsible Investment
TI	Transparency international
TUGAR	Technical Unit on Governance and Anti-Corruption Reforms
UN	United Nation
UNCAC	United Nations Convention Against Corruption
UNDP	United Nations Development Programme
UNGC	United Nations Global Compact
UNODC	United Nations Office on Drugs and Crime

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# 1. Introduction

## 1.1 Motivation

Paying a bribe is a shortcut for companies to obtain profits or services they are not entitled to, or to avoid a cost. Being a part of a collective action agreement implies giving up these shortcuts, and that can be quite challenging in practice. Companies may pay bribes to enter a market or to avoid burdensome bureaucratic processes. Other firms influence the political processes to assure that favourable regulations are adopted. Besides, corruption leads to an unpredictable business environment. Paying bribes makes corrupt officials inclined to make delays to maintain their corrupt opportunities. Corruption can impose costs on firms if their illegal activities are detected and sanctioned. Cost related to the bribe and hiding the activities implies that corruption increases the cost of doing business (OECD, 2014b).

The Maritime Anti-Corruption Network (MACN) is an international business network that works against corruption challenges in the maritime sector, including the demand for facilitation payments in ports. The initiative has implemented collective action agreements in Nigeria, Argentina, Egypt and Indonesia (BSR & MACN, n.d.-a). At a certain port, the members of MACN reported 50 incidents of requested bribes in 2013. In 2016, after the collective action initiative had been implemented, this was reduced to two incidents (van Schoor, 2017). This example shows how collective pressure can reduce demands for facilitation payments, which is an example of extortive corruption. This implies that collective action can function as an anti-corruption tool.

James D. Wolfensohn, the then President of the World Bank spoke at the Bank-Fund Annual Meeting in 1996 and said the well-known words: "we need to deal with the cancer of corruption" (Wolfensohn, 2005, p. 50). He argued that to achieve growth and poverty reduction, corruption needed to be dealt with. Even though the speech was held more than two decades ago, corruption is still a big problem when it comes to economic development (Søreide, 2016). Corruption is a transnational governance challenge, so global measures and engagement is necessary. There has been an impressive global legal development on this issue (explained in sections 1.4.1 and 1.5.1). The UN Convention Against Corruption is signed by 181 parties (UNODC, 2017), but its effectiveness is depended on national monitoring since the UN does not have enforcement powers. This means that countries might ratify the convention without enforcing it. One problem is that lack of resources and willingness can



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make corruption cases not prioritised and therefore not detected. A further problem might be that corruption in the judiciary branch can overrule the anti-corruption regulation. This implies that government regulation is not enough to combat corruption.

The leaders of G20 articulated seven high level principles on corruption and growth in their meeting in Australia in 2014. It is stated in the document containing the high level principles that “G20 countries endorse these principles and reaffirm the importance of acting collectively to combat corruption as a vital part of the broader G20 growth agenda.” (G20, 2014, p. 1). Even though this is not directly addressed to collective action for corporations, this shows a recognition for collaboration in the fight against corruption.

## 1.2 This research

We will in this thesis focus on the bribing side of a corrupt transaction. Further, we will look at the use of collective action as an anti-corruption tool, and which situations corporations will voluntarily participate in anti-corruption collective action. We will study both initiators and other parties.

**Our research question is:** “Under what circumstances will corporations be part of collective action agreements?”

Quite much research addresses corruption and anti-corruption, and much research exists on collective action as an economic concept. Empirical research on collective action as an anti-corruption tool is however limited. Drawing on Hirschman’s (1970) exit, voice and loyalty framework, this thesis aims at understanding companies’ decisions under corrupt circumstances. We will combine Hirschman’s framework with theory on collective action and cartel theory. Different authors have revisited parts of Hirschman’s model, so we will consider their criticism and extensions. Our main focus will be on situations where corporations voluntarily initiate or take part in a collective action agreement.

We will apply the theory on collective action, cartel theory and Hirschman’s framework, and use it as a foundation to develop hypotheses on how corporations will act when faced with corruption in a market. We will presume that the companies will maximise profit. The last part of the thesis will discuss cases and compare them with the developed hypotheses. Due to the limited number of cases available and the nature of the information, we will not be able to establish causality or generalise the findings, but it will be possible to find support for the hypotheses.

## 1.3 Clarification of concepts

### *Corruption:*

“Corruption is commonly defined as the misuse of entrusted power for personal or private gain” (World Bank Institute, 2008).

“It makes sense to think of corruption as a *trade in decisions that should not be for sale*” (Søreide, 2016, p. 13).

### *Foreign public official:*

“Any person holding a legislative, executive, administrative or judicial office of a foreign country, whether appointed or elected; and any person exercising a public function for a foreign country, including for a public agency or public enterprise” (United Nations, 2004).

### *Anti-corruption:*

“Anticorruption refers to a whole lot of initiatives beyond the scope of criminal law, initiatives that in different ways raise the level of integrity in a society, in the sense of promoting adherence to moral and ethical codes, preventing the theft of common resources, and reducing unfair decision-making.” (Søreide, 2016, p. 5).

### *Collective action:*

“A collaborative and sustained process of cooperation between stakeholders. It increases the impact and credibility of individual action, brings vulnerable individual players into an alliance of like-minded organizations and levels the playing field between competitors. Collective action can complement or temporarily substitute for and strengthen weak local laws and anti-corruption practices.” (World Bank Institute, 2008, p. 4).

“A strategic approach to mobilizing the business community in order to fight corruption” (Morrell & Bettcher, 2013).

In this thesis, collective action refers to voluntarily horizontal collaboration between companies (private and/or public), including initiatives that have both horizontal and vertical cooperation and/or involve NGOs.

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## 1.4 Corruption

We will in this section describe corruption and its legal status today. Then we will explain why corruption is a problem, by exploring its consequences. We will in the last part explain different reasons why some are corrupt.

### 1.4.1 Describing the term corruption

One of the most central concepts in this thesis is corruption. Most countries regulate corruption in their criminal law, and thus as a crime. Cooperation in intergovernmental organisations has led to conventions on corruption and more harmonised laws (Søreide, 2016). The conventions include the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, the Council of Europe Criminal Law Convention on Corruption and the UN Convention against corruption.<sup>1</sup> None of these conventions define corruption, rather they establish what offences that are corrupt. The OECD Convention focus on bribery of foreign officials. The Council of Europe Convention addresses trading in influence, and bribes to domestic and foreign public officials. The UN convention focus on the mentioned issues, but also includes embezzlement, misappropriation and obstruction of justice (OECD, 2008).

The OECD Convention and the Council of Europe Convention separates between active and passive bribery (OECD, 2008). The active briber is the person who either promises or gives the bribe, while the passive briber is the recipient of the bribe. The OECD Convention only covers active bribery.

These conventions have made legal regulations on corruption largely harmonised (Søreide, 2016). The harmonised areas include bribery of national public officials (Søreide, 2017). There is substantial variation when it comes to the law on bribery in the private sector. Even though the conventions are clear on active bribery of foreign and international public officials, the interpretation on the national level are often narrower. One example of an obstacle is that some countries only consider a foreign bribe illegal if it is illegal in the operating country (Søreide, 2016).

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<sup>1</sup> The OECD Convention is signed by the 35 OECD countries and six non-members (OECD, n. d.). The Council of Europe Convention is ratified by 48 countries (Council of Europe, 2017). The UN Convention is signed by 181 parties (UNODC, 2017).

The mentioned conventions do not have a generic definition of corruption, since these definitions often are too general from a criminal law perspective (OECD, 2008). Corruption is defined for policy purposes, and these definitions cover often a broad range of corrupt activities. Transparency International (TI) defines corruption generally as “the abuse of entrusted power for private gain” (Transparency International, n. d.). TI’s definition describes corruption as a principal-agent problem. If an official in an institution offers a decision that deviates from their institutional goals, it would probably be done to obtain personal benefits that exceed the deviation cost (Søreide, 2016). Søreide (2016) argues that: “Given this compensational aspect, it makes sense to think of corruption as a *trade in decisions that should not be for sale*” (p. 13). The individuals who offer benefits to the officials expect a favourable decision in return. This underpin why the private sector has a central role in corruption: They buy decisions that should not be sold.

Søreide’s definition implies that there is a bargain between the parties involved. The corruption is extortive if the bargaining powers between the players are asymmetric and the bribe payer feels forced to be involved. Only the recipient of the bribe benefit from extortive corruption. This means that the parties’ interests are not aligned. In collusive corruption, there is a voluntary agreement between the parties involved and both parties can influence the deal. The involved parties have benefits if the corruption is collusive, and are therefore motivated to keep it secret. Extortive corruption is easier to observe and easier to classify as illegal. Collusive corruption is often more concealed, and might take a grey zone form. For example, the briber can conceal a bribe payment as campaign finance.

According to Auriol and Lassebie (2013), collusive corruption is a worldwide challenge, while extortive corruption mostly occurs in developing countries. Different approaches are needed to fight extortive and collusive corruption respectively. The organisation of state authority affects the risk of extortive corruption, since discretion can make opportunities for corruption. Extortive corruption has been reduced through better institutions and development (OECD, 2015). That is not sufficient for collusive corruption, which is harder to combat. The parties involved benefit from it, and have incentives to conceal the illegalities and not report them.

### **1.4.2 Consequences of corruption**

Corruption is an obstacle for development (Søreide, 2016). Corruption increases the cost of doing business for companies (OECD, 2014b). It distorts the market and undermines fair competition, and adds an unpredictable tax on operations (OECD, 2015). This unpredictability

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can be an obstacle for a company that considers operation in the market, thus corruption may impede foreign investment. In addition to impede foreign investment, it lowers the incentive for domestic investment.

Political decisions are affected by corruption in a way that might be contrary to the public interest (OECD, 2015). Examples include how a sector is regulated and how the budget allocates resources. Funds intended to increase the quality of public institutions, may instead be diverted to private individuals. Corruption damages the public institutions and undermines citizens' trust to the government. When market or job opportunities are unfairly allocated, the incentives for innovation is reduced. A further issue is that corruption facilitate other criminal activities, and these have their own consequences.

Corruption distorts benefit allocation, and can increase costs (Søreide, 2016). An example of distortion of benefits, is when a benefit is given to someone who pays a bribe, instead of the ones who should have gotten it. It can increase the cost when a citizen who has a right to obtain a service for free, must pay a bribe to retrieve it. This is an example of a facilitation payment.

G20 Leaders have recognised that corruption has a negative impact on economic growth, trade and development. They have agreed upon seven principles, including that it damages trust and rule of law, increase costs, make the business environment more unpredictable and reduce fair competition (G20, 2014).

Corruption and its consequences are difficult to quantify and gauge. It is hard to separate between estimates of corruption, and estimates of other governance problems, for example constitutional frailties (Søreide, 2016). Another problem related to the data is that correlation is not a proof for causality. Different scientists have studied the consequences of corruption empirically. The following two meta-studies have tried to correlate corruption measures and growth. N. Campos, Dimova and Saleh (2010) reviewed 41 studies comprising 460 estimates of corruption's impact on growth. They found that 32 per cent of the estimates provided support for a significant and negative impact of corruption on growth, and six per cent provides significant support for a positive impact. The residual 62 per cent were statistically insignificant. Ugur and Dasgupta (2011) perform a meta-analysis of 53 cross-country studies that consist of 596 estimates. They found that corruption has a negative effect on Gross Domestic Product (GDP) per capita growth.

### 1.4.3 Individuals' and firms' inclination to bribe

Corruption is a crime with potential for high earnings and self-enrichment. The risk of getting caught and sanctioned is low. Besides, a company might be inclined to bribe if it believes that other companies are bribing.

#### *The rationality assumption*

We assume rational players, which implies that corrupt activity is a result of strategic planning. Individuals can compare available action alternatives, and predict and rank the different outcomes. The individual will choose the action that corresponds the most to its preferences and needs, namely where its utility is maximised, regardless of its legality (Eide, 2008). Gary Becker (1968) explains crime and optimal punishment in his article *Crime and Punishment: An Economic Approach*. Becker argues that crime is undertaken by individuals whose expected outcome of crime is higher than the expected outcome of honest alternatives. He further argues that some will be criminal where others are not, because their expected benefits and costs are different. An individual will be corrupt if the net benefits exceed the outcome of honest alternatives. Benefits could be monetary gains, but also personal gains including prestige, promotion and power, either for oneself or for one's network. Costs includes the bribe payment, but also moral costs, reputational costs, cost relating to money laundering, as well as the detection risk and legal punishment. The underlying assumption of rational players implies that corruption is a strategic decision made by informed parties. This means that the player estimates risk and consequences relating to the corrupt act (Søreide, 2014). When deciding to engage in corruption or not, it is assumed that the potential offender consider the risk of sanctions and its consequences. The rationality assumption is overly optimistic, but it is reasonable to assume that people are fairly rational even though individuals make choices with a bounded rationality (Søreide, 2016).

A corporation is managed by individuals. Even though the individuals act with bounded rationality, we will argue that the employees taking decisions are highly educated, and do not make decisions on impulse. This means that the decision is planned, and therefore expected to be rational. The individuals in the corporation will evaluate the net benefit differently, so it is problematic to use an individual approach on the enterprise level. Individual utility maximisation cannot predict whether a company may be corrupt or not. Corporations are assumed to maximise profit. Profits are important for the company's existence, and shareholders often focus on profit when assessing a company's result. There might be a trade-

off between maximising the company's profit, and behaving legally. Corruption will still harm the society, even though one corporation is better off in the short-term.

The fact that a person or a company can have short-term benefits from engaging in corruption, makes corruption tempting. Corporations who are only concerned with profit maximisation, might engage in corruption either to increase profits or tolerate it because it is too costly to eliminate (Rose-Ackerman, 1978).

### *External influence*

The surrounding circumstances affect the individual's or a company's decision to engage in corrupt activities. Some arenas are especially exposed to corruption, and can be considered as high risk arenas. Highly complex sectors are more disposed to corruption than others, since the complexity makes control and monitoring hard. Sectors that are especially exposed include construction, utilities and the extractive industry (J. E. Campos & Pradhan, 2007; OECD, 2015).

According to Rose-Ackerman (2016), the causes of corruption can be classified broadly in three different categories: institutions, incentives and personal ethics. Institutions refers to society-wide institutions like the political structure, legal structure and rule of law, and these affect culture. If these institutions are not functioning well and are unable to hinder corruption, they can become a driver of corruption. The reason is that it is possible to be corrupt without the fear of being penalised. Incentives are situation specific and includes low salaries, monopoly power, discretion and lack of accountability. A decision maker with discretionary authority might be tempted to exploit opportunities for self-enrichment. This opportunity exists where it is possible to control the supply. By creating scarcity, the willingness to pay a bribe to retrieve a service might increase. Corruption is more available in the countries with weak monitoring, since the risk of being penalised is lower. The abovementioned causes can be present in various degrees in different markets and countries. They interact and influence what types of corruption that is present and its level. This means that the causes affect the inclination to be corrupt.

Some people use culture as an explanation for corruption. Foreign companies might consider paying bribes a part of the culture in the host country. This is especially so if the country is ranked low on Transparency International's Corruption Perception Index. Rose-Ackerman (2016) studies the cultural argument closer. She argues that culture can change, and that what

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is considered acceptable can be changed if the consequences are clearly communicated. Bribing is motivated by economic reasons, even though it is rationalised by culture.

Tvetene and Vagle (2016) study and compare the performance of companies who are sanctioned for corruption (corrupt) and companies who have never been sanctioned (corruption free). They find no significant differences in how companies are performing in terms of share price development and return on assets. The fact that it seems like corruption does not harm the company when it gets punished, can make corruption less deterrent.

### *Bargaining position*

The level of bribery are affected by the relative bargaining power between the parties (Rose-Ackerman, 1996). Collusive corruption might be tempting for a company since there is much potential for high earnings, especially where the risk of detection is low. Extortive corruption can lead a person or a business to pay a bribe, because it feels compelled to do so. How state authority is organised, namely the institutional organisation, affects corrupt incentives. Some individuals have a gatekeeper position where they can control the access of a product or a service. These people can exploit their position and demand bribes. This implies that areas where there are gatekeepers might be more prone to corruption.

## 1.5 Anti-corruption

Anti-corruption initiatives aim at increasing integrity in the society by combatting corruption. Anti-corruption initiatives have different approaches, including laws and regulations, voluntary initiatives that are either coordinated or not, and economic incentives (Søreide & Abramo, 2008).

The number of countries that ratify international anti-corruption conventions are increasing, and the development of important anti-corruption laws and regulations will be explained in the first subchapter. To have an impact, it is necessary that the reforms are implemented in the countries. Subsequently, the focus will be on factors that are pulling towards that companies should use time and resources on anti-corruption. Corruption raises both legal and ethical issues for the company and affects the profit. We will describe corporate social responsibility and its implications for anti-corruption.



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### **1.5.1 Development of anti-corruption laws and regulations**

A state's integrity system and checks and balances play important roles in preventing corruption in the state and create institutions and regulations for crime deterrence. The United States Foreign Corrupt Practices Act (FCPA) was enacted in 1977 and has become a key legislation on fighting corruption.

In 1999 the OECD Anti-Bribery Convention was created after the FCPA generated support for an international convention (Rose-Ackerman, 2016). The principles of the OECD convention widen the FCPA and it has an opening that allows states to adapt the convention to the national legal system. The convention is ratified by all 35 member countries and six non-member countries and requires all member states to criminalise foreign bribery (OECD, n. d.; Transparency International, 2011). One challenge is that not all OECD countries have corporate liability in their legal system, which reduces the possibility for sanctions on companies. Some of the anti-corruption legislation is harmonised between OECD countries, but there is still a significant difference on how the laws are applied and enforced; only 17 out of the 41 signatories to the OECD Anti-bribery convention have successfully sanctioned foreign bribery between February 1999 and June 2014, whereas the United States accounts for 128 of the 207 sanctioned cases (OECD, 2014a).

The UN Convention Against Corruption (UNCAC) covers more than foreign bribery and was negotiated in 2000 (Rose-Ackerman, 2016). The United States was one of the strongest supporters and among the first countries to ratify UNCAC (Rose-Ackerman, 2016), confirming the United States as the leading country when it comes to anti-corruption legislation and enforcement.

### **1.5.2 Anti-corruption compliance in companies today**

In a response to new legislation, there is an increasing focus on implementation of anti-corruption measurements in companies. NGOs and IGOs are fuelling this development by creating suggestions for companies on how to improve. E.g. Transparency International and UN Global Compact agreed in 2009 on producing a guide for companies on how to fight corruption (Rose-Ackerman, 2016). A survey shows that following a Transparency International – UK project on improving transparency, 60 per cent of the companies participating in the survey improved their codes of ethics between 2012 and 2015 and 33 per cent improved significantly (Rose-Ackerman, 2016). A consultancy report from Control Risk

(2015) indicates the same development: In 2006, 72 per cent of the United States companies had compliance training for employees, in 2015 the number is 82 per cent. In Germany, there was an increase from 32 per cent to 67 per cent, and the trend is the same in the United Kingdom and France. OECD (2014a) writes that 31 per cent of the cases brought to law enforcer's attention were self-reported, while 13 per cent was by police and customs. Mutual legal assistance accounted for 13 per cent of the cases. This indicates that companies are willing to self-report if the mechanisms are in place and they will benefit from self-reporting (OECD, 2014a). However, it also illustrates the importance that companies implement sufficient compliance programs to detect corruption since they are in a good position to deter criminal activities. 17 per cent of the self-reported cases was investigated because of whistleblowing, 28 per cent due diligence and 31 per cent internal audits. The report from Control Risk also reports that companies have become more willing to fight back when they lose contracts because of bribery. Companies willingness to complain to law-enforcement authorities and/or file an appeal on the process has increased (Control Risks, 2015). We can see that companies are moving towards more compliance and awareness of the corruption problem, and that the development of laws has increased in the same period. However, international conventions are only soft laws and there are low consequences from not enforcing the laws. This has resulted in some countries that fight corruption, while other countries are not putting in the same efforts. Due to the nature of corruption and that information is not easily available, internal control mechanisms in companies to fight and detect corruption is important for cases to be detected.

Top leader commitment is considered important for making anti-corruption measures in companies work. Knowledge that the top management will support employees in resisting bribes makes employees more willing to comply with rules. However, top managers are also identified as a threat and risk where corruption can happen. They are on top of the hierarchy and are usually the ones that develop the program. Top managers can then have the power to circumvent the rules. Internal warning about suspicious cases are sent to leaders, and top managers can upon receiving the warning hinder further investigation.

### **1.5.3 Anti-corruption as a part of CSR**

Corporate Social Responsibility (CSR) is a broad concept that has been used in discussing the proper relationship between business and society. Engagement in CSR activities can either be externally motivated by strategic CSR, where CSR measures are taken based on economic

self-interest. External drivers can be social and political pressure, customer preferences and legislation. Normative CSR is based on intrinsic motivation, where the company takes responsibility because of moral reasons. Carroll (1991) identifies four responsibilities regarding CSR. He argues that these can be illustrated as a pyramid with the economic responsibilities as the foundation. The next layer is the legal responsibilities, and then the ethical responsibilities. He places philanthropic responsibilities at the top of the pyramid, which we in combination with ethical responsibilities see as moral reasons. The legal framework is already mentioned earlier, and provides reasons why corporations are implementing anti-corrupting measures from a legal perspective. We will now list economic and moral explanations for why companies engage in CSR and anti-corruption.

### *Political CSR*

Corporations have a growing influence on political processes (Palazzo & Scherer, 2008). Scherer and Palazzo (2007) proposed the concept of Political Corporate Social Responsibility (political CSR). They argue that the impact corporations have on democratic institutions and their participation on governance can be described as the politicisation of the corporation. This means that they consider corporations to be political actors. Some scientists have studied the concept of corporate citizenship, which deals with the social role of business (Matten & Crane, 2005). Scherer and Palazzo argue that corporations are more than “simple extensions of the private self” (Palazzo & Scherer, 2008, p. 774), so that corporate citizenship as a concept is too narrow. Non-governmental organisations and private companies are often involved in filling governance gaps, and are therefore participants in governance processes (van Schoor, 2017). Corruption is a transnational governance challenge, and this implies that private actors can help fill this type of governance gap.

A more practical reason is that being socially responsible will help to ward off or shape government regulations and indirectly boost profits. In the global context, this has become a frequent practice as multinational enterprises have sought to mould the infrastructure and governance of nations in which they invest and locate.

### *Economic reasons*

Rose-Ackerman (2016) suggests that American companies can turn the FCPA into an advantage. Investors seek to invest in companies that conduct ethical practice and do business in fair markets. We already know that corruption increases the transaction cost, but there is an increasing popularity for Socially Responsible Investment (SRI) where investors are seeking

ethical businesses. Europe is leading the way with around half of the total managed assets invested on the basis of SRI (Global Sustainable Investment Alliance, 2016; Scholtens, 2014). Some of the strategies followed in SRI are negative and positive screening of companies, excluding the worst or choosing the best-practice companies. Good ethical standards may attract investors, while a bad reputation and involvement in scandals may repel investors following a SRI approach.

Corruption increases investment costs and distorts competition. It is also costly for a company to engage in corrupt activities. These costs can include a bribe payment, but there are also costs associated with the risk of being caught and the level of the fines. If a company has a long-term time horizon, it is economic rational to fight corruption to make a predictable and fair business climate, and to level the playing field.

A company that engage in corruption exposes itself to a reputational risk. There is a risk that unsatisfied customers use their consumer power to sanction companies that are caught for engaging in corruption and reward companies they perceive as good. By engaging in anti-corruption and CSR, they can attract customers that value social responsibility (Hainmueller & Hiscox, 2015a, 2015b; Hainmueller, Hiscox, & Sequeira, 2015). Rose-Ackerman (2002) also suggest that superior ethical standards can lead to a competitive advantage as NGOs monitoring the business market may protest if contracts are assigned to low-quality suppliers. If a firm is observable better in quality and would win in a fair market, then the cost of corruption is only reducing profit.

Arguments are also considering that bad reputation will affect employees and future employees. Research show that CSR makes work more meaningful and increases the employees' motivation. Meaning that employees work harder for a certain payment and they accept a lower salary (Ariely, Kamenica, & Prelec, 2008). For a company, this will affect the profit in forms of lower cost or higher productivity.

If the expected economic benefit from engaging in anti-corruption and work towards a level playing field was profit maximising for the firm, then corporations would act against corruption and resist paying bribes. However, a narrow profit seeking interest is not enough to generate action from companies that are profit maximising (Rose-Ackerman, 2002). For action to be taken, there must be a collective change in the behaviour, that comes from

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accepting that there are ethical obligations beyond obligations to shareholders and manager's personal morality.

### *Moral reasons*

Companies are legal persons, and by nature do not have their own moral and consciousness. Some would argue that this implies that a company do not have responsibilities outside generating profit for the firm. Corporate integrity and moral expectations by the public go beyond compliance with laws. It is possible for corporations to take advantage of loopholes in laws and regulations and/or decide to operate in countries where the legal standards are weaker. This implies that a company can be lawful and profitable, without being responsible (Schwartz & Carroll, 2003).

Multinational businesses have moral obligations, especially since some of them are larger in size and influence than some nation-states (Donaldson, 1989; Rose-Ackerman, 2016). Donaldson (1989) creates a hypothetical social contract between the corporation and the society, and argues that one condition for a firm's existence is that it accepts moral obligations. For corruption, this means an obligation to enhance the efficiency of the market economy and to maintain political legitimacy. The company must take decisions that further the overall efficiency of the market economy, even though it is not individually rational or profitable. According to Rose-Ackerman (2016) this means that a firm has a moral obligation to both refuse corrupt demands and to expose them.

## 1.6 Structure

The thesis is structured as follows: The second chapter describes collective action as an anti-corruption tool, challenges regarding collective action and factors that can influence a corporation to be a part of a collective action agreement. The third chapter describes Hirschman's exit, voice and loyalty framework, including extensions, and our interpretation of it. In the last part of chapter three, we will develop our hypotheses. We will in chapter 4 clarify our empirical approach, and chapter 5 describes the cases that we study. Chapter 6 contains our analysis and discussion chapter where we test our hypotheses with the cases. Chapter 7 concludes the thesis.

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## 2. Collective Action

Collective action is a common term used for different group actions where the parties have common interests. Collaborating to influence a decision or policy has been done for a long time. The idea behind collective action is simple: Gather some or many stakeholders to facilitate collaboration and create one unified voice.

Since agents that demand bribes do it out of self-interest, they do not care about which company that pays the bribe or how much the community loses as long as the agents profit from the bribe and keep their power. If a company is willing to meet the demands from the agents, protesting the system is of less use for honest companies. This signifies the importance of coordination so that everyone has the same interest and the agents feel forced to change the system. Joining collective action means that companies must comply with the agreed standards and give up some shortcuts in the way they are doing business, like paying a bribe. Giving up short-term strategies for profit may increase the transaction cost and loss of profit, which means that participants must move from a short-term perspective to a long-term view on profits.

In this thesis, collective action refers to voluntarily horizontal collaboration between companies (private and/or public), including initiatives that have both horizontal and vertical cooperation and/or involve NGOs. The aim of the collective action is to create a more transparent and fair business environment, which implies that the initiatives must have a long-term perspective. We will focus on initiatives with long term goals and leave out those that are project based. In our understanding, some costs are associated with initiating collective action. It is possible to measure whether a collective action has been successful or not. When fighting facilitation payments and extortive corruption, it is possible to measure how often bribes are demanded both before and after the implementation. One problem in measuring is the separation between the effect of the collective action and the effect of other measures. In initiatives that focus on compliance systems and training in companies, it is possible to review new or revisited compliance programs. The initiatives are formalised at the time of signing, and we will look at the process before and after that point. There are several phases where companies can join. The collective action must be initiated, which is at the time the first party mention or initiate contact about the topic. Then follows, a period of talks that leads up to signing an agreement. Signing is the formal joining of collective action. After the signing, more companies can join. Collective action will impose some direct and indirect costs to the

participating companies. A formal structure, administration and a sanction system generate costs that must be covered by participants.

First, in chapter 2.1, we will explain collective action in general and why it is an anti-corruption tool. Next, in 2.2, challenges that that can occur in the process to make a successful collective action initiative is described. In 2.3 we are looking how some of these difficulties can be dealt with, and finally, in 2.4 we sum up some of the key points.

## 2.1 Collective action as an anti-corruption tool

Collective action as an anti-corruption tool has the ultimate goal of changing the system by putting pressure on the receiver of the bribe, the system that condones it and institutions that fail to react. This tool gives corporations an opportunity to stay together in an attempt to create an even playing field.

The 10<sup>th</sup> Principle against Corruption from the United Nations Global Compact commits members to develop new policies and programs to address corruption. The principle challenges companies to involve civil society, UN organisations and governments to work for a more transparent economy (United Nations Global Compact, 2006).

The World Bank published in 2008 a guide for business on how to fight corruption through collective action (World Bank Institute, 2008). They write that collective action is a new and innovative way for companies to voluntarily go together to raise practice standards. The World Bank (2008) defines collective action the following way:

A collaborative and sustained process of cooperation between stakeholders. It increases the impact and credibility of individual action, brings vulnerable individual players into an alliance of like-minded organizations and levels the playing field between competitors. Collective action can complement or temporarily substitute for and strengthen weak local laws and anti-corruption practices (World Bank Institute, 2008, p. 4)

In 2010, The World Bank Institute Working Group specified some stakeholders; corporations, civil society and the government (World Bank Institute Working Group, 2010). Further, the article focused on the increased impact corporations might achieve when they come together as a group.

The most comprehensive publication about collective action in the anti-corruption area is probably *A practical guide to collective action* published by United Nations Global Compact

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(United Nations Global Compact, 2015). The guide categorises different types of collective action in a matrix based on certain characteristics developed by the World Bank Institute. The matrix distinguishes between long-term and short-term (project-based) approach and whether an external part will monitor the pact or not:

*Anti-corruption declaration* is the simplest form of collective action. Participants sign an agreement and have an ethical commitment. (Characteristics: Short-term and no external enforcement).

*Integrity pact*: Formal contracts between bidders and buyer. It is monitored by an external actor that can apply sanctions for violations. (Characteristics: Short-term and external enforcement).

*Principle-based initiative*: Long term contracts about not getting involved in corruption in daily business. Enforcement by “honour”. (Characteristics: Long-term and no external enforcement).

*Certifying business coalition*: Requirements to be a part of the group, checked by an external actor. Compliance-related; Certification. (Characteristics: Long-term and external enforcement).

The Centre for International Private Enterprise (CIPE) uses a similar matrix but has replaced external monitoring with complexity. However, these two frameworks are very similar. United Nations Global Compact (2015) continues by stating that many initiatives have characteristics that do not fit into one classification. Using classification helps describe the different forms of collective action, but cannot say something about the best form. Type of initiative must be determined by what suit the companies and the context best (World Bank Institute, 2008).

Collective action is a simple idea, but very complex and hard to go through with. It demands hard work, active participation and patience (Aiolfi, 2014; World Bank Institute, 2008). As United Nations Global Compact sum up with: “Collective action requires careful preparation and facilitation, must address locally relevant issues and must be developed within the framework of accepted international standards” (United Nations Global Compact, 2015, p. 133).



## 2.2 Challenges with collective action

Collaborating in collective action comes with risks and challenges for the participating companies since they are giving up some of their strategies for profit that are still available for other businesses. Challenges are related to the decision to join and whether the collective action can be successful. We will in this part list the challenges identified in theory and literature.

Rothstein (2011) refers to Olson's (1971) theory of collective action and states that even though people know that they collectively can earn from a corruption-free environment, they do not have incentives to change their behaviour. Single agents risk being uncompetitive and punished by the decision maker in their hunt for a fair process (Rothstein, 2011). The goal is to create a platform where businesses can have an interaction and build trust (United Nations Global Compact, 2015; World Bank Institute, 2008).

### 2.2.1 Trust

United Nations Global Compact (2015) lists challenges identified by companies and stakeholders for a successful collective action. One of the main difficulties is a lack of confidence in corporations and stakeholders that are a part of the collective action group.

Trust is defined by Dietz and Gillespie (2012, p. 6) as “a judgement of confident reliance in either a person or an organisation”. They further state that we judge trustworthiness based on a party's ability (technical competence), benevolence (motives and interest) and integrity (honesty and fair treatment). Steve Giles (2015) refers to a quotation in his book *The business ethics twin-rack* to illustrate why trust is an issue: “if I am going to have trust, to trust you, to trust the organisation, that means that I am prepared to make myself vulnerable to you.” (Giles, 2015, p. 41).

Empirical research shows that trust and collaboration between companies are positively correlated (Schumacher, 2006), thus low levels of trust requires more comprehensive measurements to prevent cheating. Schumacher suggests that a low degree of trust is more expensive than high level of trust since monitoring is costly (Barney & Hansen, 1994; Gulati, 1995; Jennings, Artz, & Christodouloy, 2000).

Trust is a broad term, and there are many reasons for distrust. United Nations Global Compact (2015) has identified some reasons that are connected to collective action. One reason is

uncertainty about the companies' commitment, another is cultural differences. An example of the latter is distrust between local SMEs and MNE subsidiaries, based on different corporate languages used when discussing. The SMEs might be afraid of being outplayed. A third reason is related to ethical codes and business cultures that vary between countries, or that they do not want to be associated with some of the companies due to a previous scandal. Collective action is an unfamiliar tool for many businesses. A final source is a fear of losing business to bribe-payers.

### **2.2.2 Expectations and others behaviour**

The World Bank Institute (2008) considers collective action as a way of gaining this trust. The reference group of whom a company will look to is important. A company may identify more with a similar company than a different company (Rose-Ackerman, 2002). E.g. an MNE identifies more with other MNEs than local SMEs. Trust is built through interaction and shared values; thus, it is easier to trust a party you have relation to or can identify with. The context will also affect trust, and in corrupt environments with weak law enforcement, the context is not in favour of trust. Decisions are based on what a player expects other players to do. If a player expects the other company to cooperate, then it decides to cooperate (Fehr & Fischbacher, 2002). Aumann and Dreze (2005) underscore the fact that context can say something about what you can expect others to do: "The essential element in the notion of context is the mutual expectations of the players about the actions and expectations of the other players." (Aumann & Dreze, 2005, p. 8). This is advocated by Søreide (2009), that based on a business survey suggests that some firms might be inclined to pay bribes simply because of the risks that their competitors are offering a bribe. Committing to collective action may reduce the incentives and opportunities for corruption (Morrell & Bettcher, 2013), and the signal effect can have an influence on the business environment (Søreide, 2016).

### **2.2.3 Free-riding**

Another trust issue related to collective action is the uncertainty whether a company will contribute to achieve the common goals or use the opportunity to free-ride by letting other companies use resources on the collective action process. The problem can be seen as a "tragedy of the commons" (G. Hardin, 1968) since the profit a company can achieve from not contributing will be higher than the profit gained from contributing to the group. If all participants think about how they can gain more individually and less on the gain as a group,

no one will contribute, and they will be worse off in the long run than if they cooperated (Olson, 1971). Ostrom (1998) gave this type of problem the name “second-order collective action problem”. The second-order problem exists because collective action is costly and requires active participation and patience (Olson, 1971; World Bank Institute, 2008). According to Olson’s (1971) theory, the second-order collective action problem is more likely to occur in larger groups than smaller groups since it is hard to get away with free-riding in smaller groups.

### **2.2.4 Time inconsistency problems**

Kydland and Prescott (1977) found that a time inconsistency problem affected many political decisions, and demonstrated that there exist credibility problems in the government policymaking. Decisions that are taken at one point in time might be changed by the policymaker in the future if it is not committed to the decision. Rational private agents will consider the present situation and their expectations of the future when deciding how to act. This means that these actors will not be influenced by an inconsistent rule because they anticipate a deviation from it by the policymaker in the future. The government must, therefore, make binding commitments to avoid these credibility problems. Commitments that are undertaken by the government influence private actors' expectations. Being committed to long-term rules give predictability to the other players in society.

Even though Kydland and Prescott are concerned with monetary policy, it is possible to use these insights in other areas. Difficulties in making a binding commitment can explain why collective action agreements do not exist in cases where it could be appropriate. The time inconsistency problem can be used to illustrate this: If a company promise to be a part of a collective action, but will in the future be incentivised to infringe the agreement and that is understood by the other parties, then the agreement will never take place. If it is possible to make a binding commitment to the agreement, then a collective action can be formed.

### **2.2.5 Collective action as a prisoner’s dilemma**

Russel Hardin (1971) points out that the leading theory on collective action, made by Mancur Olson (1971) is a prisoner’s dilemma. Most of the research that aims at solving the prisoner’s dilemma focus on free-riders. Different approaches have been made; understanding collective action as a sequential prisoner’s dilemma, using social status to explain why people choose collaboration, and how communication influences the decision (Reuben, 2003). Companies

fear that they will lose business to bribe-payers if they do not pay a bribe. The fear can be explained by the same mechanisms in the prisoner's dilemma game as the free-rider problem and Hardin's "tragedy of the commons".

		Player B	
		Not bribe	Bribe
Player A	Not bribe	(10, 10)	(3, <b>13</b> )
	Bribe	( <b>13</b> , 3)	( <b>8</b> , 8)

Figure 1: Illustration of prisoner's dilemma

The game prisoner's dilemma has two players, whom both could obtain a better outcome collectively if they cooperated, but fail to do so (Sørgard, 2003). This leads them to the worst possible outcome. It is a simultaneous game, so they cannot observe the others decision.

Fehr and Fischbacher (2002) change the prisoner's dilemma into a coordination game where the expectation of others behaviour is the central factor in determining where the equilibrium will be. This can also be seen as a coordination failure that occurs when "a group of decision-makers/players could achieve a more desirable outcome but fail to do so because they do not coordinate their decision-making" (Søreide, 2016, p. 218).

One example of why a prisoner's dilemma situation is critical is in a tender bidding. A contract is to be signed, and companies are bidding to win the tender bidding. If all participants agree that they will not pay bribes, the decision must be based on other factors. However, in a situation like this, breaking the collective agreement and pay a bribe might secure the contract for the bribe-paying company. The other bidders are left with nothing.

The fact that it is possible to profit on free-riding also makes it profitable for companies to appear like they have a well-functioning compliance system, even though it knowingly pays bribes. This can be explained as window dressing. For a company that widow dresses, the main purposes of the compliance system are to be perceived as honest, ethical and corruption free (Søreide, 2016). A company may then take part in collective action just to be viewed as honest and ethical. Research on corporations and environmental contribution found that companies are using voluntarily environmental disclosure as a form of reputational risk management. It means that the companies are judged on the communicated policies and

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strategies, which reduces the focus on actual environmental performance (Cho, Guidry, Hageman, & Patten, 2012).

## 2.3 Positive influence on the decision to join collective action

We have described different challenges with collective action. Failure in addressing these difficulties reduces the probability of companies joining collective action. In this part, we will look at forces that have a positive impact on the decision of whether to join or not. We will then describe theories that suggest why corporations voluntarily choose to cooperate in prisoner's dilemma situations and then empirical research that identifies when cooperation will occur.

### 2.3.1 Facilitation

The categorisations mentioned in paragraph 2.1 contain simple forms of collective action like agreements between companies, and more larger and more complex initiatives that involves different external parts. Experiences from previous collective action initiatives show that facilitation from a neutral part is important for the progress to create trust and bring the forces together (United Nations Global Compact, 2006). However, it is possible that only a small coordinating structure created by participants is sufficient. Another question is whether it is the external facilitator that is necessary or the resources that an external facilitator can contribute with. E.g. cover start-up costs. Facilitation, monitoring and possibilities for sanctions imposed by a third party can create binding commitments since there will be consequences from breaking a commitment. Research on cartels in the sugar industry emphasises the role of a neutral part that can audit the firms (Genesove & Mullin, 2001). This suggests that a neutral facilitator can be a trusted party coordinating the collaboration and monitor the agreement.

Facilitation is also about providing examples of how the joined force can be executed (United Nations Global Compact, 2006). It is suggested that using former business leaders or known international NGOs makes trust among the participants easier. However, too many stakeholders will weaken the commitment and make decisions more difficult (Olson, 1971; United Nations Global Compact, 2015). A study on cartels found that many cartels that had more than six members had a facilitator that helped with reaching an agreement, and could

stabilise cartels with many members (Levenstein & Suslow, 2006). Hence, a facilitator can make administration and the consensus in the collective actions more stable.

### *Free-riding and facilitation*

The importance of facilitation is underscored by Oliver and Marwell (1988), but not necessarily as an external third party. They are at the same time criticising the notion that free-riding is a problem. More important to the collective action problem "is whether there is some *social mechanism that connects* enough people who have the *appropriate interests* and *resources* so that they can act" (Emphasis added, Oliver & Marwell, 1988, p. 6). The social mechanism is described as an organisation or social network.

The expectation and actual action produce a self-reinforcing effect where additional contribution generates more contribution (Granovetter, 1978). This is explained by a threshold model where different participants have different thresholds they must pass before joining a group, meaning that the various actors have different requirements before they join and that contribution generates more contribution. The last years' experiences on anti-corruption suggest that the bandwagon effect has contributed to change attitudes and create a large coalition of players supporting corporate responsibility in the area of anti-corruption (Rose-Ackerman, 2002).

### **2.3.2 Social pressure and moral obligation**

A bad reputation will affect the revenue stream of the company since customers, partners and prospective employees will change their impressions of the enterprise (United Nations Global Compact, 2015). By joining collective action, a company will be able to show commitment to the anti-corruption agenda. Disclosure and potential exclusion from a collective action initiative induce an increased cost to the company because of the previously stated commitment to the anti-corruption agenda (United Nations Global Compact, 2015). In the "Bribe payers index 2011", Transparency International (2011) emphasises the importance of the relationship between business integrity and foreign bribery, and that a European business survey finds that the respondents believe that strong ethical reputation leads to a commercial advantage. This suggests that corruption is seen as a problem by the population, and hence there is a social pressure for companies from countries where corruption is condemned to conduct business ethically. Some research also shows that firms that are performing well are

suffering more from a bad reputation than a firm with lower performance (D. M. Kreps & Wilson, 1982; Rhee & Haunschild, 2006).

United Nations Global Compact (2015) states that large MNEs are important for the credibility and commitment to collective action agreements. MNEs have the resources to engage in collective action with local companies, and they must also comply with international anti-bribery laws. We can relate the importance of MNEs to trustworthiness, as they have the ability in the form of resources, they might have an interest in conducting business in a fair market and be perceived as a company that are conducting business in an equitable way in accordance with their compliance system. These factors support the United Nations Global Compact argument that MNEs might have a moral obligation to be a part of these initiatives. SMEs may try to become more similar to large MNEs by copying their practices, which implies that the large MNEs have a particular position and obligation to promote an anti-corruption agenda publicly (Rose-Ackerman, 2002). Olson (1971) points out that in many cases, there is a fixed cost to establish an organisation and the establishment must be done before the participants can obtain the collective good. Thus, this implies that MNEs with many resources might have an obligation to initiate and convince local SMEs to join.

Moral obligation can be reflected in decision making as a moral cost. The victims of financial crimes are often hard to identify, and corruption is not condemned by the civil society. The feeling of shame is connected to the reactions, and since few will react on corruption, it is easier to rationalise it (Søreide, 2014).

### **2.3.3 Cooperation in prisoner's dilemma**

If the initial situation is a prisoner's dilemma, there are two methods available that can make the players cooperate (Sørgard, 2003). The first method is to change the underlying conditions behind the payoffs and alter the game from a prisoner's dilemma to a game where cooperation is possible. The second method is influencing the other player for future prisoner's dilemma games. This requires repeated games between the same players.

The outcomes in a one-shot prisoner's dilemma game can be changed by reducing the expected profit from bribing. The government can increase sanctions for a company that gets caught for bribery or increase the probability of detection. This is only effective when the firm believes that the likelihood of getting sanctioned has grown, and that being penalised is possible. One problem in this regard is corruption in law enforcement. A company inclined to pay a bribe in

the first place may also be likely to bribe their way out of a prosecution. Bribery can also become costlier if the players can agree and commit not to pay bribes. This agreement is only considered credible if deviation by one of the parties is possible to observe and sanction by the other party or a third party. A key condition is a credible commitment.

When a prisoner's dilemma game is repeated, it is possible for the players to cooperate. This is done through influencing the opponent for future games. The reason why cooperation becomes attainable is that the players can threaten the opponent with sanctions if it deviates. Defection is also less attractive since the player's reputation is affected by the decision.

Axelrod (1984) studies the iterated prisoner's dilemma. The players must decide what option to choose every time the game is played, and this is more than once. This means that previous decisions made by the opponent can affect the next decision. Axelrod identifies different strategies that can be used, with different capacity for forgiveness, hostility and complexity. He made these strategies compete in a tournament. "Tit for tat" was the winning strategy. In this strategy, the player starts with cooperating and in the next rounds replicates what the other player chose in the previous round. Tit for tat punishes defection, which reduces the opponent's incentives to defect. At the same time, it is forgiving, so that cooperation could happen again.

For cooperation to be chosen as a strategy, the games need to be repeated either infinite or have an unknown end (Sørgard, 2003). The players are rational, so having a specified number of repeated games cannot make the players cooperate. This can be shown through backwards induction: In the last round, both players will deviate based on the same arguments that the one-shot game is built upon. In the game before the last, both players know that they will deviate on the last game. That gives an incentive to deviate in this round as well. This will be the case in all the previous steps and deviation is the Nash equilibrium in all rounds of the game. Kreps, Milgrom, Roberts and Wilson (1982) studies "rational cooperation in the finitely repeated prisoner's dilemma" (p. 245), and Andreoni and Miller (1993) tests the model that Kreps et al. posed. They argue that cooperation early in the game can be consistent with rational behaviour if it is not known what types the players are. The argument is that there might be a chance that the opponent follows a cooperation strategy, for example, a tit for tat strategy, or that it is altruistic. If this could be the case, it is in both players interest to build a reputation for being cooperative, and rather deviate near the end. They found support for their



prediction that cooperation is possible and added that it appears to be altruistic types in the population.

Cooperation is attainable if the game is repeated. Collective action is therefore possible in markets where businesses compete several times. If the companies agree to not engage in corruption, and they know that the other company or a third party will sanction a deviation, it is possible to obtain cooperation. By following a tit for tat strategy, it is possible to sanction a deviation and later cooperate again if the other player changes strategy back to cooperation. Regarding corruption, it is a challenge that the transparency is low. It might be hard to know whether the opponent cooperated or deviated, which can make a tit for tat strategy less functioning since misconceptions easily occur.

### *Theory and research on cartels*

Cartel theory describes a prisoner's dilemma situation where there is collaboration. Assuming that cartels are maximising profits for the member companies, the cooperating companies reduces the quantity produced to increase profits through increased market price. The participants must be willing to cooperate and produce only the agreed amount. However, every participant must give up chasing short-term profit since the members of the cartel have short-term incentives to produce more than the allocated quota. For this reason, the equilibrium with cooperation is not a stable equilibrium for the cartel (Sørgard, 2003). Sørgard writes that corporations can choose between a high short-term payoff followed by lower income, or a higher long-term profit. He identifies four criteria that can explain how cartels can be successful in maintaining their collaboration:

*Patience.* The players must have patience and a long-term perspective on the payoff to avoid choosing the short-term profit. Since collective action comes with a cost and potential revenue loss, this is consistent with what we found in theory about collective action. Players must have a long-term perspective and not look for the short-term profit.

*Short period between each game* is needed to quickly detect if a player is defecting from the agreement and the cartel can impose sanctions. However, it can be difficult to detect defecting behaviour sometimes.

*Punishment for violating the agreement.* If a violation is detected, the cartel must have some punishment that makes defection less tempting. The punishment must be considered as a viable threat for the companies to take the potential sanctions into account. Since bribing is

illegal in most countries and cooperation about not paying bribes do not violate competition laws, there are more options available for monitoring and enforcement of the collective action than in illegal cartels. In this matter, monitoring by an external part may increase the seriousness of the threat for the firms. In addition to an economic sanction, violation of collective action can also have a threat of moral condemnation and potential loss of revenues in other markets. Hence, punishment does not only depend on how the other members can punish the defector but also how current and prospective customers will react.

*High entry barriers.* Preventing other firms from entering the market is important, and with low entry barriers, new companies will enter if the market price is higher than the marginal cost since it will be profitable to operate. When it comes to anti-corruption and collective action, if the players taking part in the collective action can easily be substituted by other companies that are willing to pay a bribe, then it might be less effective.

Levenstein and Suslow (2006) concludes in *What determines the cartel success?* that a cartel must solve three issues to be successful: cooperation, cheating and entry. The issues are in line with the cartel theory (Sørgard, 2003). Levenstein and Suslow find that few and large enterprises in the market increases the stability of the cartel and that cartels with six or more participants had assistance from business organisations or the government in organising the cartels and assist in reaching an agreement. Levenstein and Suslow conclude that assistance in forming the cartel may help in markets with less concentration. They also found that successful cartels “learn” how to adapt the goals and output to the changing market, how to monitor members and create incentives that prevent cheating by providing long-term benefits. Communication is seen as important to build trust between the participants since the competitors’ inclination to cooperate can be significant on the success of the cartel.

If a cartel is able to influence the market price, it must be a dominating player that produces quantities that affect the market. Without a dominating position, increasing the price would be difficult since other suppliers will provide the goods at a lower price. This implies that the market share of the collaborators will affect the formation of cartels. Empirical research on cartels confirms that cartels are more likely to form in markets where they have a high market share (Filson, Keen, Fruits, & Borchering, 2001).

This means that potential cartel members must have a high market share combined if the cartel shall be successful in influencing the market price. Later, there must be high entry barriers that

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prevent entrants. A third factor is then identified through articles and empirical research (Duyne, 1975). The elasticity of demand must be low. It is important that consumers do not find substitutes for the goods provided by the cartel. The elasticity decreases with increased market share for the cartel (Duyne, 1975).

Bertrand, Lumineau and Fedorova (2014) use another approach and study supportive factors for collusive behaviour between firms. They found that the performance of the business is negatively correlated with the likelihood of joining cartels, which means that a company that performs well is less likely to take part in illegal activities. This correlation is moderated by industry growth since potential earnings from growth in the market reduces the need to increase profit with illegal measures. Further, they found that larger firms are more likely to participate in cartels, but that the level of industry concentration negatively influences this effect. Bertrand et.al.(2014) argue that the size of the firm matters because of the possibility to establish a cartel through available resources and to adapt their internal capabilities. They further argue that from the moderating effect, a line can be drawn to theory and research on cartels related to market share. Low concentration in the industry means many companies that can potentially cheat. It is easier to coordinate few firms, and a high market share means that there is less need to worry about non-participants.

Cartel theory is in one significant way different from using collective action to fight corruption. Creating a cartel for price or quantity collaboration between corporation is violating competition laws, while not cooperating is legal. Anti-corruption cooperation efforts are legal. The corporations can also reach a written agreement where they clarify their goals and intentions and publish information about the cooperation. A legal contract can be enforced by legal institutions. In a cartel, there might be increased transaction costs relating to the fact that it is illegal. Resources are used to keep the cartel hidden, and there is a danger that the other parties either deviate from the agreement or even report it to the authorities. Having transparency in an anti-corruption collective action is possible. It makes it easier to monitor that everyone does their part. There is a danger that what appears to be a collective action fighting corruption, is a camouflage for hiding illegal cooperation. This is less likely in initiatives that openly inform the public about their meetings and agreement, but also where neutral third parties, like Transparency International, monitors the collective action.

## *Communication*

From research on solving prisoner's dilemma in cartels, communication is seen as a key condition to develop actions and solve problems. David Sally (1995) confirms that communication is leading to cooperation in prisoner's dilemma with a meta-analysis of multiple experiments on communication and cooperation in prisoner's dilemma situations. Passas (2017) argues that there are five conditions for collective success. One is continuous communication and he argues that communication is needed to build trust and assure common objectives and motivation. This is connected to having a common agenda, which is another condition. Passas explains common agenda in the following way: "All participants have a shared vision for change including a common understanding of the problem and a joint approach to solving it through agreed upon actions" (Passas, 2017, p. 24). If a common agenda can be approved and it is credible, then cooperation between participants can occur.

## 2.4 Key elements of collective action

In this part, we will sum up the main insight we got from describing literature related to collective action and anti-corruption. Profit is still the main driver for companies, and the search for short-term profit is what makes collaboration on anti-corruption measures difficult.

Collective action is identified to be prisoner's dilemma situations. For cooperation between companies to occur in prisoner's dilemma situations, three issues must be solved: cooperation, cheating and entry (Levenstein & Suslow, 2006).

Cooperation is related to trust between participants and the ability to establish cartels (Schumacher, 2006). Trust influences how we expect the other parties to behave, which again influences the probability of success. Finding a mechanism for coordinating the agreement is important (Bertrand et al., 2014; Levenstein & Suslow, 2006; Oliver & Marwell, 1988). Research shows that communication leads to cooperation in prisoner's dilemma situations (Sally, 1995). The issue is to make a credible commitment between participants to maintain the coordination equilibrium. Building on this, the theory about trustworthiness and how companies that are trustworthy and seeking cooperation can benefit from signalling their type.

A long-term perspective is necessary to avoid cheating and prevent participants from seeking short-term profit (Rose-Ackerman, 2002). The revenue cannot be expected to appear quickly, and it is important that the participants see the long-term benefits as more attractive than the

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short-term benefits. An efficient system for monitoring of members to detect cheating and impose sanctions is important to increase the cost of cheating and make it less attractive. Low risk of and low profitability from cheating increases trust and conditions for cooperation by making the time inconsistency problem less important. Losing business, and then income is a primary source of resistance from firms to engage in collective action. Firms being perceived as cooperating, while they deviate from the agreement is one threat to the stability. Another is companies that can enter the market and replace the companies that are collaborating, which makes preventing entrants important.

High market share through high concentration in the markets and mechanisms that prevent other entrants must be in place (Bertrand et al., 2014). The listed factors are important to reduce the number attractive alternatives available to the demand side to the services collective action participants provides.

Believing that the initiative can be successful makes it more likely that a company will join. MNEs add more credibility to the initiative, and with a lot of resources, they can attract more like-minded companies. It is important to have companies with resources and interest in the cause, and the bandwagon effect might increase the number of members (Bertrand et al., 2014; Granovetter, 1978; Oliver & Marwell, 1988).

Most of the studies on cartels are using the cartel as a unit of analysis (Bertrand et al., 2014). They have not studied factors that make a company participate in a cartel. Cartel theory identifies many factors but is not wide enough to understand a firm's decision. Companies also have more choices than only cooperation or bribe, as we use in the prisoner's dilemma figure. To increase this understanding, we will apply Hirschman's framework.

### 3. Theory

When companies are faced with corruption or markets with a high probability of corruption, companies have different choices on how to respond. We will study circumstances where a firm joins collective action, and although we recognise that decisions are made by managers on behalf of the business we are not studying the individual decision-making process in this thesis.

Hirschman (1970) provides an analytical framework in his book *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations and States*. His framework has been applied and adapted by political scientists, sociologists, social psychologists, management researchers and economists, both in theoretical and empirical studies (Dowding, John, Mergoupis, & Van Vugt, 2000; Graham & Keeley, 1992). Hirschman suggests that a consumer can choose between exit and voice when facing deteriorating conditions. He argues that loyalty influences this decision.

Theory on collective action and cartel theory give insights into circumstances that can lead companies to engage in collective action and describe mechanisms in place when considering cooperation. Hirschman's framework is applied to extend this understanding and includes the alternative of exit. This means that Hirschman's framework tells more about the factors leading to the situation with cooperation and deviation studied in the previous chapter.

We will in the first subchapter explain Hirschman's framework and describe critique and extensions to it. The next part is our interpretation of the framework. We will describe what factors that affect the companies' decision of strategy. Together with the literature on collective action and research on cartels outlined in the previous chapter, this lays the foundation for our hypotheses.

#### 3.1 Hirschman's exit, voice and loyalty framework

When people (e.g. customers, employees, citizens) perceive deteriorating conditions in products, organisations or states, there are usually two alternative responses available; exit and voice. If an individual chooses to exit, it withdraws from the relationship, e.g. stops buying a product. The firm must respond to the signals from the market, or they will lose to more efficient competitors. This is an economic mechanism associated with Adam Smith's invisible

hand. The second alternative is voice and Hirschman considers it as a political mechanism. Hirschman (1970, p. 30) defines voice as:

Any attempt at all to change, rather than to escape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protest, including those that are meant to mobilize public opinion.

Voice involves trying to change the deteriorating condition. There are different levels of voice, “all the way from faint grumbling to violent protest” (Hirschman, 1970, p. 16). One benefit with voice is that it is information-rich. A manager can get insights into why his customers are unsatisfied with e.g. a product, instead of trying to understand the uncertainties behind increased customer turnover and decreased profit (Hirschman, 1976).

Hirschman points out that some organisations faced with dissatisfaction through voice will use a strategy of countering voice (Hirschman, 1976). It means that they will try to still the voice of the person who uses voice, by for example buying him out.

Hirschman points out that the existence of an exit alternative can make voice less likely. He argues that exit has no cost if a substitute can be bought from a competitor without any switching cost and loss of quality. Using voice takes time and resources, and the player does not have the most optimal product. Because of this, exit drives out voice. Hirschman does not treat exit and voice as mutually exclusive forms of behaviour and states that voice can be a substitute or a complement to exit. Even though he considers them as complementary, he points out: “Once you have exited, you have lost the opportunity to use voice, but not vice versa ; in some situations, exit will therefore be a reaction of last resort after voice has failed” (Hirschman, 1970, p. 37). The statement that an individual has no opportunity to use voice after exit is criticised by several authors (Barry, 1974; Kolarska & Aldrich, 1980). In a case of corruption, a firm can exit a market and then use voice in an attempt to influence. E.g. warning about conditions in the market, or ask for compensation if the company suspects the business is lost because of competitors paying bribes.

Loyalty is the third concept Hirschman (1970) introduces to his theory. Loyalty influences both exit and voice. Loyalty implies an attachment to the product/organisation/state and will lower the perceived benefit from exit. Attachment is when an individual stay with an organisation that moves in what is believed to be the wrong direction or that an individual has

power and think it can influence the company. It implies that loyalty can lead to reduced use of exit since it prevents exit from taking place when it otherwise would be rational. Hirschman argues that loyalty activates voice because the loyal participants will use voice to pressure the organisation to change the deteriorating conditions. However, it means that they must believe that it is possible to be influential. Finally, he adds that it is possible to stay loyal without influencing yourself, but believing that someone will act or something will happen.

The decision between exit and voice is based on a traditional economic cost vs. benefit analysis. Voice will be selected if the expected increase in benefit from using voice is higher than the cost of using voice. Loyalty is a moderator that alters the decision by reducing the importance of cost from using voice.

### **3.1.1 Critique and extensions**

Hirschman's theory has become the target for critiques on certain aspects, but especially his use of loyalty and how this affects the choice between voice and exit. He limits the choice to exit and voice, and do not pay attention to other options. This critique has led to extensions, modifications and adaptations to describe different situations. We will go more detailed through the critiques in this part.

Barry (1974) focuses on whether members/customers believe that the product/service can be improved or not, rather than situations with deteriorating products/services. If they believe in improvement, they will stay. If this is not the case, they will exit. After the decision to stay or leave is made, they decide whether to use voice or stay silent. He adds two more options, silent non-exit and voice exit. This perspective opens the opportunity that even if a bribe averse firm is aware of the probability of corruption in a country, it can still enter if the company believes it can have an impact on the corrupt business environment.

Hirschman is criticised by other authors for not giving enough attention to the possibility of using voice after exit (Barry, 1974; Kolarska & Aldrich, 1980). Birch (1975) expresses a similar view and argues that without exit, a consumer is locked up in a dissatisfying situation and cannot leave and the organisation that the critique is aimed at does not feel the need to change. Voice is only possible if exit happens before or right after. This is because voice can lead to reprisals, and Birch criticises Hirschman for not taking retaliation into account. Hence, the availability of exit is a precondition for voice. Hirschman (1976) has corrected the lack of considering retaliation in a discussion article: "There may be retaliation and reprisals against someone who criticizes an organization, but remains within its reach" (p. 387). Hirschman



also argues that social mechanisms exist so that voice can be a response when exit is unavailable. Fear of retaliation on a single company is also one of the reasons used for why they should engage in collective action. If a company alone is using voice to criticise or attempt to influence, it might face reprisals on current activities if the criticism is not appreciated. A possible consequence is that they must leave the market, hence voice may need exit.

Hirschman does not study the decision of silence and non-exit and marginalises the opportunity that a player can decide to stay and be silent. The problem with ignoring silence and non-exit is that “this may well be the rational course to follow if exit is unattractive, even if it is believed that things could be done better by the firm, organization or state concerned” (Barry, 1974, pp. 91-92). The reason is that the person believes that nothing will or can be done, even if he raises his voice. Silent non-exit implies no effort, and could, therefore, be the path of least resistance (Kolarska & Aldrich, 1980).

Hirschman sees loyalty as a moderator that influences the decision between voice and exit. This view is debated by many. Graham and Keeley (1992) studies the different interpretations of loyalty and find that unlike Hirschman, some use loyalty as a third behavioural response. Barry (1974) supports Hirschman’s view that loyalty activates voice, even though he argues that voice is built into loyalty. Birch (1975), Farrell (1983) and Rusbult, Farrell, Rogers and Mainous (1988) suggests that loyalty suppresses voice so that loyal behaviour involves staying and being silent. Birch (1975) states that “in the normal usage of political language, loyalty means a disposition to accept rather than a disposition to criticize” (p. 75). In this interpretation, loyalty can be a behavioural response and described as “silence and non-exit”.

Rusbult, Zembrodt and Gunn (1982) use loyalty as a behavioural response and expand Hirschman’s exit, voice and loyalty framework by including neglect in their model. They use it to study decline in a relationship, and they develop a framework where they separate the four reactions according to two dimensions: Active versus passive and constructive versus destructive. This can be illustrated in the following figure (Dowding et al., 2000):

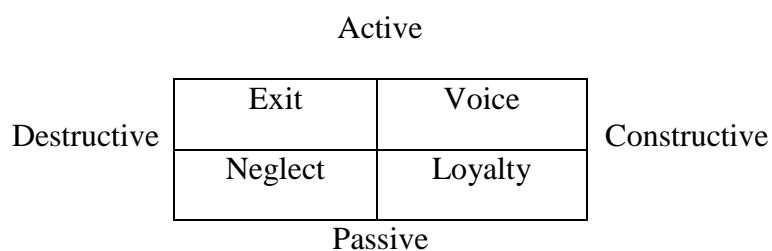


Figure 2: An illustration of the exit, voice, loyalty and neglect framework.

Loyalty is used as a passive response with the hope that things will get better or a silent non-exit response. Neglect is used as destructive response where the problems are ignored. Rusbult et al. (1982) find that the constructive alternatives are used where there initially has been a large investment in a relationship. Lower levels of investment made exit and neglect more likely. They also review how alternatives affected the decision and finds that attractive alternatives promote exit and hinder loyalty.

Farrell (1983) uses the framework in his study on responses to job dissatisfaction and tests the theoretically integrated model. Even though there are limitations, he finds that voice is active and constructive, exit is active and destructive, and neglect is passive and destructive. He also finds that loyalty is passive and somewhat destructive. This does not match the expected result, where loyalty is a passive, but constructive response.

Dowding et al. (2000) criticise the exit, voice, loyalty and neglect framework. One reason is that it treats loyalty and neglect as behavioural responses. Their study also criticises that exit and voice are separated as two alternative responses. They further argue that the two dimensions might not be correct. An example is that yelling is a destructive way to use voice.

### **3.1.2 Exit, voice and loyalty under corrupt circumstances**

United Nations Global Compact looks at a company's decision alternatives in corrupt markets in *A practical guide for collective action against corruption* (2015). Exit involves refusing to continue doing business, while voice involves protesting, criticising and making proposals for change. Loyalty may reduce the inclination to exit, and loyalty could occur when a company has been in the market for a long time. United Nations Global Compact argues that collective action can lead to the use of voice instead of exit.

Schleicher (2011) studies big city corruption in Chicago, and why neither exit nor voice has been able to limit it. One reason why exit is limited is that "people do not want to abandon their favored set of neighbors" (p. 248). People decide to live in the city because of the benefits, and in most cases, the costs associated with corruption is not big enough to make a person exit. Also, when someone exit a new person will enter.

## 3.2 Our interpretation of Hirschman's exit, voice and loyalty framework

In this part, we will go through how we will apply Hirschman's framework, describe the different choices and the categorisation of choices. We will then argue how companies will choose when faced with these options. After that, we will describe how collective action can affect the decisions and how this can make companies change strategy. Finally, we develop five hypotheses.

### 3.2.1 Framework and actions

We will draw upon Hirschman's exit, voice and loyalty framework, although not as originally formulated. Hirschman (1970) studies exit, voice and loyalty as responses to decline in firms, organisations and states. The framework can be used across different disciplines and issues, and our focus is on corruption in states. Hirschman's theory refers to exit and voice as responses to deteriorating conditions. We apply Hirschman's theory to understand why a company would change strategy. Barry (1974) argues that it is a question of whether a situation can be improved or not. Even though it is possible to improve the situation, it does not mean that it is the most rational choice, since using voice requires resources. We will, therefore, apply Hirschman's understanding where the strategies are chosen as a response to deteriorating conditions. In our approach, this can be deteriorating business conditions, for example, an increased demand of bribes. External and internal factors may change the motivation a company has for the selection of strategy. Internal factors can be factors like profit, while external factors can be market conditions or the business environment.

Following the thoughts put forward by Barry (1974) about silent non-exit, we will argue that a company also has a third option: Stay in the market without using voice. However, the action of the company can vary within silent non-exit. One option within silent non-exit is to pay bribes and support the existing market conditions. A second option is to stay in a market, operate honestly and refuse to pay bribes, but for different reasons not use voice; "suffer in silence" and hope that things will get better. Based on this, we will argue that silent non-exit has two options: We name the first explained option *bribery* and the latter *honesty*. Our model applies the exit, voice, loyalty and neglect framework introduced by Rusbult et al. (1982), but we replace loyalty and neglect with honesty and bribery. Even though we use this framework, we will not treat exit and voice as mutually exclusive alternatives. As discussed in paragraph

1.4.2, the consequences of corruption harm the community. Hence, we will argue that bribery is a destructive practice, while honesty is on the constructive side of the matrix.

In addition to destructive and constructive, Rusbult et al. (1982) also separate between passive and active. We see *active* as a response where a company does something to improve the deteriorating conditions and the playing field. *Voice* is a response where the company tries to influence with the aim of improving the situation and levelling the playing field. *Exit* is a choice where the corporation leaves the market and eliminate the problem for themselves and at the same time signals that they do not pay bribes. *Passive* action is strategies to cope with the situation and have limited impact. *Honesty* is trying to operate honestly and avoid paying bribes. *Bribery* is a passive choice of continuing to pay bribes and contribute to the unfair allocation of resources. These actions are not trying to change anything. Thus they are passive.

		Active			
Destructive	Exit		Voice		Constructive
	Bribery		Honesty		
		Passive			

Figure 3: An illustration of our implemented framework: Exit, voice, honesty and bribery.

### 3.2.2 Voice, exit, honesty or bribery

The company will choose the strategy that provides most profit (Hirschman, 1970). The theory presented in paragraph 1.4.3 by referring to Becker (1968) on crime and punishment is an extension of the same mechanisms as Hirschman uses to describe the choice between exit and voice. The company chooses the strategy with the highest expected outcome, even if it is illegal. However, strategies containing illegal activities impose costs in the calculation that are only applicable for the illegal strategy, like the bribe and costs associated with getting caught. A factor can positively influence on one strategy, and another negatively. Different factors can also have different significance between companies, meaning that they put different weight on different factors.

For the purpose of illustration, we will write a profit function on the different choices.

$$\pi_{max} = \text{total income} - \text{total cost}$$

$\alpha$  = Probability of success

$\beta$  = Expected revenue from production/sales

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$\mu$  = Probability of getting caught

$\pi$  = company profit

B = Bribe

C = Cost of using collective action

E = Exit cost (Cost of leaving current market + change in company profit + entry cost in new market)

L = Cost of getting caught (Legal, fines, managers in prison, investigation)

M = Moral cost

R = Reputational (social) cost

V = Cost of using voice (resources used when speaking up, loss of income)

W = Cost from keeping a compliance program

### *Exit*

We will argue that exit is likely to be the preferred alternative when the company has low sunk investment costs, and it can exit with low or no costs. Attractive alternative markets make exit more appealing. The rationality assumption makes it fair to assume that the company chose the most profitable market in the first place. Attractive alternative markets minimise this gap. Thus, high exit costs and less attractive alternatives make exit unattractive for companies. Exit is also more available to MNEs that do business in many markets. Local SMEs are more dependent on the market, and moving to a new country or market will affect their revenue stream much more due to loss of their income. Local SMEs may not have an attractive alternative market, or the cost of moving is too high. If a company has substantial sunk costs related to market entry (either legal or through bribes), it will face a situation where it has to accept a certain loss by exiting, or a potentially bigger loss by using voice. However, a rational entity will ignore sunk cost in the decision whether to exit or stay, but if the investment cost originates from entry costs and the current market is the most attractive market, then logically there will be high entry costs in the alternative market as well. For MNEs, there are also reputational costs associated with leaving the market and its customers. If the expected probability of improving the conditions by using voice is low, then exit is an alternative response if the company actively seeks to do something with the problem. The cost of choosing voice is also significant. Loss of income, resources to use voice and front the case and possible retaliation for protesting are important factors. The higher these costs are, the less attractive is the use of voice and more appealing is exit. However, unless there has been a significant

increase in the issue of corruption, a company entering the market should be aware of the problems with corruption due to country assessment risks and due diligence. Since they still entered the market, this may imply that they do not have attractive alternatives which makes exit a less likely response.

<b>Factors that make exit likely</b>
<ul style="list-style-type: none"> <li>• Low exit cost</li> <li>• Attractive alternatives</li> <li>• Estimated high cost of using voice</li> <li>• Low perceived probability of success from using voice, or that other groups will be able to influence.</li> </ul>
$\pi_{exit} = \beta_{new\ market} - E - R$

### *Bribery*

Bribery is a corrupt activity and represents damaging behaviour. Since we focus on bribes, we call it bribery when the firm engage in corruption. A rational company will conduct a calculation of consequences and the risk of getting caught when considering bribery. High income from paying bribes might outweigh the negative sides of the equation, which is in line with a research by Schleicher (2011) about citizens staying in big cities because the benefits compared to the cost makes it worth staying. Because legislation on corruption is enforced differently across countries, the risk and consequences of getting caught will be considered different between companies depending on country of origin and where they do business. Low entry cost may also reduce the belief that it is possible to improve since it is easy to replace a company that does not want to pay bribes. Low rule of law may also lead to that the enforcement and punishment is weak, and do not pose a big cost to the company if caught. In accordance with the calculation about moral cost in Søreide (2016), it is possible that the moral barrier for committing a crime is low, which reduces the moral cost. Techniques of neutralisation can reduce the moral cost even more, and without a strong external social pressure that raises the reputational cost, the barrier to bribe is low.

Søreide (2009) also gives a different explanation. The company might choose to follow a bribery strategy because it fears competitors are paying a bribe. Companies choosing bribery may have an incentive to try to hide their activities and pretend they are following another strategy.

<b>Factors that make bribery likely</b>
<ul style="list-style-type: none"> <li>• Fear that competitors will pay bribes</li> <li>• Not the company's responsibility Low moral barrier or limited pressure – techniques of neutralisation</li> <li>• Low probability of getting caught, low cost of getting caught</li> </ul>
$\pi_{bribery} = \beta_i - B - L\mu - R - M$

## *Honesty*

We separate honesty and bribery, and understand honesty as a form of suffering in silence (non-exit and silence), in accordance with Birch's(1975), Farrell's(1983) and Rusbult et al.'s (1988) understanding. Honesty is understood in the same way as Barry (1974) describes silence and non-exit: an option available if a company finds exit unattractive, but still believes that things can be better. Honesty captures different reasons, but the common factors are that companies believe it is possible to improve but do not want to use voice. Our use of honesty is associated with a company being loyal to its principles, which means that the corporation value their ethical standards and compliance. Thus, the company has a high moral cost in the calculation on whether to pay a bribe. Non-exit and silence might be the rational decision when the company believes that their influence from using voice will not be successful in improving the corrupt conditions. Fear of retaliation when using voice is a cost that reduces the willingness to use voice. If then exit is unattractive, silent non-exit might be the most rational choice and the way of least resistance (Kolarska & Aldrich, 1980). Choosing honesty saves resources for the company. However, operating honestly also comes at a price, as they might lose contracts to bribe-paying competitors and a functional compliance system requires resources too. If the companies expect that someone will be able to make improvements, then

suffering in silence might be the most rational response. In other words, to free-ride on someone. These companies are honest, which implies that they are ethical and positive to anti-corruption and collective action agreements, but will not take the initiative to make any.

<b>Factors that make honesty likely</b>
<ul style="list-style-type: none"> <li>• Believe it is possible with improvement</li> <li>• Expect that someone will use voice</li> <li>• Exit is unattractive</li> <li>• Want to operate honest – high moral cost</li> </ul>
$\pi_{honesty} = \beta_i - M - W$

### *Voice*

The choice of using voice depends on the evaluation between what the company can earn and the probability of success, cost and potential retaliation. Voice is a costly alternative and requires that the firm has resources if it uses voice alone. This is therefore likely to be big companies with resources (United Nations Global Compact, 2015). For a company to choose voice, it must believe that their potential influence is high. A strong position in the market (high market share) gives the company potential power to influence because of the market's dependency of the enterprise. This should increase the perceived probability of influence. Corporations from OECD countries must comply with strict foreign bribery laws and might have an extrinsic motivation to stay honest. External moral pressure from NGOs and customers that demand ethical business may influence companies company to act ethically. One example of this is pressure from the “publish what you pay” campaign. An active campaign to fight corruption and act responsibility may attract socially responsible investors. Following the pressure may lead to “social gain” in better reputation that attracts customers and employees. In relation to corruption, using voice alone would in most circumstances not influence the government. Using time and resources will generate costs, and the the risk of punishment from the criticised party comes in addition.



Another factor that pulls towards staying in the market is that exit is unattractive. However, the desire to use voice might be mitigated due to the risk of retaliation and expected consequences.

Factors that make voice likely
<ul style="list-style-type: none"> <li>• Believe it is possible with improvement</li> <li>• Exit is unattractive</li> <li>• Want to operate honest</li> <li>• Bribing involves high moral costs</li> <li>• High entry barriers</li> <li>• Social benefit</li> </ul>
$\pi_{voice} = \beta_i \alpha + R + M - V$

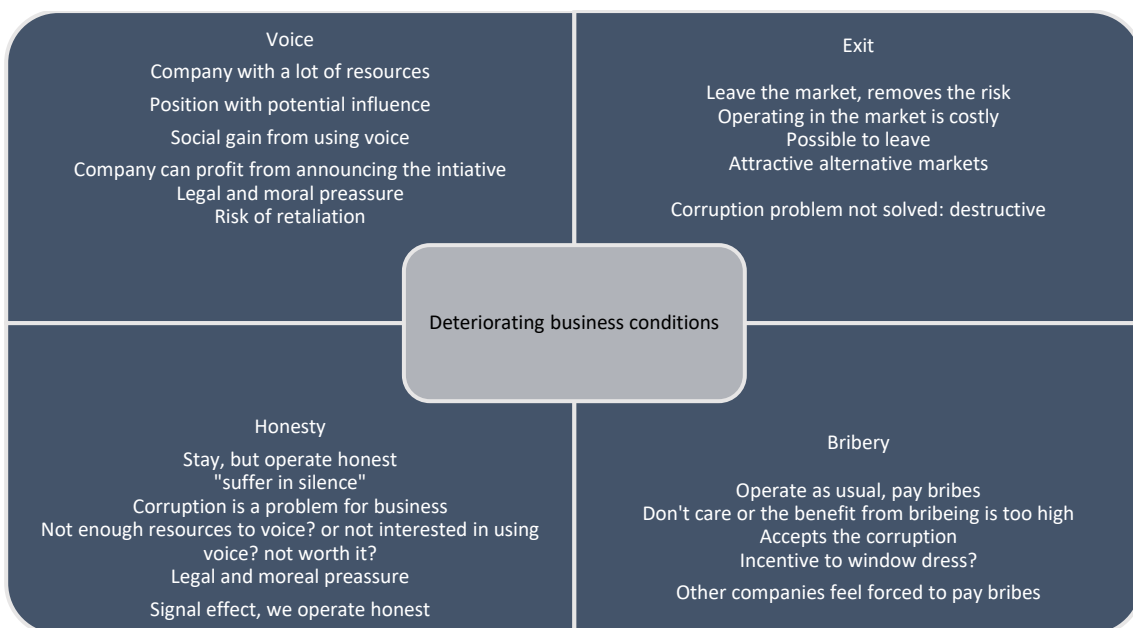


Figure 4: An overview over the exit, voice, honesty and bribery framework under deteriorating business conditions.

### 3.2.3 The influence of collective action

A company using voice alone is very vulnerable in situations where there is asymmetric bargaining power since they are in a position where they can be locked out from the market

and lose business. Working collectively by combining the market power will reduce the asymmetry in the bargaining power. A stronger position may alter the profit function and change the strategies by increasing the probabilities of success.

For a profit-maximising firm, the profit function for minimum one strategy must change. As discussed earlier in the thesis, there are few situations where economic reasons alone will change the decision (Rose-Ackerman, 2002). Therefore we do not only depend on direct revenue from the market in question but also some of the cost that is related to the risk of getting caught and the subsequent punishment, which affects social and moral profit and costs of the company. A firm must also change their profit calculation from individual deals to deals in a long-term perspective, like a repetitive game with an indefinite ending.

Affecting the profit from voice can in the easiest way be done through increasing the probability of success, but since a situation where the companies collaborate easily ends up in a situation with prisoner's dilemma (R. Hardin, 1971), making credible commitments between the participants is important. From cartels, we know that three challenges must be solved: cooperation, cheating and entry (Levenstein & Suslow, 2006). It means that for cooperation, there must be a credible commitment between the participants, which is affected by the ability to prevent cheating from participating companies. An external force must also prevent other companies from entering the market that can take business from the participating companies.

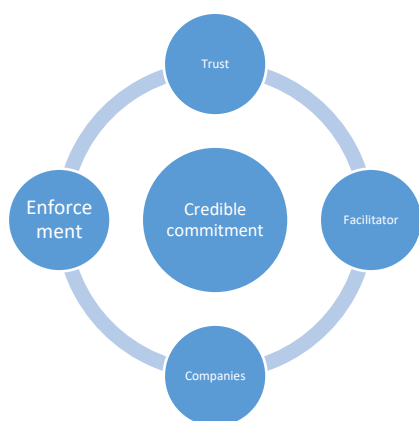


Figure 5: Factors affecting credible commitment.

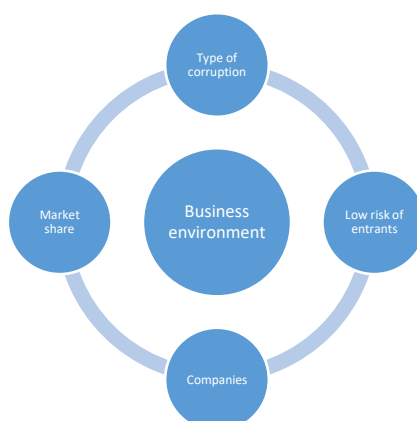


Figure 6: Factors affecting the business environment.

### 3.2.4 Development of hypotheses

The literature review and the description of collective action, cartel theory and Hirschman's framework display that much theory exist on collective action, anti-corruption and available

strategies. We will in this subchapter apply the reviewed theory and develop five hypotheses. These will be tested against cases in chapter six. The hypotheses seek to answer our research question regarding circumstances that make a company take part in a collective action agreement.

Creating a credible commitment between businesses will rely on several factors. Committing to collective action requires resources (Olson, 1971; United Nations Global Compact, 2015) and the ability of the companies involved will depend on the availability of resources. A strong global reach may give MNEs a clout in the market, even if the MNE does not have a strong presence in the host country (Rose-Ackerman, 2002). Despite a having potentially extra leverage, if it is believed that the company can win in an honest competition, the MNE might pay a bribe if it believes that this is how business is done in the market in question and that competitors are paying a bribe. Based on this, it is possible that MNEs do not need to take short-cuts in a fair market if they can win contracts based on a price vs. quality assessments.

Bertrand et.al. (2014) found that firm size matters on the likelihood of joining cartels. They argue the same as Olson and UNGC, that creating and coordinating negotiations to reach an agreement is costly, and that cartels may be expensive to operate. Larger firms may also function as leaders and be the initiator of cartels (Hagedoorn, 1995).

Operating in many countries also means that a company has several jurisdictions to comply with. Foreign bribery is illegal in most countries, as the development of legislation shows in paragraph 1.5.1. Even though enforcement is varying, the consequences of paying even a small bribe may be high. Getting caught for bribing can affect the profitability of a firm in many ways: Customers (Hainmueller & Hiscox, 2015a), employees (Ariely et al., 2008) and investors (Global Sustainable Investment Alliance, 2016; Scholtens, 2014) may take decisions or change their opinion about the company which will affect the profitability. Taking an active role in fighting corruption may benefit the company.

MNEs are suggested to identify with other MNEs on the basis that they are similar and must comply with the same anti-corruption laws; they are closer to their reference group (Rose-Ackerman, 2002). Local SMEs may not have the same laws to comply with, or the enforcement is non-existing. Local companies are according to Rose-Ackerman (2002) usually the one to pay a bribe, but she underscores that MNEs also pay bribes frequently. SMEs have then experiences where competitors are bribing and behaving dishonest, and do not consider them to have high integrity. Local SMEs can, therefore, have a severe distrust to competitors if they deem their competitors to have low integrity. Previous scandals and broken

agreement may pull down the integrity, while action taken after a scandal may increase integrity. This context suggests that MNEs easier trust other MNEs, while SMEs struggle more to trust other local SMEs and MNEs (Rose-Ackerman, 2002; United Nations Global Compact, 2015).

Bertrand et. al. (2014) find that high performing firms are less likely to engage in cartels. They argue that high performing firms have less to gain from engaging in corporate misconduct than lower performing firms whom may look for opportunities to become profitable. This implies that a well-performing firm will be less interested in engaging in bribery since it has less to gain from illegal activities. However, the reason why a firm is highly profitable may also be because of corruption. E.g. in cases with collusive corruption. In that case, the motivation to involve in collective action may be low. Facilitation payments may be a small expense for companies with high revenues so the cost of fighting bribes may be high compared to the gain. MNEs may have several sources of income and are not tied to one market, compared to local SMEs. Thus, MNEs are less affected in total from losing business in one market than local SMEs the get all income from this market. This implies that the consequences of retaliation are much more severe to SMEs than MNEs. We can argue that MNEs have both reasons to engage and to not engage in collective action, but starting an initiative is costly (Levenstein & Suslow, 2006; Olson, 1971) and includes risks that MNEs with resources are much more capable of absorbing than SMEs. MNEs may also have more credibility. With potential gains from employees, customers and investors; there are also incentives for why MNEs should engage and initiate collective action.

*Hypothesis 1: There is a positive relationship between the internationalisation of a firm and the likelihood of joining collective action.*

Literature on cartels and collective action list trust as a problem to solve since it takes time before participants will see the gains from their work and they have incentives to deviate from the agreement. In other words, the challenge is to make coordination commitments that will not fail because of the time inconsistency problem. Communication is found to be increasing the chances of cooperation (Levenstein & Suslow, 2006; Sally, 1995) and trust and collaboration are positively correlated (Schumacher, 2006). Hence, we can assume that there must be some interaction between potential participants where they can signal their intentions, agree on the goals and build trustworthiness (Güth & Kliemt, 2000). Oliver and Marwell (1988) state that for a collective action initiative to form, it is more important with a social mechanism that connects parties with an appropriate interest and that have enough resources,

than to overcome the problem with free-riders. With a social mechanism, they mean either a social network or organisation.

A third party is found to help coordinating an agreement in cartels, especially cartels with more than six participants (Levenstein & Suslow, 2006). United Nations Global Compact (2015) argues that a third party can help introducing collective action and give more credibility to an initiative. Schumacher (2006) continues in his research by finding that level of trust is connected to the need of safeguards and that trust-based arrangements perform better than deterrence based arrangements. This implies that trust not only is necessary for collective action, but it can also reduce the need for sanctions and strict monitoring. This may again reduce costs connected with the collective action agreement. Genesove and Mullin (2001) found that a neutral part had a positive influence on the stability of cartels as it could control and audit the cartel members. Placing this in the context that Olson (1971) claims that it is harder to make commitments and decisions in larger groups, research indicates that a neutral facilitator may have a positive contribution to the collective action through creating a more credible initiative and stabilise it. The presence of a facilitator may be more significant for larger groups and/or in groups with low trust, but we propose that:

*Hypothesis 2: The likelihood of a local company participating in collective action is positively correlated with the involvement of a neutral facilitator.*

In addition to factors that are influencing the relationship between firms and motivation to engage in collective action, there are also business environmental factors that contribute to increasing the probability of success. Sørsgard (2003) argues that preventing entrants with high entry barriers is important to keep the cartel's position in the market. Levenstein and Suslow (2006) finds that entry barriers are important for the success of a cartel, which is also an important argument in the research by Bertrand et.al (2014). Preventing entrants is necessary for collective action because it reduces the risk that other companies can replace participants that are involved in collective action. This is linked to the fear of losing business to bribe payers (United Nations Global Compact, 2015). Less possibility of being replaced also increases the power held by corporations, which again increases the perceived probability for influence. Bargaining power is also influenced by the market power held by a company, and in this case, a group of enterprises. We suggest that high market share will increase the expected probability of success since only a small group will easily be replaced, and we suggest the following hypothesis:

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*Hypothesis 3: There is a positive relationship between higher entry barriers to the market and the likelihood of a firm's participation in collective action.*

The type of corruption gives different benefits to companies. The corruption is extortive if the bargaining power is asymmetric (Søreide, 2016) and only the demander of the bribe will benefit. This type of corruption is associated with facilitation payments, even though some facilitation payments are made voluntarily. Bribes paid as facilitation payments are bribes that e.g. companies pay to avoid their products getting held up in customs. For a company, this results in expenses and creates limited value since this service should be provided without additional cost. A facilitation payment then increases the cost side of the profit equation. The economic consequence of not paying may be much larger than the expense of the bribe, but paying imposes still a cost compared to a situation where the company could obtain the service without a bribe. In this context, the highest long-term profit is clearly from the bribe free environment. Collusive corruption is more hidden, and for the common benefit of the collaborators (Søreide, 2016). For the company, collusive corruption may lead to a potentially high income since they can win contracts. Collusive corruption might involve high-level officials and is then called “grand” corruption by Rose-Ackerman (2002). In cases of “grand” corruption, both parties profit from the agreement. Thus companies have less economic incentives to fight collusive corruption. At the same time, when the gains from defection increases, there is also a higher risk of cheating. Increased possibility of cheating requires more monitoring and sanctions (Schumacher, 2006), which again enhances the cost of maintaining the initiative (Barney & Hansen, 1994; Gulati, 1995; Jennings et al., 2000; Levenstein & Suslow, 2006). Which implies that initiatives fighting collusive corruption also are costlier because of increased monitoring.

A shared agenda and continuous communication were identified by Passas (2017) as conditions for collective success. Communication is important for building trust and create common objectives. A collective action that tackles extortive corruption has a common goal; reducing a cost. A successful agreement is also likely to be maintained since the companies do not have an incentive to deviate from the agreement when the level of extortive corruption is reduced. The goal should be easier to agree upon than collusive corruption, and the fact that the goal is shared between participants is important for trust.

Collusive corruption is different: Assuming repeated games (Sørgard, 2003), a company might adhere to an agreement to make sure that other businesses do not pay bribes. The same

company might appear dedicated to reducing collusive action, but in the end, deviate when where the outcome of winning is sufficiently high (Andreoni & Miller, 1993).

In a tender bidding in a prisoner's dilemma game, a company can increase its profit by deviating from a collective action agreement and pay a bribe to win the tender bidding (Sørgard, 2003). Even though there is a cost associated with paying the bribe, the contract's earning potential might be higher than this cost. Since the parties are interested in keeping the bribe hidden, it might be hard for the other companies in the agreement to deter the corruption. With is underlying factor, the companies might not be interested in forming a deal in the first place. This was referred to as the time inconsistency problem (Kydland & Prescott, 1977) in section 2.2.4. Some companies benefit from collusive corruption (Søreide, 2016), and these might not want to fight corruption since it leads to reduced profit.

We then propose that:

*Hypothesis 4: Companies are more likely to be involved in collective action to fight corruption that can be described as extortive.*

From an economic perspective, a rational player knows the most profitable strategy. It may be to operate honestly or pay bribes, depending on where it receives most profit. Hirschman's original theory on exit, voice and loyalty is based on that there have been deteriorating conditions in a product (Hirschman, 1970). We also accepted this view as we are looking for circumstances that make a company join collective action agreements. A change in the conditions may then increase the costs of operating in a country, either through increasing the size of bribes or that the cost related to compliance is growing. Barry (1974) is one of the critics that argues that the question is whether the situation can be improved not if it has become worse. Most situations have an improvement potential, but this improvement can be expensive. If the cost is high, it may not be rational to improve it. However, based on Hirschman's theory, exit voice and loyalty is a response to deteriorating conditions. We will in our final hypothesis test the underlying condition for using Hirschman's theory by investigating whether there has been a change or a trigger that made the companies join the collective action. We formulate the following hypothesis:

*Hypothesis 5: Deteriorating conditions in the business environment increases the likelihood of a company joining collective action.*





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## 4. Empirical approach

This research is conducted through a literature review which leads to the development of hypotheses. These hypotheses are then used in a comparison to multiple cases. Due to time and cost restraints, the data is collected as secondary data from publicly available sources on cases from intergovernmental and non-governmental organisations.

### 4.1 Research purpose

The aim of our research question is to describe circumstances where companies voluntarily choose to collaborate in a collective action agreement that is seeking to improve the business environment. The thesis has a descriptive design as we are applying theory and data from written sources to develop and test the hypotheses. The research question fits with the objective of a descriptive design by Saunders, Lewis and Thornhill (2012, p. 171): “To gain an accurate profile of events, persons or situations”.

### 4.2 Research method

The chosen research method is a qualitative method. In our search for empirical facts that can reject or support our hypotheses, we must apply a more qualitative approach and study examples of collective action initiatives. The nature of corruption makes it difficult to find quantitative and reliable primary data, which means that we must use secondary sources. Qualitative research can provide useful insights into initiatives against corruption, even though there is an obvious limitation when it comes to generalising the findings. We started with a review of the literature on collective action and literature where collective action is linked to anti-corruption to gain an understanding of the phenomenon we are researching. In the literature review, we identified challenges with collective action and literature on how these challenges can be addressed. Subsequently, we applied Albert Hirschman’s theory on exit, voice and loyalty, including critiques and extensions to get an understanding of a company’s reaction to deteriorating conditions and how they choose different strategies. We combine the literature to create hypotheses for when we will see collective action and test them on cases with collective action on anti-corruption.

### 4.3 Case review

Following the development of hypotheses, we will compare situations where companies are joining a collective action to fight corruption to our hypotheses. This is done to strengthen or weaken our proposed connection between variables. Due to limited time and resources, we have not been able to collect information from primary sources ourselves. The cases are collected as secondary data and originally written for a different purpose. We have selected multiple cases to test our hypotheses, and a replication of our results will strengthen the findings (Yin, 2014). Several cases are also needed in some situations where the data from one case is insufficient.

The cases we study are identified from a list of initiatives published by The International Centre for Collective Action (ICCA) on the B20 Collective Action Hub's web page [collective-action.com](http://collective-action.com) and United Nations Global Compact's (2015) *A practical guide for collective action against corruption*. Information is mainly collected from these two sources but is also supplemented from other sources when needed. The case review is comparative, and we will compare the cases to the hypotheses developed from the presented theory. We have selected specific cases because they are collective actions that are fitting our study with horizontal collaboration, so the sampling was limited to look at cases that contained horizontal collaboration. In addition to horizontal collaboration, some of the collective actions also included vertically connected businesses. Nevertheless, we considered these initiatives to give a good picture on horizontal cooperation.

Before we started to go through the selected cases, we created a pre-determined sampling structure where the collected information was categorised into word tables, following a sampling method suggested by Yin (2014) for analysing multiple cases. We use a cross-case comparison to get a wider collection for more robust findings, and also to cover for potential limitations of the collected data (Yin, 2014).

### 4.4 Quality of the research

According to Saunders et al. (2012) two main aspects determine the quality of the research conducted; validity and reliability. The different aspects will be elaborated in this section.

#### 4.4.1 Reliability

The reliability of the data depends on the sources the data are collected from and how the data is collected. Before we started, we made a plan for the data collection. The collection of theory and empirical research has been extended due to finding as feedback as we went along with the process. Literature used in this thesis is written by well-known academics, which should be reliable. However, some of the literature is also non-academic but is published by intergovernmental organisations and supplements the academic theory.

Data related to the cases is mostly collected from the United Nations Global Compact's (2015) *A practical guide for collective action against corruption* and the Basel Institute of Governance. Both UNGC and the Basel Institute of Governance are a well-known and trustworthy organisation. This information is originally collected by employees of the organisations through surveys in cooperation with the initiatives. The references and contact persons are listed on the website. These two sources are from well-known organisations, which should strengthen the trustworthiness of the information. In addition to these to sources, we have also been using information published on the facilitator's website. A weakness with the collection of cases is that we do not know the methodology. They may also have an incentive to give more positive information and promote the initiative.

#### 4.4.2 Validity

Validity can be split into three different categories: Construct validity, internal validity and external validity. Internal validity is an aspect that is not applicable to this thesis since it measures a causal relationship (Saunders et al., 2012). We will elaborate more on the construct and external validity.

##### *Construct validity*

Construct validity is whether the research measures what it intends to measure or not (Saunders et al., 2012). The construct validity is a known weakness in case studies (Yin, 2014). The use of multiple sources of evidence is one of the factors that can strengthen the arguments and hypotheses the arguments led to. The development of proposals is done on the basis of several theories and empirical research on the concepts. We have also received feedback from different researchers on the concepts to make sure the measures are logically constructed.

### *External validity*

External validity is highly connected to whether the findings can be generalised or not. This thesis aims at finding circumstances that lead corporations to engage in collective action. The low number of cases, only five, implies that the findings are non-generalisable. However, the research is linked to empirical research and well-known theories in which many of the mechanisms studied are the same. The study also has a selection bias where the cases are chosen because they fit our purpose, this may cause that we miss valuable information in other cases and reduces the external validity.

## 4.5 Empirical weaknesses

There are different challenges related to researching corruption, including data availability and quality. The parties who are involved in corruption have incentives to keep it hidden. Finding reliable quantitative data is consequently difficult. One specific concern is that facilitators report the cases presented and they published online as success stories. There might exist a vast number of failed initiatives that are never reported or reviewed. Therefore, we will not assume that our selection of cases is representative for all the collective action arrangements or attempts on it that have taken place. However, as far as the cases illustrate the mechanisms of play in the model, they are useful for studying empirical underpinning of our hypotheses. There is also a risk that we as researchers have misinterpreted some of the concepts or theories we are describing.

## 5. Cases on collective action and anti-corruption

This chapter will make a short presentation of the cases on collective action that we will discuss and analyse in chapter six. We will give a summary of the cases and categorise essential information into a matrix.

We will describe the following five cases: MACN in the Nigerian port sector, public procurement in the Czech Republic and Slovakia, electric energy transportation in Argentina, water pipes in Colombia and the orthopaedic medicine industry in Argentina.

### 5.1 MACN in the Nigerian port sector

The Maritime Anti-Corruption Network (MACN) was established in 2011 and is a business-driven network. It was initiated by the Danish MNE Maersk after the UK Bribery Act was introduced (van Schoor, 2017). Maersk initiated a workshop on anti-corruption and gathered leading companies in the maritime sector. This workshop leads to the foundation of MACN. MACN covers companies in the whole maritime industry, including vessel-owning companies, cargo owners and service providers (United Nations Global Compact, 2015). The lead facilitator behind MACN is Business for Social Responsibility (BSR), which is a non-profit business network on sustainability. It works as a secretary for MACN. MACN collaborates for a maritime industry free of corruption and is trying to reduce bribery and extortion. This is done through strengthening the members' internal anti-corruption programs and through raising awareness and engagement in local areas. The aim is to improve the external environment where the members are operating, through collective actions that include businesses, governments, organisations and civil society. MACN is highly institutionalised since their members have a formal membership, there is a written statute, and they have established governing bodies (van Schoor, 2017). MACN had eight members at the time of formalisation. Today the number is 75, where 56 are regular members and 19 are associate members (BSR & MACN, n.d.-a).

MACN acted collectively for the first time in the Nigerian port sector (United Nations Global Compact, 2015). They initiated this pilot project together with UNDP (United Nations Development Programme) and UNODC (United Nations Office on Drugs and Crime). In this project, the initiators wanted to influence the external operating environment by reducing and preventing corruption at ports. Six Nigerian ports were chosen for the pilot project.

A comprehensive risk assessment study was conducted across the six ports. It was undertaken by UNDP and MACN. The project's aim was to identify corruption issues, their drivers and possible solutions. A report was prepared by the Nigerian Technical Unit on Government and Anti-Corruption Reforms (TUGAR). The report was based on the corruption risk assessment and was published in 2013. It was cofinanced by UNDP and MACN. The findings from the risk assessment include weak internal ethics, lack of codes of conduct, no formal channels for complaints and weak protection of whistleblowers.

One corruption issue at ports is the demand for facilitation payments, like cash, cigarettes, soft drinks or alcohol. If these payments are not paid, it might cause threats of delays and threats to personal safety. All companies in MACN agree to refuse to pay these bribes, and that gives the individual captains support to say no.

The project was conducted with official commitment and approval from the local government. This is an example of multi-stakeholder collaboration. MACN believes that the approach has to be supported by and beneficial to the key stakeholders to be successful.

## 5.2 Public procurement in the Czech and Slovak Republic

The Coalition for Transparent Business was formed in 2011, bringing together local companies and MNEs operating in the Czech Republic (B20 Collective Action Hub, n.d.-b). The coalition works for fair business and especially in public procurement. It has worked together with various parts of society, including political parties and public institutions. The Slovak Compliance Circle was founded in Slovakia, with a focus on compliance systems (B20 Collective Action Hub, n.d.-d).

Oživení is a Czech non-profit organisation and partnered with Transparency International in Slovakia and the Economics Institute of the Academy of Sciences of the Czech Republic (United Nations Global Compact, 2015). The project was funded by Siemens, through the Siemens Integrity Initiative (Siemens, 2015). Siemens followed the project for three years. The project was registered in the Czech Republic, and Oživení was Siemens' integrity partner. In the following description, our main focus is on the Czech Republic, since this project was headquartered there. Oživení coordinated the public procurement initiative and monitored the members of the Coalition for Transparent Business (B20 Collective Action Hub, n.d.-b; Coalition for Transparent Business, 2016). Companies must sign a declaration and fill out an

application form to become a member of the coalition. The highest body is the Coalition Assembly. In 2016, they adjusted their goals and made a new declaration called *Statute of the Coalition for Transparent Business*. This implies that it is either an intermediate or a high level of institutionalisation.

Public procurement was the area most affected by corruption in the two countries, due to weak laws and lack of oversight (United Nations Global Compact, 2015). The aims of this initiative were to establish an anti-corruption business platform, change the public procurement regulation and increase transparency and control in public procurement. The purpose was to make the public procurement process more transparent and efficient, and reducing corruption risk. The projected prepared law amendments that had its basis in economic research and legal analyses, for presentation in the parliaments.

The members in the initiative include subsidiaries of MNEs, national companies, SMEs, academics and media. One of the challenges in this project was the fact that some joined to better their image without understanding their obligations. This implies that they wanted to window dress.

The project made an impact since it made improvement in public procurement policy, legislation and institutional framework. E-auction procedures were adopted. All this lead to increased effectivity in the public spending.

### 5.3 Electric energy transportation in Argentina

Siemens contacted the Center for Governance and Transparency at IAE business school in 2011 suggesting to explore the opportunity to start a collective action in the energy transportation sector in Argentina (United Nations Global Compact, 2015). As a facilitator, IAE assisted in organising discussions and later supervise the collective action. Over the last twenty years, the sector had developed to become a sector with high complexity and risk for corruption. The companies were opposed to regulatory challenges and anti-competitive behaviour in their work in conducting business with integrity. So far, companies had been fighting alone or through business organisations, but there was distrust to competitors, free-riding on the work done by others and a skewed playing field. IAE convened a meeting with the five companies ABB S.A., Alstom Grid Argentina S.A., Artech S.A., Lago

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Electromecánica S.A., Siemens S.A (B20 Collective Action Hub, n.d.-c) They were at that time covering more than 70 per cent of the market.

Before signing the agreement, the CEOs of the five companies identified the most critical problems and risks. Subsequently, they created behavioural standards, clarified priorities and what topics to be included. They agreed on the behaviour standards eight months after the negotiations started. Through accepting the standards, the companies decided to operate with honesty and transparency, to refrain from paying or accepting bribes, and to avoid bid tampering. In June 2012, the five companies put the agreement into force. Later, a second Argentinian company joined the action. The daily administration is today done by a third party. The collective action also has an ethics committee, consisting of representatives from the companies and facilitator, that works as a forum for sharing best practices and experiences. The committee can also sanction violation of the agreement.

However, the collective action also encountered some challenges during the process of signing and implementation. The interpretation of the agreement varied between the local company and the MNEs. The participants also lacked trust to each other, and since the leaders of the companies were representing the companies, there were some challenges with scheduling the meetings. Strong disagreement between two of the companies has delayed the joint training of employees.

## 5.4 Water pipes in Colombia

The piping industry in Colombia had over the last two decades suffered from a lack of transparency and mistrust, especially in the public procurement sector, which led to a credibility crisis. At the beginning of the year 2000, the situation worsened and became very difficult to manage for the companies and the business association, and the income was declining (United Nations Global Compact, 2015; Water Integrity Network, n.d.) As a response to the increasingly difficult situation, the business association Asociación Colombiana de Ingeniería Sanitaria y Ambiental (ACODAL) that represented 95 per cent of the domestic market, contacted Transparency Colombia in 2003 for assistance in finding solutions to the problems in the sector. Some companies had tried individual action in an attempt to solve the problems, but ACODAL was now looking for a collective approach.



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Transparency Colombia suggested that to build on Transparency International's *Business Principles for Countering Bribery* framework (B20 Collective Action Hub, n.d.-a; United Nations Global Compact, 2015). The companies went further and committed to promoting the principles and their interest in working with the private sector to get rid of illegal practises and corruption (Water Integrity Network, n.d.). It was also suggested to establish common rules within the industry to build trust and integrity. As a result, a memorandum of understanding to create the *Anti-Corruption Sectoral Agreement* was signed by ACODAL and Transparency Colombia later in 2003, where the latter would work as an external facilitator. The final agreement was signed in 2005.

The process was filled with disagreements and agreements on risks and challenges in the Colombian piping industry, and how to address the challenges (Water Integrity Network, n.d.). Transparency Colombia was the main facilitator in this process. The companies were mostly represented by top managers, but sometimes other employees were present to give a view from a different position in the enterprise. The companies were varying in size, where the largest had income from sales on 220,000 million Colombian pesos, compared to the smallest firm with 10,135 million pesos. After working through the different challenges and reach consensus, the participants finalised an ethical standpoint to use to oversight the agreement. Subsequently they agreed on sanctions that would be imposed on those who violated the agreement. In the end, a plan for how the implementation should be conducted and followed up in every company was developed.

Accepting that some of the business practices were corrupt practices, and unethical, was difficult for some businesses. This led to some disagreement on some of the formulations in the agreement. Fear that some parts of the agreement would infringe competition laws was another issue for companies, but it was solved by informing the controlling institutions and get acceptance. Revealing secret information was challenging due to historical mistrust in the group, and some companies would withdraw from the negotiations. Dialogue was a problem solver in many cases and made the parties realise the importance of their commitment. However, there were some critical points where companies behaved disloyally and got business deals through disloyal practices, at the same time as they agreed to refuse from this type of action in the negotiations. A final issue was that some companies would not sign the agreement before another company had signed (which company is unknown).

The creation of an ethics committee is identified as important for the credibility of the commitment and that the committee could impose sanctions. Moreover, they agreed on that the agreement should include distributors, and that if a distributor violated the agreement, the contract should be terminated. The cost of the initiative was split equally between members to create commitment.

According to the UN Global Compact (2015), four of the signatories have left the agreement due to the lack of adequate benefits, and others left because of changes that had to be done in business practices. Some companies are keeping the initiative alive, but with increased individual costs.

## 5.5 Orthopaedic medicine industry in Argentina

This initiative was initiated in 2011, in the Argentinian pharmaceutical and healthcare sector. Members include local companies, distributors and product companies (B20 Collective Action Hub, n.d.-e). The member businesses are mainly family-owned. The driver behind this initiative was integrity and compliance failures in the sector. This initiative's purpose is to promote transparency and integrity standards in its industry, and the focus is on anti-corruption, compliance programs and practice. It works as a platform for discussion in the sector. This project was initiated by the businesses (United Nations Global Compact, 2015).

The initiative is facilitated by IAE Business School, who is the convenor of meetings and works as the contact. The agreement was signed in 2012 by eight companies, and today there are 22 members (B20 Collective Action Hub, n.d.-e). At the time of signing, it did not have any formal governing bodies, and there was no opportunity for monitoring or sanctioning the companies. An association was established to manage the collective action, trying to scale it up into a certifying business coalition (United Nations Global Compact, 2015). Since we have not been able to find information about this process, we argue that this collective action has a low institutionalisation.

One issue is that many companies in the sector are not a part of the initiative. Even though this is the case, the initiative has been able to make discussions and integrity standards priority (B20 Collective Action Hub, n.d.-e).

## 5.6 Overview of the main points from the cases

In the following section, we will organise the main points from the cases.

Table 1: Overview of the main points from case 1, case 2 and case 3

	<b>Case 1: MACN in the Nigerian port sector</b>	<b>Case 2: Public procurement in the Czech and Slovak republic</b>	<b>Case 3: Electric energy transportation in Argentina</b>
<b>Where, and in what context?</b>	Nigeria. Port sector.	The Czech Republic (headquartered) and Slovakia. Public procurement.	Argentina. Electricity transportation sector.
<b>Initiator(s)</b>	MACN (initiated by Maersk), UNDP and UNODC.	A group of MNEs, SMEs experts, politicians and NGOs.	Siemens.
<b>Is there a facilitator? In that case, who and how?</b>	MACN and UNDP undertook the risk assessment study. Financing.  UNDP: Attained official commitment and approval).	Same as the initiators.  Oživení monitors and coordinates the Coalition for Transparent Business.	Center for Governance and Transparency - IAE Business School. Supervision and organising discussions.
<b>Classification</b>	Multi-stakeholder coalition.	Multi-stakeholder coalition.	Principle-based initiative.
<b>Companies involved (few, many, SME/MNE?)</b>	MACN's members, TUGAR and UNDP.  MACN had 18 members at the end of 2012 (BSR & MACN, n.d.-b).	Subsidiaries of MNEs, national companies, SMEs  The Coalition has 30 members, both locals and MNEs.	Small and large MNEs, one local company.
<b>Country of origin for MNEs</b>	We have not identified MACN's members at the time of the collective action, but at least Norway and Denmark.	The MNEs in the Coalition have different origins, including Germany, America, Sweden and Great Britain.	Germany, France, Spain, Switzerland and Argentina.
<b>Private or public companies</b>	At least private companies.	Both private and public.	Private.

<b>The companies' market share</b>	Today (not at the time): 32% of the container-carrying capacity (van Schoor, 2017).		Approximately 70%.
<b>Industry</b>	Maritime industry – port sector.	Cross-sectoral. Public Procurement.	Electric energy transportation.
<b>Process to convince companies to join?</b>	The companies were a part of MACN.	It was initiated by different companies.	First a meeting with 5 players, then they identified problems and risks. Then established priorities and behaviour guidelines.
<b>Is there a special situation triggering the formation?</b>	MACN, UNDP and UNODC wanted to reduce and prevent corruption at ports. Nigeria was selected because its ports were considered as challenging by MACN's members, and the local authorities were willing to support.	Public procurement was the area most affected by corruption in the two countries. This was demonstrated by analyses, studies and scandals.	Increasing complexity and risk for corruption. Fighting alone, caught in "prisoner's-dilemma".
<b>Institutionalisation</b>	MACN: High.	The Coalition: High or intermediate.	Intermediate.

Table 2: Overview of the main points from case 4 and case 5

	<b>Case 4: Piping industry in Colombia</b>	<b>Case 5: Orthopaedic medicine industry in Argentina</b>
<b>Where, and in what context?</b>	Colombia. Between pipe manufacturers.	Argentina. In the pharmaceutical and healthcare sector.
<b>Initiator(s)</b>	ACODAL (pipe industry trade association)	Businesses in the sector.
<b>Is there a facilitator? In that case, who and how?</b>	Transparency Colombia was contacted by ACODAL with a request to facilitate. Arrange meetings.	IAE Business School are convenor of meetings and contact.
<b>Classification</b>	Principle-based/standard setting initiative	Principle-based initiative
<b>Companies involved (few, many, SME/MNE?)</b>	Eight companies involved in the whole process. Eleven signatories. Varying size.	Local companies, distributors and product companies. Many family-owned.
<b>Country of origin for MNEs</b>	Colombia, Panama, and some that looks like JV Colombian/European.	We have not identified the companies involved.
<b>Private or public companies</b>	Private companies	Not identified.
<b>The companies' market share</b>	Represented 95% of the domestic market	No information.
<b>Industry</b>	Piping industry, mostly public procurement.	Pharmaceutical and healthcare sector.
<b>Process to convince companies to join?</b>		Initiated by the businesses
<b>Is there a special situation triggering the formation?</b>	Unsuccessful individual action over a long time.	Integrity and compliance failures in the sector.
<b>Institutionalisation</b>	Intermediate.	Low.

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## 6. Analysis and discussion

In the analysis and discussion chapter, we compare and discuss our hypotheses to the case review. Supplementing theoretical elaborated hypotheses with cases will strengthen or weaken the different circumstances we have identified for when companies will join collective action initiatives. The previous chapter presented the cases and an overview of essential information. The hypotheses will be discussed in the same order as they were developed, while we will use all the information gathered from the cases to discuss the hypothesis. Even if the findings should be consistent with the presented hypotheses, that does not mean collective action is only possible in these situations, but they may contribute to further investigation into the matter. All cases are different, so there will be situation specific factors that we will not be able to discover.

We have presented five hypotheses on circumstances where corporations will join collective action agreements. For voice to be an alternative, the company must believe that it is possible to improve the conditions in the market since it affects the perceived probability of success. Even though a company believes it is possible to improve, the rational choice may still not be to use voice. We found three main reasons for this; the probability of success is low, the cost of using voice is too high, or it is more profitable to win contracts by paying bribes. Collective action is introduced as a mechanism that mitigates the cost of using voice and may increase the probability of success if the initiative manages to establish a credible commitment between participants.

### 6.1 Type of company

*Hypothesis 1: There is a positive relationship between the internationalisation of a firm and the likelihood of joining collective action.*

Type of company, or company specific factors, can be related to the probability of success for collective action. If a company engages in collective action, it must have an appropriate interest and enough resources to engage. Using voice comes with a risk of retaliation, even in a group. As Hirschman points out, voice may face a strategy of countering voice in response. Local companies are often smaller businesses and are depending on the market. For them, even though they understand the long-term profitability, it will not help much if they lose business and income, and go out of business.

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The thesis has so far used the terms MNEs and local SMEs since these or equivalent terms are used in most of the literature. However, since we do not have a precise definition to use for classifying companies into local SMEs and MNEs, we will as far as possible use the description of the companies used in the cases.

In three of our five cases, MNEs had a role in the formation of the initiative. The MACN initiative was originally initiated by Maersk. MNEs were a part of the group involved in the initiation of the public procurement initiative in the Czech Republic and Slovakia, and the electric energy transportation case in Argentina was initiated by the German business conglomerate Siemens. The two last cases consist of local companies and initiation in the piping industry was done by a business organisation, while the initiative in the orthopaedic medicine industry was initiated by some of the firms in the sector.

The types of companies signing the agreements give a more varied picture when it comes to the internationalisation of the companies. For the MACN initiative in Nigerian ports, the data is not clear on the specific companies that were a part of the MACN initiative, but we know that in the year 2012 when the project started, MACN had a total of 18 member companies. Today it has grown to more than 50 regular members. Most of these companies are multinational due to the nature of the sector. The Oživení initiative has a combination of local businesses and subsidiaries of western MNEs. The initiative in the electric energy transportation industry in Argentina has international companies and only one local. In the Colombian case, there are many local enterprises and some joint ventures with European firms. The orthopaedic medicine initiative in Argentina has only local family businesses.

There is only one case with only local companies, Two cases have a combination of local SMEs and MNEs, while the two last cases are more or less small and large MNEs. The reason for this distribution may be more linked to the nature of the sector, rather than the type of companies in the industry. Industries that are production driven and with high values involved may require more investments and larger companies due to economies of scale. It is possible that some of the local businesses have joined because of the commitment of larger MNEs, in a type of a bandwagon effect. Without knowing the actual sequence the companies joined in, this was difficult to state. In the orthopaedic medicine industry in Argentina, local businesses following larger enterprises cannot be the case since all the companies are local. In general, the variation gives little support to the hypotheses that internationalisation of a company increases the likelihood of joining collective action.

However, the fact that multinational companies were involved in three cases that were initiated by corporations, and local SMEs in only one is interesting. This may be related to the availability of resources to finance and contribute with human capital to organising the initiative, or that they expect the cost to be lower in the future. Since they all come from western countries and are large enterprises, compliance with the anti-bribery laws may also have been expensive. On the opposite side, one can argue that these are the sectors with large MNEs and we will not know if a local SME would be willing to initiate. In the Czech case, experts on SMEs were involved, which may indicate that the SMEs did not have resources or knowledge to participate in the process. Small companies will also be more affected if they have to reassign an employee from his normal tasks.

Based on the findings, we found that both MNEs and SMEs do join collective action. Hence, we cannot say that the degree internationalisation makes companies join collective action as many types of companies joined. However, there are indications that large multinational corporations do have an influence when it comes to the likelihood of initiating collective action.

## 6.2 The presence of a facilitator

*Hypothesis 2: The likelihood of a local company participating in collective action is positively correlated with the involvement of a neutral facilitator.*

Empirical research on cartels found that a facilitator was important for the stability of a group (Genesove & Mullin, 2001; Levenstein & Suslow, 2006). There may be different reasons for the involvement. Some may be to coordinate and make sure interested participants reach an agreement. The thought behind this is that before companies agree on an initiative, they must be able to make their intentions and expectations clear, and they must find incentives and sanctions that prevent companies from cheating as found by Levenstein and Suslow (2006). Another role is to have a monitoring and enforcement function (Genesove & Mullin, 2001). An external facilitator is suggested to increase the credibility of the initiative by being a neutral party that is trustworthy for the participants. The use of a facilitator is also interesting in the cases.

During the start-up of MACN, BSR was quickly involved in the process of establishing MACN, even though Maersk is well-known and a trusted conglomerate. BSR is still



administering the initiative. Maersk is a large conglomerate which would not lack financing or employees to handle the initiative, so it is likely that there is a different motivation behind involving BSR. In the pilot project in Nigeria, MACN also involved UNDP to help to identify risk areas. This initiative is a very complex initiative, involving more than just companies that are coordinated. The complexity may be one of the reasons why a third party is involved.

In case 3, Siemens was the initiator. Siemens contacted IAE very quickly and asked for assistance in developing a collective action. Siemens is a company that should be able to cover costs and the management needed themselves. The initiative in Argentina happened in 2011, only two years after Siemens reached a settlement with the World Bank for corruption where Siemens agreed to engage in collective action (The World Bank, 2009). One reason to involve a third party could have been to increase the credibility as a result of the scandal.

In case 2 and 4, the two organisations that initiated collective action in their respective countries had existed for some time. Both contacted local chapters of TI for help on leading the conversation and reaching an agreement. In case 2, it is a neutral organisation that in cooperation with companies and other experts initiate the collective action. The organisation had existed for a while, but not working directly with anti-corruption. Case 4 was initiated by ACODAL, a business organisation that was representing 95 per cent of the companies in the sector. In case 5, the data was not available, but we know that one or more companies initiated it and that they have IAE as a facilitator today. Case 5 is the case that has only local businesses, while the case from Colombia with ACODAL has many local companies.

The cases reveal that all initiatives have a facilitator and that the facilitators were involved early in the process. They were contacted for help in reaching an agreement, administrate and coordinate meetings and negotiations. Not all market participants were included in the negotiations, which may indicate an attempt to connect those with a proper interest and resources. This function fits well with the need for a social structure described by Oliver and Marwell (1988). Adding to this, it also conforms with the research by Levenstein and Suslow (2006) where cartels with more than six members had assistance. All the initiatives we have listed have more than six companies. Even though the facilitator is organising conversations and the meetings, they may also be asked to do so to strengthen the credibility of the talk and not because the first initiator does not have any mechanisms to generate conversation between companies. What we do know is that the conversations are used for informal talks for clarifying motives and the outline of the agreement, and this is in line with Oliver and Marwell,

and the results of Sally's analysis. Based on this, we posit that a facilitator increases the likelihood of a local company joining collective action.

The facilitators are also a part of the initiatives later in the process. In case 1, BSR is still the secretariat for MACN. Oživení is now coordinating the efforts in the Czech Republic. However, in both these cases, it is logical that the facilitators are involved since the initiatives are more complex than the three other cases. Oživení also initiated the action. The remaining three initiatives are less complex with mostly horizontal cooperation. Also in these cases are the facilitators still involved. In the electric energy transportation initiative, daily administration is done by a third party and sanctions and monitoring by an ethics committee that includes the facilitator. In Colombia, there is also an ethics committee, and it is viewed as very important for the credibility: "The initiative's credibility and effectiveness largely depend on the promptness, seriousness, confidentiality and responsibility exercised by the Ethics Committee" (United Nations Global Compact, 2015, p. 37). The orthopaedic medicine industry initiative is facilitated by IAE but has limited sanction possibilities.

The importance of the facilitator seems to fade after the initiative is signed, but is in many cases replaced by an ethics committee that has a monitoring function. However, the cases indicate that it is an adaption to each case and is very important in some of them. Partly in line with Genesove and Mullin (2001).

A third party was involved in the start-up of all cases, and in some cases later, this indicates that a third party/facilitator has a positive influence on the likelihood of joining collective action. The importance, however, seems to fade in some cases after the signing of the agreement.

## 6.3 High entry barriers

*Hypothesis 3: There is a positive relationship between higher entry barriers to the market and the likelihood of a firm's participation in collective action.*

If a company should believe that the initiative can be a success, it must think that they will not lose business. High entry barriers may make investments in the market unprofitable for firms that consider entry and protects the current players from losing business. Measuring entry barriers is difficult, so we will have to judge it by the nature of the business sector. The cases

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include industries like shipping and manufacturing. There are high investment costs in acquiring new vessels, and even if they have the ships, the shipping companies still need customers. Cargo customers may have a strong brand loyalty to certain shipping companies that reduces the possibility of new unknown companies to gain new business. It is harder to say something about the sectors involved in public procurement in case 2 since many areas are included in the procurement process. The electric energy transportation sector requires investments in infrastructure and is dominated by larger MNEs. This can indicate that the industry requires knowledge or capital to be successful. Case 4 is the pipe manufacturing industry which is also an industry that requires high investment in production facilities and may be subject to patents on special technology.

The orthopaedic medicine industry in Argentina is dominated by family-owned businesses which imply lower barriers, but medical equipment can be expensive and may be subject to patents. However, this initiative has today 22 members and one of the problems for the initiative is that many firms are not a part of the agreement, which indicates that there are many companies in this sector. Which indicates that the entry barriers may not be very high.

Most of the industries require some investment to enter the market, building facilities and obtaining a license or other permits. The possibility of losing business to other companies is also identified as something that reduces the willingness to use voice and the ease of entry influence the probability of being replaced. This may indicate that there must be some entry barriers that reduces the profitability for new entrants. However, some of these industries are also typical industries where corruption occurs due to the need to obtain licenses, patents or large production facilities, thus the risk of facing corruption is higher too. The fact that collective action is happening in these industries may not solely be because of high entry barriers, but also because this is where the corruption is taking place. There are also some uncertainties with what type of industries in case 2. Another side of high entry barriers is that exiting from the current market and entering a different market may be unattractive for the companies, which leads them to use voice instead of exit.

Three out of five cases do have high entry barriers, and there is more uncertainty around the two last cases, but one indicates the opposite. Even though there are indications on that high entry barriers matters, there are also opposing indication which makes it difficult to say something specific.

## 6.4 Type of corruption

*Hypothesis 4: Companies are more likely to be involved in collective action agreements that fight corruption that can be described as extortive.*

Case 1 is concerned with corruption in the Nigerian port sector. The UK Bribery Act was given royal assent in 2010 and came into force in 2011, and this act considers facilitation payments as bribes. This provided an incentive for the formation of MACN (van Schoor, 2017). Facilitation payments are quite common and widespread in the maritime sector, for example, officials working in ports demand bribes from the captains of ships that would like to enter. Facilitation payments were one of the issues that MACN was concerned with in Nigeria. The companies do not want to pay bribes to receive a service that they should get without paying for it. This shows that the companies had a shared agenda to fight facilitation payments, which are likely to be extortive corruption.

In case 2, the focus was on public procurement and making an impact on the countries' regulation. Case 4 is mostly concerned with public procurement as well. Extortive corruption could be the focus in these cases if a company must pay a bribe to be part of a tender. This is not described in the cases, but we cannot exclude it. The initiatives might be concerned with collusive corruption since it is more probable in public procurement. The presented theory suggests that it is harder to work against collusive corruption since the companies might have incentives to deviate from an agreement. This might imply that the companies involved are the ones who believe they have lost to less honest companies. On the other hand, one of the problems with the initiative in case 2 was that some joined to improve their image. In case 4 the problem was that some companies got business deals through practices that they had agreed to refuse. The fact that they seemed to engage in collective action to window dress might show that they were not interested in reducing corruption. This implies that these companies were inclined to deviate from the agreement. Window dressing was both a problem in the Czech Republic, Slovakia and the Colombian piping industry.

In the Argentinian energy sector, the parties involved agreed to adopt shared standards. By accepting the standard, the companies promise not to pay or accept bribes and to avoid bid tampering. This means both extortive and collusive corruption. They aimed at reducing local transactions costs. We do not have any data regarding what type of corruption that the initiative fought most. The same is the case in the orthopaedic medicine industry in Argentina. The main

focus was on internal compliance, integrity standards and transparency. It worked as a platform for discussion, and it is likely that both extortive and collusive corruption was discussed.

The collective action in the Nigerian port sector is the only case that confirms the hypothesis. Window dressing was a problem in two of the cases, which might imply that cooperation against collusive action is hard. We do not have sufficient data to conclude on the type of corruption the two last cases focused on.

## 6.5 Deteriorating business conditions

*Hypothesis 5: Deteriorating conditions in the business environment increases the likelihood of a company joining collective action.*

Changes in the business environment may work as a trigger for companies to change strategy. Using voice and collective action is then a strategy the companies are using as a response to make clear that the last development is not something that they accept.

The cases all revealed some interesting insight on this matter. MACN was initiated because of the UK Bribery Act. The MACN project in Nigeria was launched because member companies saw Nigerian ports as challenging. The public procurement was one of the most challenging areas in the Czech Republic and Slovakia. The initiative was started after this fact was documented in several analyses, studies and scandals. In Argentina, the electric energy transportation sector was initiated after the risk for and complexity of for corruption had increased. The companies had been working individually to combat corruption, but fear of free-riders and tilted market conditions made it difficult. The piping industry in Colombia was faced with worsened conditions, and after a while, the firms' income was declining. The situation became complicated to manage for the companies. In the orthopaedic medicine industry in Argentina, the trigger for the event was long lasting issues with compliance and integrity failures.

The result from the cases is that two of the cases are triggered by a clear deterioration in the business environment, while the three remaining cases are responses to significant, long-lasting challenges in the business climate. This indicates that the market conditions are a trigger for the initiation of collective action. Individual attempts to cope with and improve the

conditions for doing business has failed, which triggered the companies to look for other ways to respond. The fact that the businesses had been trying to combat the corruption for a while means that the conditions already had triggered the use of voice. Another issue that could be discussed is what we put in the word deteriorating conditions, which in Hirschman's interpretation was that a product had a declining quality. In this context, deteriorating conditions are referred to the business environment and increasing demands for bribes and challenges with compliance. Another aspect is that for multinational enterprises, more legal focus on bribery from new anti-corruption laws may have influenced the conditions for doing business for the MNEs. In the case of MACN, the focus on bribery from a company's home country may also have an indirect effect on the conditions since they by paying bribes must put more effort into hiding their activities.

Hypothesis five then seems strengthened, deteriorating conditions have a positive influence on the likelihood of a company joining collective action.

## 7. Conclusion

In this chapter, we will present our most important findings and make a conclusion. We will then propose some normative implications of our findings.

### 7.1 Summary

The main aim of this thesis is to answer the research question *Under what circumstances will corporations be part of collective action agreements?* We answer this question through a qualitative analysis by applying literature on collective action and Albert Hirschman's theory on exit, voice and loyalty. The qualitative analysis leads to the development of five hypotheses that we are comparing to a case review. Answering the question is challenging, but we have reached some conclusions that may work as an indicator.

Explaining under what circumstances corporations will be a part of collective agreements is based on the rationality assumption and that a company will choose the strategy that is most profitable for the enterprise. A change in strategy must either be explained by a change in the income or the cost for the company. On the income side, the probability of success is important in the calculation. The cost side is related to costs associated with the bribe, or responses to changes in the external business environment.

Cartel theory and research find that a long-term perspective on profitability is needed for the initiative to be successful, and is also emphasised in the literature on collective action. This can be achieved through considering collective action as a repeated game where sanctions make the long-term profit from cheating less profitable than cooperation.

Hypothesis one gave some indications that both MNEs and SMEs are willing to join collective action. Thus, we could not find that internationalisation of a company makes it more willing to join collective action. However, MNEs were involved in the initiation of the cases where MNEs were present, which was not the case with local companies. This indicates that internationalisation of a company does makes it more likely that the firm will initiate collective action.

Hypothesis two showed that a facilitator is strongly involved in the initiation of the initiatives through coordination of meetings and negotiations. Later, it was also involved in the initiatives

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but not as much as before the signing of the collective action. A facilitator has a positive influence on the likelihood of joining collective action.

High entry barriers are found important when it comes to cartels, and in the literature on collective action. From this, we also assumed that this would be the case for collective action agreements combatting corruption. However, the results were inconclusive on this hypothesis.

We also have difficulties concluding on whether the classification of corruption influences the decision of joining collective action. Many of the initiatives may fight both types of corruption.

The last hypothesis tested the central element in Hirschman's theory; A change to the worse in the environment must have provoked a reaction that made the companies seek together. We argued that if Hirschman's theory is right, a factor in a company's profit function must have changed and made another strategy more attractive. Either by reducing the revenue or affecting the cost side of the equation. We found that there were challenges had been evolving for a long time in the business sectors in all the cases and companies had tried to fight back. Two of the cases also had the trigger reason explicitly stated in the documents, which was deterioration in the business environment. We, therefore, conclude that Hirschman's underlying criteria for using voice or exit is right and that there is a trigger event that affects the willingness to join collective action.

We conclude that:

Collective action initiatives that combat corruption will form because of long-lasting issues in the business environment that have unsuccessfully been addressed individually, or deteriorating conditions in the business environment. MNEs are more likely to initiate collective action than local companies, but the involvement of a facilitator is important during the negotiations that leads to an agreement. This indicates that a facilitator can especially be important in situations with many small and medium sized companies.

## 7.2 Normative implications

As a part of our concluding remarks, we put forward three thoughts we have on corporations fighting corruption through collective action, and that we mean are important for collective action to happen.



### *1. Long-term perspective*

There will always be short-term profit from deviating in agreements that resembles prisoner's dilemma situation. If shareholders of a company mean that doing business in a fair manner like they say publicly, this should also be reflected in the firm's internal bonus system. Good intentions will not be sufficient if the bonus system incentivizes managers to have a short-term perspective. The leaders should get bonuses that depend upon long-term measures when the company has a long-term perspective. If not, they are incentivised to reach the short-term measures instead, since they lay the foundation for the bonus payments.

### *2. Social responsibility*

A corporation's existence is dependent on the state. A long-term perspective on the society should have a more central place when calculating future profits. We know that corruption and low economic development is correlated. The host country loses foreign investment if the business environment is difficult. A long-term focus on improving the society will most likely also affect future sales positively. The corporations need to consider what they can do to fight corruption, instead of only considering how to avoid legal sanctions. This means that their moral responsibility exceeds the legal responsibility. We will, therefore, argue that MNEs have a moral obligation and a long-term self-interest in the countries where they are operating.

### *3. Facilitation*

Even though both SMEs and MNEs are willing to join collective action, we mean that it is important to encourage and make companies aware of collective action. MNEs do have the resources, but they still may need to be made aware of the possibility. It also seems like MNEs are more willing to initiate collective action, which may indicate that facilitators can have an influence in markets with smaller firms. The facilitator should, however, be a neutral third party with a clear mandate to avoid conflicts of interest.

## **7.3 Further research**

We would like to propose some suggestions for further research on collective action against corruption. More empirical work on the issue is needed. It would be interesting to study the effectiveness and success of collective action initiatives. One question is whether the initiative can pressure the government or not. Furthermore, research can be done to understand how much structure that is needed for an initiative to have pleasing results.

Our case study was limited to five cases, so it is possible to research more cases on the same area. We have been especially concerned with horizontal collective action agreement, so researching vertical ones could give a better overall picture. Similar empirical studies can also be done with primary sources instead of secondary sources so that the researchers can get a more accurate data collection and study the decision process of the managers.

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