

# Collective Action: Tackling Corruption In Business Sector

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**Abstract:** This paper tries to disentangle the challenges of implementation of collective action in business sector, the exit strategy to overcome such challenges, as well as the best practice of the implementation of collective action. In principle, corruption in terms of bribery requires a payer and a beneficiary. The former is related to some influential individuals within the private sector, while in the latter constitutes the government apparatus. However, those at private sector might serve as a payer and a payee since this sector grows gradually in developing and emerging economies. By working collectively, civil society can assist companies to create a promising business climate among competitors and can stimulate other individuals and organizations to circumvent bribery. In addition, the implementation of collective action in the corruption prone countries and sectors can make business transactions become translucent and foreseeable.

**Index Terms:** Corruption, Business Sector, Collective Action.

## 1 INTRODUCTION

Corruption is a countless and timeless phenomenon that continues to shape the current and the future of modern society. In this context, firms in many countries may involve in corruption practices. According to Gray and Kaufmann, in the past few years, they continued to gain the benefits and the revenues from purchase government's contracts by avoiding regulation and giving an influence over legal and political processes [1]. However, the interaction between the tendency of firms' bribery and the graft of the government apparatus is neglected in this research. In addition, it does not take into account whether some industries are more corruption prone than others. To solve the drawbacks on Gray and Kaufmann's study, Svensson shed some lights on the issue between firm specific factors and corruption through firms' survey [2]. Here, there is a positive and a significant correlation between the incidence and the degree of bribery, and the firms' interaction with the public sectors in Uganda. In addition, such event and level of bribery is positively and significantly correlated with the eagerness of the firms to pay and the firms' anticipated cost of relocation. Therefore, corruption might impose differential costs on different types of firms where they could hide their profits to escape from the corrupt officials. Moreover, to some extent, it was connected to the policies set by the government where firms could also escape from the legitimate tax collectors and regulators. Based on the above condition, the improvement on the ethical business leadership will be a means for eradicating corruption practices so that the problem of transparency and leadership can be mitigated. However, such an indicator may not be a sufficient criterion to increase firm's governance. In this context, Rose-Ackerman's study in business ethics investigated on what managers would do to solve counterfeit ethical issues [3]. Here, executives appeared to choose for the profitable

companies' secrets. In addition, a powerful and dominant foreign elite would be captured and bribed in exchange for a major development project. In contrast, executives did not opt for the unprofitable action that would halt the future interests of company. For example, managers would consider that lining an expense account was viewed as unethical. In addition, managers were willing to pay a bribe in exchange for a sale for their firms. Some scholars point out that ethics are indeed placed next to the company's goals. In this context, Vitell and Fetervand argued that those who were not personally committed to honesty and fairness were those who were willing to make payoffs [4]. Such result can give a hint that hiring the so-called "good morale" people is not sufficient. Indeed, both executives and owners must take a clear position on the very crucial issue related to whether their company should or should not engage in an unethical action that increases their firms' opportunity of having a profit. In this context, those who face with a big dilemma between morality and profitability will choose for profitability. In contrast, at the expense of profitability and business ethics, some will opt for personal affective ties. Therefore, the need of collective action is very crucial for allowing firms to work collectively, and to increase their standard and awareness on corruption practices. In this study, we use a desk-study review, focus group discussions (FGDs), and observations to disentangle the challenges of implementation of collective action in private sector and the strategy to overcome the challenges in implementation, as well as to describe the best practice of the implementation of collective action in several countries. In this context, firms in many countries may involve in corruption practices. According to Gray and Kaufmann, in the past few years, they continued to gain the benefits and the revenues from purchase government's contracts by avoiding regulation and giving an influence over legal and political processes [1]. However, such research does not interact between firm propensity to bribe with government apparatus demands for payoffs. In addition, it does not take into account whether some industries are more corruption prone than others.

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## 2 CONCEPT

The World Bank Institute defines collective action as a collaborative and sustained process of cooperation among stakeholders [5]. As a result, it brings the vulnerable individual players into a strategic alliance and sets the level of the playing field among competitors. It can either supplement or momentarily relieve for the weakened regulation and the debilitated anti-corruption practices at all layers of government level. Interestingly, along with the stakeholders from the government and the non governmental sector, it enables firms to amalgamate with their competitors to lay down the standards and the conditions in the fair market. Turning from the definition and the benefits of having a collective action, it is clear that in a challenging business environment, corruption is very costly, as it has been estimated to add 10% or more to the costs of doing business in several countries [6]. Also, corruption becomes a major hindrance of investment and lowers the quality of services as revealed in the 2017 Global Corruption Barometer (GCB). Yet, none of the firms in the developed and developing countries can protect themselves from the corruption risks. Given such high economic costs and risks of corruption, from a business perspective, there are various collective actions, subject to the availability of institution and the capacity of resources within a country [7]. It includes the anti-corruption declaration, the integrity pacts, the business coalitions against corruption, and the principle-based initiatives. Some are more appropriate to suppress corruption in a short-term period that involves a specific procurement against a direct assignment. Others focus on the long-term period that tries to intensify the institutional quality aspect within a country. Thus, the code of conduct in business sector is very essential to be implemented by the firms. Such rule can regulate all companies from the same and the different industry background to comply with the anti-corruption policies. However, the notion of collective action can tackle corruption is viewed by some scholars as a marginal argument. In fact, such action is seen as a predatory collusion of several firms that contributes to the resource deprivation of a country. For example, in Eastern Europe and the Commonwealth of Independent States, Gehlbach argued that firms worked collectively to conceal their actual financial statements from the tax officials that took into account some alterations in the provision of public goods and services [8]. In spite of this negative practice, there is no solid foundation to believe that collective action can induce corruption by nature. In this context, Doner and Schneider showed that business associations were positively and significantly associated with the development of a firm within a country [9]. Such associations indeed strengthen the property rights, facilitate coordination among stakeholders, reduce the information costs, and increase the number of worker's trainings.

## 3 THEORY

Theoretical framework on the collective action weakens corruption which in turn increases the firms' profitability can be broken down into several arguments, as follows: the cost-

benefit, the capacity in human resources, the long-term horizon, and the corporate culture. First, in terms of cost-benefit argument, total benefits from having a collective action must exceed total costs in implementing a collective action approach. The evidence showed that significant resources, such as firms' cashflow and short-term goals, are prerequisites to ensure the sustainability in conducting collective action. Such conditions are very important since the financial crisis forces some firms to cut the costs, instead of spending. In this context, Brew and Moberg showed that there were the so-called coordination costs to facilitate the initiative on collective action [10]. These included several studies, meetings, expert judgments, and travels that should be borne equally among the companies. In addition, financial contribution was essential to increase the trust from each stakeholder involved and to solve the free-riding problem. Second, human capital plays a pivotal role in collective action since the lack of human resource capacity in terms of financial and organizational management leads to higher costs as stated above. Here, Ostrom shed some lights on a perception and a motivation from entrepreneur who saw collective action as a profitable business idea [11]. Accordingly, a businessman has to know and to take a chance to achieve the return when individuals are engaged mutually in an interdependent relationship. Such nexus constitutes the negotiation of a series of contracts with multiple stakeholders that specifically explain on how they are to act in a structured manner. Third, long-term paradigm are considered by several firms as a means for restructuring and reorganizing the company in a strategic way, instead of obtaining quick profits in the short-term. Such action requires a good principle of corporate governance that supports for a greater transparency in the nexus between companies and governments. Albeit the investments, spending, and operations that company should make in the short-term, corporate governance clearly opens the opportunity of implementing anti-corruption practices within the organization [12]. At first, each firm must set and conduct the standards on every individual within the organization, before undertaking collective action. However, some companies that may consider to implement the reform through internal controls have potentially engage in collective action to fight corruption. In this context, as stated in the previous section, the joint agreement that legally binds each actor in terms of role and financial consequences for non-compliance actions is necessary to solve the collective action problems. In addition, collective action can be more successful in the sustain and permanent projects than a temporary project. Therefore, in the long-term collaboration with a joint and a mutual concensus, getting the prospective firm is a massive tread to make some initiatives on collective action effectively and efficiently. Last, corporate culture is positively correlated with firms' actions to curb corruption. Some believed that adding more controls or increasing monitoring activity can tackle corrupt practices that are entrenched within the daily activities of a firm [13]. However, such actions do not remit the origins of corruption, and workers will extend to justify the corrupt behavior. One might argue that a combination of

good corporate leadership, media and ethical action pressure, as well as fair competitors are several factors that could suppress corruption within organization. However, Hess and Ford stated that corruption could also be mitigated by the dissemination of corporate culture on anti-corruption policy, that constitutes code of conduct, reward and punishment, through internal magazine and or bulletin [14]. These factors raise another issue on firms' rationale to shift their behavior on tackling corruption. In this context, some companies may often to utilize a opaque system of co- operation that links simultaneously via cross-shareholding, sub-contracting, supply chains, and informal associations [15]. If both the operation and the affiliation of a company remain lenient with unethical practices, this company has basically no incentive to follow corporate governance codes. To overcome this obstacle, the implementation of minimum ethical standards for business relationships that includes the adoption of fines and penalties in the contract terms for each party that is committed to corruption is very essential.

#### 4 RESULT

There are several problems associated with the actions to curb corruption collectively. Firstly, a problem arises in a situation where everyone in a designated class has a selection between the two available possibilities. From here, those who lie within the inner circle select a rational option where the total benefit of a party can make a favorable outcome. In this setting, if he or she opts to the second-best alternative, the payoff will create a less pleasant condition for each and every one entailed in the game. Table 1 shows an implementation of collective action in game theory with resolution to amalgamate (A) or not to amalgamate (NtA). In principle, a sensible choice for an opportunist individual in the firm is NtA, where he or she will not take the initiatives to clinch his or her group concerns [16]. It is also labelled as a "zero-contribution thesis".

**Table 1:** Application of Collective Action in Game Theory

Behaviour of Firm		Firm II	
		Amalgamate (A)	Not to Amalgamate (NtA)
Firm I	Amalgamate (A)	+100, +100	-101, -99.9
	Not to Amalgamate (NtA)	+101, +99.9	-100, -100

Source: Authors' Calculation

Olson stresses that the argumentation will not valid if there is a limited number of individuals in a group. Besides, it will not justifiable if there is a pressure in one and all faction. Also, it will not well grounded if participants react in their unexceptional scrutiny [17]. Therefore, the existence incitements that outweigh the uniform merits, which are acquired in the upright spell of collective action, can curb the problem of rationality in an individual. However, there is a possibility when there is no ancillary stimulus in a case study

that requires the lowest number of individuals engaging in collective action, which might be a good solution to that problem at a parochial level. In this context, local governments may involve in a flexible and open discussion with other stakeholders to improve their business climate. Also, businessmen may embrace to enhance the development of the projects within the jurisdiction of that local government. In contrast, there might be a case where typical individual demands a higher taste and preference for public goods and services, that makes him or her becomes less sensible individual [18]. Here, he or she might be more willing to amalgamate than not to cooperate. In this setting, he or she, who is already acquainted with the prospect of having collective action inventiveness, alerts others to contemplate cooperation. This gives an indication that the ability to assess, initiate, and disseminate collective action independently play a significant role in a system. It also requires local organizations to be functioned properly. In addition, it involves the so-called "mediation parts" that will not reject a future company that has an attraction in collective action. Thus, the crucial part of such action lies in the initial step of implementation as everyone will be better off, but no one wants to go first [19]. In this context, the advocates of collective action should become involved in replicating the similar endeavor with the identical group of firms in a persistent manner. Secondly, there is a problem related to "free-riding". In the prisoner dilemma (PD) condition, there might be a case where an individual who does not want to cooperate but he or shewant everyone else to cooperate. However, when an individual consistently replicates such action over the period of the game, the situation is totally incompatible. Here, the decision to amalgamate and not to amalgamate must be either subject to the outcome from the first multiple stages of the contest or should be hinged on the unexpected resolution from the individuals who participate in the game. While we cannot restrain this decision, there is a possibility of having an optimal amalgamation where the capability of the mediators or the external monitors plays a major role in establishing the credence and the credential during the group meetings. Here, they need to harness their skills via learning with the final objective to earn the trust, that in turn, can change the manner of behavior and can deviate the so-called "zero-contribution thesis" [20]. Lastly, the logic of PD is that the system of collective action is less likely to be successful. However, such premise stresses a degree of a significant trust among all stakeholders involved in collective action. It can reduce the costs of having a weak institutional quality within organization and government level, and therefore, can support the collective action [21]. This is an obstacle in a country with a high degree of economic and political instability, which are portrayed by low level of conformity to the law at the macro course and the small level of social capital at the micro measure. Thus, trust needs time and tolerance to assemble confidence, especially for competitors [22]. One solution will be to build confidence thoroughly among parties. This reinforces the need for external facilitation that must be implemented by a business coalition and group, a government institution, and a non-governmental

organization (NGO). With this method, an organization not only can foster an environment of trust, but it can also facilitate the negotiation through its expertise and can also determine the local priorities from a neutral perspective. In this context, issues that have a significant effect on the current business climate and locality are very essential, aside from matters related to a sequence of business sole and class meetings in a bid to gain a prospective chance [23]. Nevertheless, to perform an action under political and economic instability may not always be practical. Instead, a potential solution on trust is to take action collectively through the establishment of business alliances [24]. Such partnerships will not only solve the difficulty on implementing collective action, but the awareness of the factions may also be deviated from placing trust and confidence at the initial period, to surging the process. Since business associations are able to get member of the firms to implement certain action in a positive and collective manner, they can be seen as having good indicator of institutional quality. In this context, there is a positive correlation between the institutional strength of a business association and collective action. Thus, a higher member in business associations, that limits a free-riding problem (e.g. only members can receive the benefit) within their alliances, as well as that implements interest mediation and communication system in an effective and efficient manner, can promote action against corruption simultaneously.

## 5 DISCUSSION

There have been the best practice studies regarding the implementation of collective action in many countries. In the case of anti-corruption declaration, there has been a contract signed by more than ten top managements of direct contractors in the 2002 execution phase of the Frankfurt waste incinerator project, without involving all bidding companies in tender phase. Then, the top-management levels communicate to their workers on site and make an unlocked and a sustained dialogue, which are viewed by several policy makers as a productive stride to lessen corruption. Unfortunately, the drawback of this project is that there is no external monitoring. By contrast, in 2005, eight participants committed and authorized integrity arrangement for suburban train project at Mexico. In this setting, they would desist from whichever a specified action might be chosen that could have an effect on the making of a judgment about the capitulated offers. This action was monitored by an independent team that was assigned by Transparency International Mexico. In the end, the belief for participants and communities that the processes were translucent and unbiased was raised by the external monitor, as there were no recourses or complaints from the participants. In Paraguay, anti-bribery practices have been implemented by Pacto Etico Comercial (PEC) since 2005. PEC, a strategic alliance between business, government and civil society, has

elaborated the norms, the guidelines, the procedures, and the criteria for the anti-corruption practices in a bid to preserve the customers. Firms that joined as a member of PEC received a massive incentive in a sense that they obtained an automatic permission from the customs to unload their goods. Meanwhile, in Colombia, the cultivation of business climate has been altered by the Colombian Chambers of Commerce (Confecámaras) for almost twenty years. Confecámaras was a creator of the so-called "integrity" project that attempted to curb corruption practices in the government sector. When they first took action on the integrity project, there was a marginal share of open tenders allocated by the central government. The closed offers are characterized by the nonexistence of a transparent and an objective system in the procurement that generated an extensive corruption phenomenon in Colombia. In 2003, Confecámaras initiated the first step to curb corruption through the implementation of the integrity pact. Then, in 2004, they established the code of conduct in business transactions. Such standard is viewed by the policy-makers as an effort to encourage the application of integrity. It also served as a shelter for companies from the so-called "middle men" during the procurement process. Similarly, in 1990s, several actions have been done by Center for the Study of Democracy (CSD) to suppress corruption in Bulgaria. They actively encouraged and advocated the principle of good governance within the firms' culture. In addition, they facilitated the private sector in an institutional rectification through anti-corruption declaration. In 2000, CSD reached a successful breakthrough when they collaborated with the Center for International Private Enterprise (CIPE) in an effort to combat corruption collectively. This coalition led to the establishment of Coalition 2000 where the norms, the standards, the procedure, and the criteria of anti-corruption were implemented among the members. In Indonesia, an anti-corruption initiative endorsed by the Indonesian Chamber of Commerce to form Anti-Bribery Business Community or the so-called anti-bribery business community (KUPAS) in March 2009, to sustain the activity of corporate governance and business ethics aspects. KUPAS has largely been involved in the execution of the anti-bribery pact in a bid to externalize a clean, transparent, and professional in business environment that cuts off the chain of bribery practices. As a coalition, KUPAS not only drives business circles to counter bribery but also actively boosts companies in the movement against bribery. This is very essential to socialize the community that businesspeople still have a concern in the anti-corruption movement. Several big institutions, including Recapitol Advisor, Chevron Indonesia, the Indonesian Young Entrepreneur Association, Social Security Agency, have signed this pact. They all see some benefits in joining KUPAS as they may save a lot of money that is usually used to bribe the government officials. Also, they will also achieve a good reputation and credibility by not giving a bribe. As a result, those are not only useful to attract the potential investors if they intend to sell or to privatize their company in the future, but they may also increase the opportunity to become a supplier of multinational

companies. However, the treaty is just some commitment from business sectors that is not legally binding. Thus, we cannot expect whether this kind of initiative can grow even further. Also, there is no clear mechanism on reward and punishment if a company that collaborates in this alliance violates the stated rules.

## 6 CONCLUSION

Collective action calls for an endeavor from many individuals and stakeholders to collaborate each other in a bid to reach the common goal and objective. The primary concern of such action lies within the foundation set by the firms, the administration, the non-governmental organizations, and the international unions. This principle can be a common ground for each and every party to grasp the merit of having action collectively, to determine the implementation options of such operation, and to expand the effect of collective action on governance, particularly related to corruption. The corporate governance is positively correlated with the operation of the firms and their interactions with other stakeholders such as government and civil society. Thus, the collective action among parties and the so-called "clean" firms will only exist if they are truly implemented a stronger corporate governance, where they conduct a business in a transparent and an accountable way. By adopting collective action, every single party receives a significant benefit in such a way that it ensures a fair competition that can give a firm's signal for the present and the future investment decision. It also raises the awareness of the community on the inclusion of other participants in the open procurement. In addition, it limits the extortion attempts from the so-called "invincible hands". To create a successful collective action, the institution which conducts the program must establish open channels of communication to engage a broader public. Also, the consent and the control within business association can alleviate to budge the future process. The most important thing of conducting collective action is that companies must be careful not to violate the anti-trust law so having a legal advisor is very crucial to ensure legal compliance.

## ACKNOWLEDGMENT

The authors would like to thanks University of National for the funding of our FGDs and observations in Germany, Bulgaria, Paraguay, Mexico, and Jakarta.

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