

**Anti corruption disclosure by CSR best practices companies:  
A case of Malaysia and Indonesia**



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## **5. Report**

### **5.1 Proposed Executive Summary**

(Original proposal – 300 words) – 1 page only

Corruption occurs in various settings all over the world. Previous studies on CSR in Malaysia have focussed on the examination of disclosure in annual reports. This proposed study takes a different step by ascertaining whether corruption prevention strategies are included in the CSR practices of selected Malaysian profit and non-profit organizations. The objectives of the study are: 1) To explore the inclusion of corruption prevention strategies into CSR practices; 2) To identify factors that influence / impede the inclusion of corruption prevention strategies into CSR practices.

Data collection involves 2 phases. The first phase covers the content analysis of annual reports / CSR stand alone reports for 43 ACCA MaSRA award 2011 entrants. In the second phase, data will be collected through focus group interviews conducted with personnel involved in CSR practices implementation in selected Malaysian profit and non-profit organizations. In addition, internal documentations and website analysis will be observed to complement the interview findings. The analysis of the feedbacks from the interviews will be conducted using thematic analysis.

The findings of this research are important as no other similar study has been undertaken documenting the experiences of personnel incorporating corruption prevention strategies into CSR practices in Malaysia. Our findings are expected to have practical implications for organizations institutionalizing the inclusion of corruption prevention strategies into CSR practices. Our findings also aim to contribute towards the theoretical perspectives that are relevant to the inclusion of anti-corruption strategies in CSR practices, particularly in developing countries. Finally, the findings will be used to provide recommendations which maybe useful to ensure the successful inclusion of anti-corruption policies into CSR practices in selected Malaysian organizations.

### 5.3 Introduction

Corruption is a serious concern all over the world. It is claimed that corruption is wide-spread in business (Carr and Outhwaite, 2010). Besides being a bottom line that affects company's ability to compete, corruption cheats disadvantaged people by diverting resources from critical services, for example, education, clean water, and health care, into the pockets of dishonest government officials (Hills et. al., 2009). Business organisations are encouraged to implement corruption prevention strategies to combat these unethical behaviours. Therefore, it is maintained here that the corruption prevention strategies could be included in Corporate Social Responsibility (CSR) practices and communicated to all members of organizations. Further, it is emphasised that all these CSR initiatives that address corruption efforts should be communicated to both internal and external stakeholders. This is in line with Transparency International (2010), which suggests that assessing and mitigating a company's risk of bribery and corruption should feed into an enterprise's overall approach to corporate responsibility. It is further advocated that "... as corporate responsibility takes hold and grows, the anti-corruption movement should strive to operationalize links between bribery and corruption and the corporate responsibility agenda" (Transparency International, 2010, p.3). Further, greater calls for integration of corporate responsibility and anti-corruption initiatives have been made by the UN Global Compact and investment community in the international arena (Transparency International, 2010).

In for-profit organizations, Bierstaker (2009) put forward that the Board of Directors should approve anti-corruption policy with guidelines on CSR activities, such as charity giving, which is subsequently to be disseminated on companies' websites. As such, it is put forward here that there should be some mechanisms to prevent unethical behaviour, such as corruption, in the implementation of CSR practices in for-profit organizations..

A report from the Malaysian Anti-Corruption Commission showed an increasing number of corruption cases in the private sector from 2007 to 2011. Several efforts have been introduced and implemented by the Malaysian government which aims to combat corruption and promote integrity in society, as part of its reform initiatives. The major institutions include: the Anti-Corruption Agency (ACA) Public Complaints Bureau (PCB), the Auditor's General Office, the Public Accounts Committee and the Malaysian Administrative Modernisation and Management Planning Unit (MAMPU). In addition, the Malaysian Institute of Integrity was set up to coordinate and implement the National Integrity Plan (NIP) in 2004 (Siddique, 2010). However, all these institutional mechanisms are claimed to be ineffective in combating all unlawful transactions and misconduct in society (Siddique, 2010). The Government Transformation Programme (GTP) was introduced in 2010 to transform the government to be more effective in its delivery of services and accountable for outcomes. Fighting corruption is one of the National Key Results Areas (NKRAs) incorporated into the GTP.

Indonesia is quite well-known as 'a regulated country', as there are many rules formed by the Government to curb corruption activities. Three leading institutions in Indonesia that promote anti-corruption programs are: The Indonesian Corruption Eradication Commission (KPK); Indonesia Corruption Watch (ICW) and

## 5.4 Brief Literature Review

The causes and effects of corruption and the strategies of corruption prevention are increasingly on the agendas of policymakers, company managers and scholars (Hoi and Lin, 2012). Corruption includes "taking or offering bribes, public officials dishonestly using influence, fraud, blackmail, election bribery and illegal gambling" (OTSI, 2010). Corruption is defined as "the misuse of entrusted power for private gain" (Transparency International). In linking corruption and CSR, Hills et. al. (2009, p.6) pointed out that:

Corruption costs an estimated \$2.6 trillion globally in bribes, inflated project budgets, and other expenses. It also undermines public trust and steals resources from developing countries that badly need the funds to address poverty and other social problems. As the typical sources of bribes, corporations are a significant part of the problem and could benefit measurably from progress toward solutions – particularly in terms of reduced costs, greater operational efficiency, and improved reputation. Therefore, the anti-corruption field offers a major opportunity for strategic corporate social responsibility (CSR) programs to tackle an issue that is inherently linked with both corporate and societal interests.

Initially, research on corporate social disclosure (CSD) focused mainly on environmental issues. Only after 1999, CSD has started social, environmental and economic reporting (KPMG, 2008). Since then, other components of CSR started to gain relevance but only recently has corruption been included in these issues. Nevertheless, several institutions believe that the degree of reporting on anti-corruption is a strong indicator of the quality and completeness of a company's efforts in addressing bribery and corruption (Transparency International, 2009).

Gordon and Wynhoven (2003) analysed the materials published on the websites of the United Nations Conference on Trade and Development's (UNCTAD) list of top 100 non-financial enterprises to understand their views on corruption, as well as their management and reporting practices. Only 43% presented anti-corruption material on their websites, while 90% reported on environmental issues. This report also showed that information disclosure varied between countries and sectors. An analysis of anti-corruption management practices revealed that 77% reported to have whistle-blowing facilities, 72% accurate record keeping and 63% contained threats of disciplinary action.

Transparency International (2009) examined the disclosure of anti-corruption practice by the Forbes Global 250 companies concerning related overall strategy, policies and management reform. The main conclusion was that companies often report high-level strategic commitments to anti-corruption, but they do not always report on the necessary support systems required to meet these commitments. The scores were higher for strategy and policy than for management reforms, which indicate that the firms communicate intentions but not actions.

According to Hess (2009), disclosure on corruption serves multiple goals, both internal and external. It helps to provide accountability with respect to performance raises public awareness and pressures other similar companies to adopt principles.