

## МЕХАНІЗМ УПРАВЛІННЯ ДІЯЛЬНІСТЮ ВІТЧИЗНЯНИХ ПІДПРИЄМСТВ ЗА УМОВ РОЗВИТКУ ІНТЕГРАЦІЙНИХ ПРОЦЕСІВ

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### CORPORATE GOVERNANCE AS AN ANTI-CORRUPTION INSTRUMENT OF CORPORATE ENTERPRISE

*Every year billions that could be spent on the education, health care and social security in general are lost because of bribery and extortion. Bribery leads to additional business costs, making it a difficult burden for companies and causing inefficient use of human capital and intellectual resources, reducing their economic productivity, and harming market competition. But it is important to remember, that corruption is not a natural phenomenon, and it can be combated. Present state of corruption in Ukrainian corporate enterprises and the influence of corruption on business development have been investigated. Different areas of business activity that are effected by the corruption have been discussed. The problem of preventing and combating corruption on the level of business entities is especially acute for Ukrainian companies, which waste nearly 10% of their profit due to the corruption. To prevent and combat corruption it's important to struggle with corruption starting from the level of enterprise, which will finally have a positive impact on the level of corruption in the state and world economy. The important role of corporate governance and its elements that facilitate preventing and combating corruption in corporate enterprises have been determined. Corporate governance introduces internal controls that foster accountability and disclosure. International experience and best practices in corruption preventing and combating in corporate enterprises have been researched. Using elements of corporate governance and forming corporate culture concerning rejection of corruption inside an enterprise on the level of top managers and other personnel is both, an actual problem, and the necessity for corporate enterprises that want perform in an fair environment and have a reputation of reliable partner. Proposals for improving corporate governance of companies' for preventing and combating corruption have been developed. Nevertheless, good corporate governance practices will not work efficiently if there is no improvement in the overall legal and regulatory climate of the country.*

*Keywords: corruption, anti-corruption instruments, corruption preventing, corruption combating, corporate governance, business ethics.*

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### КОРПОРАТИВНЕ УПРАВЛІННЯ ДО АНТИКОРУПЦІЙНОГО ІНСТРУМЕНТУ КОРПОРАТИВНОГО ПІДПРИЄМСТВА

*Досліджено сучасний стан корупції в українських корпоративних підприємствах та вплив корупції на розвиток бізнесу. Розглянуто різні сфери діяльності, на які впливає корупція. Визначено важливу роль корпоративного управління та його елементів, що полегшують запобігання та протидію корупції в корпоративних підприємствах. Досліджено міжнародний досвід та найкращі практики у сфері запобігання та протидії корупції в корпоративних підприємствах. Розроблено пропозиції щодо удосконалення корпоративного управління компаній щодо запобігання та протидії корупції.*

*Ключові слова: корупція, антикорупційні інструменти, запобігання корупції, протидія корупції, корпоративне управління, ділова етика.*

**Problem statement.** Regardless of the level of development, corruption affects every society and endangers the internal stability and security of countries around the world. It is the biggest obstacle to economic growth and development. In the private sector, corruption affects the price, which increases as a result of "corruption costs," as well as creates distrust between business partners as a result of which the consumer or client or owner is afflicted.

The use of corruption in relations between private enterprises is a widespread practice that has many forms and is the result of a range of personal and business motives. According to law enforcement officers specializing in offences in the private sector, entrepreneurs use trade of commercial information about competitors, imposture and bribes in employment, "kickbacks", conspiracies when submitting tenders and participating in tender procedures.

It is important to understand that enterprises should not just rely on the government forces struggling to prevent and combat corruption. Corporate enterprises must make their own efforts aimed at averting any corruption manifestations in their performances.

**Analysis of recent research and publications.** The fact that corruption is an sufficient element of doing business in Ukraine, was formally confirmed by numerous studies conducted recently, Ukrainian and international institutions, in particular World Bank, the Millennium Challenges Corporation, International Chamber of Commerce, International Finance Corporation, and others. Relations between the state and the business where

business is suffering from the corruption of state bodies, does not exhaust the complexity of the situation. Beyond the bounds is the problem of the business integrity itself, its ability to refuse corruption models as a mean for solving problems and achieving certain goals.

10 principles of Global agreement of UN (voluntary initiative, which was supported by over 8 thousand companies and organizations in the world and by over 190 companies in Ukraine) states that "Businesses should work against corruption in all its forms, including extortion and bribery". By joining to the Global agreement, companies contract a duty to create and support ethical foundations of corporate culture both on strategic and operational levels.

For implementation of these principles companies are offered to follow three specific steps, such as: introduction of anticorruption policies on levels of companies, including corporate culture development; monitoring and reporting about implementation of such policies, including demonstration of cases and specific examples; and, finally, association efforts with other players of the market within industry or on more large-scale levels for collective actions.

Landmark documents contribute to the global corruption prevention include: UN Convention against Corruption, OECD Anti-Bribery Convention, Transparency International's Business Principles for Countering Bribery, World Economic Forum's Partnering Against Corruption Initiative, International Chamber of Commerce Rules of Conduct to Combat Extortion and Bribery and other.

The private-sector monitoring organization, Transparency International, estimates that corruption equals a full three percent of the world's gross domestic product. Corruption is corrosive by its very nature because it keeps businesses from doing work in countries where bribery is prevalent, thereby limiting economic advancement. Likewise, it also significantly damages the reputation of companies that pay bribes, creating an environment of mistrust among the public [9].

Corruption and bribery have great impact on an economy as the corrupted market becomes much less competitive and brings "an aggravation of economic development, increase of unfair concurrence, intensification of monopoly, expansion of shady economics and diminution of direct foreign investment" [6].

The purpose of the paper is to research the problem of corruption in business and explore the role of corporate governance in preventing and combating corruption in corporate enterprises by studying international experience on corruption prevention that can be employed by Ukrainian companies.

**Presentation of the main material.** Entrepreneurs should not neglect the problem of corruption, because corruption piles up expenses of companies and diminish its benefits, such as:

- cost price of product rises;
- doesn't enable to enlarge investment due to the internal recourses;
- creates unfair competition;
- breaks the principle of equity in privatization;
- limits the direct foreign investments for companies;
- creates problems for start – up;
- abates the administration and abolishes the innovation;
- makes difficult to find new companions;
- creates grounds for informal economy.

According to the United Nations, corruption causes reduced investment or even disinvestment, with many long-term effects, including social polarization, lack of respect for human rights, undemocratic practices and diversion of funds intended for development and essential services [8].

The World Bank indicates a few situations in which we can face corruption. Among others there are two connected to business: when private firms and individuals seek to reduce costs imposed on them by government as well as when government transfer financial benefits to companies during the privatization process or by signing procurement contracts. Corruption usually occurs when business meets the government. In such situations corruption is a way of lowering costs or dividing monopoly rents. However offering bribes can also be a way of creating business relations among the companies. It is acting against the free market rules.

Private-sector corruption has many aspects. First, the Ukrainian business environment does not have established standards of honest and socially responsible business. Its formation was largely influenced by special circumstances and standards of the criminal world of Soviet times and the first years of economic reform. Secondly, Ukraine has a powerful shadow economy that, according to various sources, accounts for 20 to 50% of the country's GDP. As consequence: the spread of informal agreements, unfair competition and replacement of the usual moral norms with the norms of the criminal world. Third, the existence of powerful informal networks, which includes entrepreneurs, politicians, officials and law enforcement officials, leads to endless conflicts of interest, and thus - to systemic corruption. Fourthly, corruption culture has its own traditional models of agreements that are retransmitted and distributed as ordinary business practices.

There are a few ways of avoiding as well as fighting corruption by private sector companies. First of all company should avoid entering the markets where bribery and corruption is necessary to survive. Not paying bribes would mean very high costs and financial insolvency. Withdrawing from the market is avoiding the choice between

paying bribes and going bankrupt. Nevertheless on most markets bribery is not a necessity – it is the way to compete and overtake the other players. What is more, companies in most cases act on one market and it is impossible for them to withdraw.

According to the World Bank opinion an effective anticorruption strategy for multinationals builds on creating a competitive private sector through implementation of a fair, competitive, honest and transparent private sector and thus hinders broad-based economic development. One of the three important issues which play a key role in combating corruption by corporate companies is good corporate governance. Poorly governed managers often use their positions to extract favors which they can later expropriate, rather than reinvest into restructuring their own firms, to avoid sharing their gains with other stakeholders.

Corporate governance provides transparency and accountability to the decision-making process, supporting ethical behavior of a company. Good corporate governance and business ethics play fundamental role in corruption prevention.

A very important instrument for preventing corruption at corporate companies is code of conduct. It supports the company as an organization giving employees clear rules they should obey in order to add value to the company and to make it successful. In that sense complying with the social responsibility rules is increasing company's development. Therefore it is also the way to tackle the internal problems especially corruption.

“Individual ethical principles are usually covered by internal codes of conduct, which consist of guidelines for staff on how to behave when confronted with dilemmas such as conflict of interest, gifts, theft, insider trading, pay-offs and bribery” [7]. In many situations employee may simply not know how to act when corruption occurs. The code of conduct should show him the way to react and as a result should be a way to avoid such situations and fight with bribery. What is more it is also a clear signal to the business partners as well as competitors, clients and civil servants that the company would never accept the offer that could be treated as a corruption.

According to the rules on combating corruption, proposed by ICC, a great role is given to proper financial accounting of companies' transactions, which includes the following steps for preventing corruption:

- a) all financial transactions should be adequately identified and properly and fairly recorded in appropriate books and accounting records available for any kind of revision and checking;
- b) no “off the books” or secret accounts, and no documents that do not fairly and accurately record the transactions to which they relate;
- c) no recording of non-existent expenditures or liabilities with incorrect identification or unusual transactions which do not have genuine, legitimate purpose;
- d) cash payments or payments in kind should be monitored in order to avoid that they are used as substitutes for bribes;
- e) no bookkeeping or other relevant documents should be intentionally destroyed earlier than required by law;
- f) independent systems of auditing must be in place, whether through internal or external auditors;
- g) all provisions of national tax laws and regulations should be complied with.

ICC also recommends that each Enterprise should implement an efficient Corporate Compliance Program reflecting enterprise rules and principles on preventing and combating corruption, based on the results of a periodically conducted assessment of the risks faced in the enterprise's business environment, adapted to the enterprise's particular circumstances and with the aim of preventing and detecting corruption and of promoting a culture of integrity in the enterprise.

The regulatory environment needs to be supported with individual leadership and organizational commitment aimed at building an ethical organization.

**Conclusions.** The peculiarities of corporate enterprises management are usually connected with relations between all groups of stakeholders, especially with managers and owners. For maintaining effective relationship between the providers of capital and company managers, high levels of trust must exist between the two groups. For sufficient levels of trust to occur, four overarching principles of corporate governance need to be in place:

1. Transparency: Directors must make clear to the providers of capital and other key stakeholders why every material decision was made.
2. Accountability: Directors should be held accountable for their decisions and account to shareholders by submitting themselves to appropriate scrutiny.
3. Fairness: All shareholders should receive equal consideration by the directors and management with a sense of justice and avoidance of bias or vested interests.
4. Responsibility: Directors should carry out their duties with honesty, probity, and integrity.

Proper corporate governance is especially important for corporate enterprises for which the main benefit of good governance is being able to raise outside capital through a stock exchange. Corporate governance introduces internal controls that foster accountability and disclosure. Augmented with ethical codes of conduct and the leadership's tone from the top, proper corporate governance mechanisms are an important risk mitigation tool that can translate into palpable benefits.

Practice of international companies shows the necessity of implementing the high level of corporate governance for preventing and combating corruption at the level of enterprise. Good corporate governance, despite all other factors, includes development of corporate culture, which also contributes to preventing corruption

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