



# The supply-side of corruption and limits to preventing corruption within government procurement and constructing ethical subjects<sup>☆</sup>



Prem Sikka<sup>a,\*</sup>, Glen Lehman<sup>b</sup>

<sup>a</sup> Centre for Global Accountability, University of Essex, UK

<sup>b</sup> Division of Business, University of South Australia, Australia

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## ABSTRACT

Corruption in government procurement programs is a perennial problem. The paper by Dean Neu, Jeff Everett and Abu Shiraz Rahaman emphasises the value of internal controls in government departments in constraining individuals and promoting ethical conduct. In response, this paper argues that good internal controls in government departments, though highly desirable, are unlikely to make a significant dent in corrupt practices to secure government contracts. A major reason for this is the supply of corruption by corporations keen to secure lucrative contracts. Within the spirit of contemporary capitalism, they have an insatiable appetite for profits and have shown willingness to engage in corrupt practices to secure government departments. The issues are illustrated with the aid of two case studies. It is argued that the supply-side of corruption severely limits the possibilities of preventing corruption in government procurement.

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## 1. Introduction

In a world of secrecy and easy mobility of money, elites seek personal riches, power, status and competitive advantage by renting influence through illicit means. The volume and extent of corrupt activities is hard to know (Serra & Wantchekon, 2012), but is estimated to be running at around \$2.6 trillion a year (European Commission, 2011). These amounts are large enough to make a significant difference to economic, social and political policymaking, and the quality of life of citizens. As governments are one of the biggest spenders in any economy, considerable institutional attention is focused on controlling corrupt practices by government officials in granting public contracts (for example, see Organisation for Economic Cooperation and Development, 2005, 2010; United Nations Office on Drugs and Crime, 2003). A common recommendation for reform is enhanced surveillance which “strengthens accountability so that government officials can be held responsible for the proper implementation of public procurement rules and regulations and the decisions they make in actual procurement cases. Such accountability requires a credible sanctioning system for violations of rules with adequate internal controls and audit procedures; a complaints system for bidders as well as appropriate administrative; and judicial review bodies attributed with the authority to impose corrective measures” (European Commission, 2013: 260).

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\* Corresponding author at: Centre for Global Accountability, University of Essex, Colchester, Essex CO4 3SQ, UK.  
E-mail address: [prems@essex.ac.uk](mailto:prems@essex.ac.uk) (P. Sikka).

The above themes are present in the paper by [Neu, Everett and Rahaman \(2015\)](#) which shines a light on the possibility of discouraging and combating corrupt practices within the government procurement process. In Foucauldian traditions, the hope is that ethical subjects/individuals can be produced through suitably designed internal controls and surveillance systems which give visibility to departures from the established norms. Towards this end, government departments are urged to implement and enforce a variety of managerialist techniques and performance indicators, including procedures for risk assessment, training, sanctions, self-reviews and reports by internal and external auditors. The Big Brother approach implicit in the paper presupposes that individuals can be coerced to internalize some value systems and, in the process, somehow become ethical citizens. The surveillance systems advocated by [Neu, Everett and Rahaman \(2015\)](#) portrayed as are universal and are thought to be applicable across almost all cultures regardless of social tensions, legitimacy of the state and networks of power. Internal controls seek to produce a kind of stability and certainty by binding individuals within a system of governance, but they can always be resisted by those able to game or subvert them for personal gain. Some might even comply merely to gain advantage from compliance rather than necessarily embrace the ethical positions envisaged by the paper. The paper's recommendations might constrain some corrupt practices, but the gains are likely to be modest because internal controls aimed at individuals cannot stifle systemic pressures for profits and personal riches.

This paper seeks to extend the debate by Neu, Everett and Rahaman by arguing that public procurement controls, no matter how well designed, are unlikely to significantly reduce corruption in the present social environment. The Neu, Everett and Rahaman paper assumes that government officials indulge in illicit activity and primarily focuses on the demand-side of corruption. However, government officials cannot be corrupt on their own. There is a supply-side and another party has to collude and be willing and able to supply bribes under a cloak of secrecy to secure government contracts ([UK Africa All Party Parliamentary Group, 2006](#)). The supply-side primarily resides in large western corporations. George Soros, an international financier adds that "international business is generally the main source of corruption"<sup>1</sup> and Transparency International adds that "bribe money often stems from multinationals based in the world's richest countries" ([Transparency International, 2007: 2](#)). In many cases, the corporations have revenues bigger than the gross domestic product of nation-states, and have access to a vast network of subsidiaries, affiliates and advisers to camouflage their activities. In pursuit of competitive advantage, some corporations and their executives have shown a willingness to subvert laws, international treaties and well designed internal controls instituted in government procurement programs ([Boulton, 1979; Chatterjee, 2009](#)). Thus, corruption in government procurement cannot easily be checked without constraints on the supply-side of corruption.

To advance its arguments, this paper is divided into three further sections. The first section explains the supply-side of corruption and pressures that persuade corporations and their executives to engage in corrupt practices. The second section provides two case studies relating to the supply-side of corruption and the tactics used by global corporations to secure government contracts. The first case relates to Hewlett-Packard (HP), a US-based company, selling computer hardware and software to individuals, corporations and government departments. It operates in a market "where it is possible to find a market price for a comparable item" ([Neu, Everett, & Rahaman, 2015: 22](#)) and thus, has benchmarks for checking illicit practices. The second case study relates to BAE Systems plc, a UK-based company, operating in the arms industry, and for "more than a century across the entire globe, the weapons business has been a dirty business" ([Naylor, 1998: 35](#); also see [Gilby, 2014](#)). BAE sells high-priced products, often specialized products, where it may be "difficult to determine a market price with the end result that a space is created for corruption to occur" ([Neu, Everett, & Rahaman, 2015: 6](#)). Both companies are headquartered in countries classified as comparatively less corrupt in the Corruption Perceptions Index 2013 published by Transparency International.<sup>2</sup> The third section concludes the paper with some reflections and suggestions for disrupting the supply of corruption.

## 2. Understanding supply-side corruption

Almost every state prohibits the use of corrupt practices to secure government contracts and considerable efforts have been made to regulate the conduct of government officials associated with the procurement process ([Organisation for Economic Cooperation and Development, 2005, 2010; United Nations Office for Drugs and Crime, 2003](#)). Much of the regulatory architecture is devoted to the design of internal controls and surveillance techniques to constrain government officials who are often conceptualized as deviant, greedy, opportunistic and lacking in self-control. The constraints on individuals may curb some who find illicit practices attractive, but also obscure the extent to which institutional structures and norms provide opportunities and motives for corruption. A focus upon government officials obscures the supply-side of corruption which primarily resides in corporations providing goods and services to government departments. Internal controls applicable to government departments can be checked and enforced by state auditors and scrutinized by parliamentary committees. However, the state is largely excluded from directing the inner workings of corporations ([Habermas, 1976](#)) and has little power to directly enforce or scrutinize internal controls operating within corporations. The design and implementation of internal controls within corporations is considered to be a private matter for their executives, though the state can exert pressures for higher quality internal controls through laws, threats of fines and punishment for

<sup>1</sup> Financial Times, Fund Management Guru Reveals Doubts, 8 December 1998.

<sup>2</sup> Corruption Perceptions Index 2013 Available at <http://cpi.transparency.org/cpi2013/results/> Accessed 09.06.14.

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