



Are state-owned companies more exposed to corruption risk?

A comparative study of the largest state-owned and private companies in Norway

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Abstract

Recent corruption scandals have called attention to state-owned companies' involvement in corruption. The purpose of this study is to explore whether there are in fact differences between state-owned and private companies' exposure to corruption risk. The perceived level of corruption in a market can be viewed as an important determinant for participating in corruption (Rose-Ackerman, 1975; 1998). Similarly, a sound corporate culture can reduce companies' corruption risk, even for companies operating in high-risk markets (Keig et al., 2015). Although corporate culture is difficult to measure, increased disclosure of information can suggest companies' ethical behaviour.

This thesis consists of a literature review and an empirical study on companies' exposure to corruption risk and transparency. We selected ten of the largest state-owned and private companies in Norway for a qualitative comparison. The twenty companies were selected based on four requirements; listed on Oslo Stock Exchange, headquartered in Norway, significant operations abroad, as well as not being categorised as a holding company. Because the companies operate under the same home-country legislation, we have no assumption about systematic differences between the companies' performance in the analysis.

Our main findings, however, demonstrate that there are differences between the two groups related to both exposure to corruption risk, and transparency. In light of the literature review and the state ownership policy, we identified characteristics of the state as an owner that could influence corporate decision-making. By looking at exposure to corruption risk and transparency separately, we were able to determine how state ownership can explain some of the observed differences between the two groups.

We document that the state-owned companies are more exposed to corruption risk. Nonetheless, they disclose more information on their anti-corruption initiatives and corporate governance. However, on the basis of these results, we are unable to conclude the firms' ethical behaviour.

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1. Introduction

This section includes the motivation for undertaking the study of exposure to corruption risk and transparency. The section also introduces the research objective and hypotheses, as well as defining central concepts of the study. Lastly, the structure of the thesis will be presented.

1.1 Motivation

Statoil, Telenor and Yara have been involved in some of the largest corruption cases that involves Norwegian companies, and all three are partially owned by the Norwegian government. Several other state-owned companies have also been under investigation or suspicion of corrupt activities. Recent media coverage of unethical behaviour by Norwegian state-owned companies intrigued us to explore whether there actually are no differences between state-owned and private companies considering their exposure to corruption risk and transparency.

Although there should be no systematic differences between the two groups, recent corruption scandals may have given a different impression. The impression from the media is that Norwegian state-owned companies are more frequently involved in cases of corruption, compared to private companies. We set out to explore whether there actually are no differences between the groups by studying exposure to corruption risk and transparency in state-owned and private companies.

1.2 Research objective and hypotheses

The research objective is to discover whether the largest Norwegian state-owned and private companies are subject to similar exposure to corruption, as well as disclosing similar information. By selecting ten state-owned and ten private companies headquartered in Norway, we study companies that operate under the same home-country legislation. The

twenty companies will be selected based on four criteria in order to arrive at a group of companies that could be meaningfully compared. The criteria are; listed on Oslo Stock Exchange, headquartered in Norway, significant operations abroad, as well as not being categorised as a holding company. Because the companies operate under the same home-country legislation, we have no assumption about systematic differences between the companies' performance in the analysis.

In order to determine exposure to corruption risk, we explore market risk in the companies' countries of operation, as well as the degree of transparency and disclosure of information. Because there appears to be a lack of research on exposure to corruption risk and transparency combined, we will create two indexes that consider corruption risk and transparency separately. The first part consists of a scale measuring each company's exposure to corruption risk based on the location of each company's operations abroad. Four international indexes that measure transparency, corruption and governance, will be used as a reference for allocating risk exposure scores to the respective companies. The second part consists of the transparency index where we will rate companies depending on different variables in the categories anti-corruption initiatives and ownership components. Companies will be measured on their ability to report relevant information for the each of the components.

A systematic comparison will be made between the two ownership categories in order to accept or reject the following hypotheses. The hypotheses are referred to as H1, H2 and H3 for simplicity in order to avoid repeating the formulation of the hypotheses unnecessarily.

H1: There is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies.

H2: There is no systematic difference in exposure to corruption risk between state-owned and private companies.

H3: There is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies.

There are three hypotheses, although the second and third hypotheses represent one element each of the first hypothesis. Dividing the first hypothesis into two more specific hypotheses enables greater understanding of the respective component of risk exposure and transparency. It enables the components to be analysed individually through the application of a risk

exposure score and a transparency score. Conclusively, the analysis will provide a score for each component, as well as a combined assessment of risk and transparency together. This enables us to better structure the study, and accept or reject the hypotheses.

The first hypothesis states that there is no systematic difference between the two ownership groups regarding exposure to corruption risk and disclosure of information related anti-corruption and ownership. In addition, there are two supplementary hypotheses that consider the component of risk exposure and transparency separately. The second hypothesis represents no systematic difference in risk exposure, while the third hypothesis represents no systematic difference in disclosure. We refer to 'no systematic difference' as there is no consistent variance between the two categories of ownership.

The twenty companies that are included in the analysis have headquarters located in Norway and follow the same home-country legislation. Therefore, we expect no systematic difference in risk exposure and transparency between the respective companies. Put another way, both the state-owned and private companies are expected to operate with similar levels of risk exposure and disclosure of similar information.

The literature review is also included as part of the methodology in order to learn what aspects can be relevant for the empirical study. The literature review will contribute to understand why companies invest in high-risk countries, and how large owners can influence company risk-taking.

The following paragraphs explain the most central concepts of the study. Other terms and expressions will be defined continuously throughout the text.

Risk exposure

Exposure is defined by Merriam-Webster (2017) as the condition of being subject to an effect or influence. In this study, we consider exposure to corruption risk. Some markets may present greater exposure to corruption risk because of weak institutions, poor law enforcement and poor protection of democratic rights. Although it is not possible to measure actual corruption, there are indexes that measure corruption experiences and perceptions, countries' democracy,

and rule of law system. With the help of these indexes, we determine differences in the risk of being involved in corruption.

Exposure to corruption in high-risk countries increases when companies produce for the local market as it requires greater involvement with officials (Hakkala, Norbäck and Svaleryd, 2008). Producing and selling in a country, as opposed to outsourcing the production to other markets, incur larger costs to the company because of greater involvement in the high-risk country. A high-risk country is referred to as a country that score poorly on various governance, democracy and corruption indexes.

Higher exposure to corruption risk implies more companies are at risk of becoming involved in corrupt activities. Although it is more likely to come across corruption in markets that presents higher exposure to corruption risk, this does not imply that all companies are involved. Where external risk is greater, risk awareness increases. Due diligence becomes more meticulous in order to map relevant risks and reduce the company-specific risks. Moreover, as exposure to the risk of corruption increases, the moral cost and honesty increases. The additional cost of operating in a high-risk market increases when the external risk increases.

Hence, we can safely assume that countries considered as high-risk markets, presents greater probability to encounter corruption compared to low-risk countries.

We have included the component of risk exposure in the study because it indicates which companies have greater likelihood of experiencing corruption based on the markets in which they operate. Moreover, it can be considered one of the few indications that additional measures should be taken in order to mitigate the risk of corruption.

Transparency

The word transparency is often used to describe disclosure of information (Fenster, 2015). When referring to transparency, we do not consider lower transparency to imply illegal practices. Rather, we believe lower transparency solely suggests access to less information, or information of lower quality.

As corruption normally takes place in secret, transparency is considered a contributor to reducing corruption (Wu, 2005; Halter et al., 2009). Intuitively, requiring increased transparency would increase the probability of discovering corrupt actions because of reduced opportunities for secrecy (Halter et al., 2009). Cost of corruption has to be hidden, either through unreported transactions, or included into other expenses such as tax and charitable contributions. By requiring disclosure, illegal payments become more difficult to hide.

Given the link between corruption and transparency, we will develop a transparency index as a means of measuring companies' willingness to share information.

State-owned companies

We refer to state-owned companies as companies where the Norwegian government has a 33.3% ownership stake or more, or the equivalent of this influence secured through shareholder agreements. Thus, the Norwegian government has the ability to exercise negative control for all companies included in the study. When referring to state-owned companies in the empirical study, we solely refer to the state-owned companies that have been included in the analysis.

Private companies

All companies included in the analysis is by definition private companies because they are listed on the stock exchange. However, when referring to private companies in the study, we refer to companies that have insignificant state ownership, or no state ownership at all. When referring to private companies in the empirical study, we refer to the private companies analysed in the study.

Limitations

The study compares the largest state-owned and private companies. We have used four selection criteria: headquartered in Norway, listed on Oslo Børs, and significant operations

abroad defined as at least eight countries besides Norway. Additionally, holding companies have been excluded from the analysis. We have not considered industrial composition.

1.3 Structure of this thesis

The rest of the thesis is structured as follows: the second part consist of the legal framework for corruption and share-ownership in Norway. The legal framework for corruption and share-ownership is considered in separate parts, before introducing the extent and management of state ownership in Norway. The third section presents the methodology. The fourth section includes a literature review consisting of motivational factors for investments in high-risk markets, the role of ownership for willingness to accept risks, as well as the emergence and significance of transparency. The fifth section presents the empirical study and the various components that the study consists of. These are described in the order that they appear. The sixth part of the study documents the findings from the study. Each component of the transparency index, for example, is not elaborated on specifically, but rather the components that stand out or contribute greater value to the study. The seventh chapter discusses both the exposure to corruption risk and transparency, and the two components combined. Lastly, a conclusion is presented with a normative discussion at the end.

2. Relevant laws and the state ownership policy

The goal of the thesis is to identify whether there are differences that can be attributed to ownership characteristics. Thus, an even playing field with regards to legislation can be helpful to determine whether differences can be attributed to ownership. This chapter presents the legal framework for corruption and legal rights given to shareholders in Norway. In addition, because one of the requirements for selecting the companies is that they have significant operations abroad, they can be held liable in several jurisdictions. This will be exemplified below in section 2.1.2. The chapter also presents the governments work on anti-corruption, and the management of the state's direct ownership interests.

2.1 The legal framework for corruption in Norway

This section presents the legal definition of corruption as well as an introduction to local legislation and extraterritorial jurisdiction. The section also highlights the work that has been done on combating corruption for Norwegian companies operating abroad.

2.1.1 Legal definition of corruption

In Norway, corruption is criminalised in The General Civil Penal Code of 2005. The criminalisation includes bribes offered at home or abroad, facilitation payments, and regulates both individual and corporate criminal liability. Sections §§ 387 and 388 regulates individual liability for corruption and gross corruption. The legal definition of corruption is:

“anyone who (a) for himself or others demand, receive or accept an offer of an undue advantage in connection with a position, office or assignment, or (b) gives or offers someone an undue advantage in connection with a position, office or assignment” (Straffeloven, 2005, §387).

In practice, this means that a person can be prosecuted both for offering and receiving an undue advantage. Further, even though corruption is often seen as a deal between two parties, the wording of the law implies that a one-sided attempt at offering an undue advantage is eligible for legal reaction. In 2005 a new penal code was introduced, effective from October 1st 2015. Following the new penal code, corruption is sanctioned with fine and/or prison for up to three years (Straffeloven, 2005, §387), while gross corruption is sanctioned up to ten years (Straffeloven, 2005, §388). Whether a case is considered to involve gross corruption is a discretionary judgement made by the court, and the factors that influence the judgement are listed in section 388:

- a) whether the act has been committed by or in relation to a public official or any person in breach of the special confidence placed in him by virtue of his position, office or assignment,
- b) whether it has resulted in a considerable economic advantage,
- c) whether there was any risk of considerable damage of an economic or other nature, and,
- d) whether false accounting information, preparation of false accounting documentation or false annual reports are presented.

Companies can be held liable under section §27 of the penal code when someone has committed a criminal offence on behalf of the entity (Straffeloven, 2005, §27). Factors for considering whether corporate penalties are appropriate include; the preventive effect of the penalty; whether the offense is considered gross; the preventative measures taken by the company and the likelihood these measures could have prevented the crime; if the offense has been committed to promote firm interests; whether the entity has or could have gained any benefit from offense; and whether other reactions resulting from the offense are given to the business or someone who has acted on behalf of it, including whether any individual is imprisoned (Straffeloven, 2005, §28).

2.1.2 Local laws and extraterritorial jurisdictions

Norwegian companies operating abroad have to comply with domestic laws in the countries they operate. As well they have to follow relevant Norwegian laws, such as the Norwegian

Public Limited Liability Act and the Accounting Act. Some countries have implemented extraterritorial jurisdiction allowing them to pursue criminal acts committed by companies with indirect connections to their country, this may also affect Norwegian companies.

An example of this kind of extraterritorial jurisdiction is the FCPA. The FCPA include provisions that allow prosecutors to pursue criminal transactions or transfers made in USD through American banks, or electronic communications made through American servers. With provisions like this, Norwegian companies risk liability under the US legislation, even if they do not have operations there. The far reach of the US legal system can be exemplified by how they prosecuted FIFA, a non-governmental organization headquartered in Switzerland. The FCPA only criminalise bribes paid to public officials, although FIFA did not pay bribes to public officials, the American prosecutors used the law creatively. Among the laws the prosecutors charged FIFA with, were the Travel Act. The law essentially states that it is illegal to conduct interstate or foreign travel to promote, manage, establish or carry on an illegal activity (U.S. Department of Justice, 2012). Although FIFA has no actual presence in the US, prosecutors were able to bring charges for illegal activities carried out in other countries, because FIFA officials travelled in the US. This demonstrates how entities without direct business interest in the US can be targeted by US prosecutors, an additional risk for Norwegian companies.

2.1.3 Anti-corruption initiatives in Norway

The Norwegian government has expressed zero-tolerance towards corruption, and played a role in international work against corruption. The Norwegian Penal Code incorporates international conventions into the law. The word “corruption” was first included in the Penal Code in 2003 when Norway updated the Penal Code following the recommendations put forward by the Council of Europe in the Criminal Law Convention on Corruption from 1999 (Ot.prp. nr. 78, 2002-2003). In addition, Norway is legally bound, through their membership by The UN Convention Against Corruption (UNCAC), and The OECD Convention Against Bribery. In addition, they have ratified the Council of Europe Civil Law Convention against Corruption.

The Ministry of Trade, Industry and Fisheries is responsible for managing the state's direct ownership interests, and sets principles for anti-corruption efforts in the state-owned companies. Communicating expectations from the state as an owner, the ministry can express dissatisfaction in dialogue with the companies. An example of how this is done can be seen in the policy document section 8.3.3.5: Anti-corruption and transparency in economic transactions (Meld. st. nr. 27, 2013-2014). The ministry insists on transparency in its management of the direct ownership interests, the result can be seen in the comprehensive ownership policy published at intervals of a few years. The ownership policy expresses what the state should own, and how the state-owned companies should behave. Monitoring of the companies' anti-corruption efforts happens in quarterly meetings with the firms. Because little information exists on the agenda for these meetings, it is difficult to evaluate the state's actual influence in this area, other than the expressed zero-tolerance stance.

The government works with a cross-cutting anti-corruption strategy, involving several ministries. The Ministry of Foreign Affairs plays an important role in promoting Norwegian commercial interests abroad. A part of their work is also to encourage ethical values for the firms representing Norway in other countries. In 2009 a report titled "Corporate Social Responsibility in a global economy" was published by the Ministry of Foreign Affairs (Meld. St. nr. 10, 2008-2009). The report expresses the ministry's expectations of both private and listed Norwegian companies operating abroad with regards to corruption. According to the report, all Norwegian companies should "actively combat corruption by means of whistleblowing or notification schemes, internal guidelines, and information efforts" (Meld. St. nr. 10, 2008-2009, pp. 13). Companies are also expected to exercise the maximum degree of transparency in relation to cash flows. The report assumes Norwegian companies operating abroad to be at the forefront in executing Corporate Social Responsibility, including the fight against corruption. Besides expressing its expectations, it is unclear what the ministry does to make ensure the high standards are recognised in practice. Additionally, it is unclear what consequences companies that reveal inferior practices have to face.

Despite zero-tolerance toward corruption, Eriksen and Søreide (2016) underscored two cases where the government showed lack of willingness to investigate corruption. In one case, a company exonerated itself, but the government took no serious steps to investigate what appeared to be a clear case of corruption. This is also referred to as the Libya case. Another

example is the Horton case, where investigation into foreign bribery came only after the US SEC pursued a case involving Statoil. Previously, foreign bribery used to be a matter of domestic jurisdiction. The Horton case demonstrated that the government could not remain passive for the fact that Norwegian firms illegally secured profitable contracts abroad.

Prosecutor independence, competence and political support is important for the level of enforcement in a country. A problem for the Norwegian prosecutor is budgetary constraints. Many ongoing investigations, including those into state-owned firms, have been cut in scope. In one of the most recent corruption cases, a fine of USD 32.5 million was imposed on the large fertiliser producer Yara. The case was investigated with mutual legal assistance from thirteen different countries. Although international cases are costly, and despite verdicts and settlements that generate large fine payments to the government, the current government has made cuts in the economic crime unit's budget (Gøran, 2015).

In sum, the Norwegian government has expressed zero-tolerance towards corruption and tries to comply with this 'standard of excellence' through implementing an adequate legal framework and expressing their expectation of Norwegian companies. There is little information available on what steps the government takes to ensure compliance with the high expectations set forth.

2.2 Legal framework for share-ownership in Norway

To identify possible differences between state-owned and private companies, it is important to understand what kind of tools owners have available to influence management decision-making. This part starts out with a short presentation of the rights given to shareholders by the Norwegian Public Company Act. This information will be used to illustrate how the state can influence decision-making in the firms they own. Moreover, by looking at the government's ownership policy, the information is used to see whether they expand or limit the opportunity to exercise these rights. At the end, a comparison of rights given by law, and how the state chooses to exercise these rights, are given.

2.2.1 Shareholders' legal rights

Owning a share means having some percentage of ownership in a firm. The shareholder trusts that the company will be managed in a way that maximise profits. To protect this relationship all shares are associated with rights. These shareholder rights can be divided into economic, management, and disposal rights (Bråthen, 2008). The most important economic rights include the right to receive dividends and the right to repayment in capital reductions. The disposal rights could also be considered economic rights in that it is most importantly associated with the right to freely buy or sell shares. The management rights cover the shareholders right to attend, vote and exercise other rights at the general assembly. Disposal rights and management rights are most closely related to influence management decision-making, and will be discussed in the below paragraphs.

Disposal rights

A common assumption is that shareholders expect maximum returns on their investments. The return is received through dividends and increases in share value. Disposal rights is an opportunity for shareholders to instantly receive the economic benefit of their investment by making a sale, opposite from the economic right of dividends, which relies upon a decision by the board of directors and approval by the general assembly. Another attribute of disposal rights is the possibility to exit the company should the shareholder become dissatisfied with management. If shareholders believe that the goals of the company are not aligned with their best interest, they can either use the disposal rights and sell their position, or they can try to influence the board of directors and leaders through management rights.

Management rights

Management rights give the shareholder an unconditional right to attend, vote and exercise other rights at the general assembly (asal §5-2). The general assembly is an annual meeting held within six months of the financial year-end (asal §5-6). At the general assembly the shareholders approve the financial statements and the annual report (asal §5-6). Further, the general assembly approves payment of dividends as proposed by the board of directors (asal

§8-2). Other matters, which by law or company bylaws falls within the authority of the general assembly, are also processed. Examples of such matters include the election of members of the board or corporate assembly (asal §6-3 (1) and §6-35 (3)), the approval of remuneration for leading officers (asal §5-6 (3)), and matters requested by shareholders (asal §5-11).

Through management rights, shareholders can influence the company by giving their vote on important matters, such as board composition, or by putting their own matters on the agenda. The amount of influence, of course, is dependent on the size of the holding. The ordinary requirement for decisions made at the general assembly is simple majority (asal §5-17), as this contributes to the effectiveness of the meetings (Bråthen, 2008). Some decisions however, such as changing company bylaws, requires approval of at least two thirds of both the votes and of the share capital represented at the general assembly (asal §5-18). This requirement also represents a minority right for shareholders holding one third or more, allowing them to block attempts at changing company bylaws.

Another minority right is the right to request extraordinary investigation (asal §5-25). The proposal for investigation can be submitted at the general assembly and secure further treatment if it is supported by at least ten percent of the share capital represented. The court then decides if an investigation should be conducted, based on whether the request is made on reasonable grounds. The right to request investigation represents a powerful tool for the minority. For the company, investigations represent a potential liability and unwanted public attention (Bråthen, 2008). Below is a table summarising shareholder rights by category.

Table 1: Summary of shareholder rights

| Rights given | Description |
|--------------------------|---|
| Economic rights | Right to receive dividend |
| | Right to repayment in share capital reduction |
| Management rights | Right to attend annual general meeting |
| | Right to vote for company board or corporate assemble |
| | Right to present cases at annual general meeting |

| | |
|--|--|
| Disposal rights | Right to receive instant return on investment through sale |
| | Right to exit firm when e.g. dissatisfied with management |
| More than 10% | Request extraordinary investigation |
| More than 1/3 of voting capital | Minority right of blocking changes to company bylaws |

In conclusion, one main objective of the Norwegian Public Company Act is protection of shareholder rights. Shareholders are given economic, management and disposal rights. Management rights can be used in an effort to influence and align company and shareholder objectives. If the objectives cannot be aligned, the shareholder can remove themselves from the position by selling their shares. The position to influence increases with the number of shares owned, the larger the holding the bigger the influence.

2.3 State ownership in Norway

Seventy companies are directly owned by the state of Norway, and the portfolio includes both listed and unlisted companies. The government of Norway is the most dominant owner on the Oslo Stock Exchange. The value of the state's shares for the listed firms totalled NOK 522.234 million at the end of 2015, that is 26% of the total value of the Oslo Stock Exchange. The value of the holding decreased over the last year, much of which is attributable to the decrease in demand from the petroleum sector, which plays an important role in the Norwegian economy (Statens Eierberetning, 2015).

Norway has a higher proportion of state ownership than most other European countries (St. meld. nr. 27 (2013-2014)). The ownership report expresses the perspective that private ownership should be the dominant ownership structure. Therefore, the current government aspires to reduce the total share of state ownership over time. Companies held by the state are categorised into four groups based on the objective of ownership, and objective of reduction in ownership will most likely occur in companies where the objective is solely commercial.

The table below summarises the various ownership objectives by state-owned companies.

Table 2: Categorisation of state-ownership by objective

| | |
|-------------------|--|
| Category 1 | Companies with commercial objectives |
| Category 2 | Companies with commercial objectives and an objective of maintaining head office functions in Norway |
| Category 3 | Companies with commercial objectives and other specifically defined objectives |
| Category 4 | Companies with sectoral-policy objectives |

2.3.1 The state ownership policy

State ownership is managed by different ministries depending on either the objective of ownership, or based on the nature of the industry. The main responsibility rests within the Ministry of Trade, Industry and Fisheries, whom is also responsible for publishing the annual report on state ownership (Statens Eierberetning). The ministry is also responsible for a policy document, published at intervals of a few years, describing the political objectives for the ownership position (Eierskapsmeldingen). In recent years the government has professionalised the ownership by clearly stating its role, and transferring commercial purpose holdings to the Ministry of Trade, Industry and Fisheries, where a separate ownership department has been created (St. meld. nr. 27 (2013-2014)).

Economic rights

The main objective of administrating the direct ownerships, in all categories except from category 4, is to achieve the highest possible return on invested capital. The government is positive to contributing capital, and wishes to enable the companies to better react to strategic and competitive changes in their respective business environments. The preconditions for these value-enhancing transactions are that they have commercial benefits, and can be completed in such a way that safeguards the government's ownership objectives. The rationale

behind these value-enhancing transactions is that they are part of achieving the highest possible return on investment, and dividends. Expectations are developed for each company and presented at quarterly meetings, and are used to evaluate management and board performances.

Managerial Rights

According to the ownership policy, the only time the minister will act as owner is at the annual general meeting. The minister has no authority within the company outside of this meeting. An additional contact point with the companies is quarterly meetings held with each company, and an annual meeting concerning corporate social responsibility. In these meetings, the ministry expresses expectations to return and dividends, and a discussion of company strategy takes place, as well as a presentation of the economic situation. The ministry has no authority outside the general meeting, and feedback put forward in these meetings are considered suggestions, not instructions.

The state has rejected the opportunity to be represented on the corporate board of the state-owned companies. They have three reasons for this. Firstly, being on a company board requires business, market and industry knowledge, and the government has limited industry competencies. As a diversified owner, it becomes increasingly difficult to keep up with the rapidly changing market conditions of the different industries. Secondly, the government has many roles and has to be both the owner, policy maker, and administrative authority. The state avoids being represented on company board in order to avoid a potential conflict of interest. Lastly, representation on company boards implies becoming an insider, and subject to the risk of risk of being held responsible for commercial decisions. While not being represented, the government participates in the selection of qualified board members.

Disposal rights

The current government wants to reduce the share of state ownership over time. Reductions will mostly happen in category 1, where the objective of the holding is purely commercial. For companies in category 2, they have no intention to reduce percentage of ownership below

34%, also referred to as negative control. Negative control can also be secured through separate shareholder agreements. This enables ownership percentage to be less than one third. A reduction in share ownership, or support for other transactions will not be completed unless it is seen as beneficial for the state. Authority to sell shares is not within the power of the government, they have to request power of attorney from The Parliament. This implies that reduction of the direct ownership portfolio could be a tedious process. The ownership policy does not mention sale as a possible response to dissatisfaction, or mistrust in management, or the board of directors.

The table below represents an overview of shareholder rights based on the Norwegian Public Company Act, and whether the government will exercise these rights based on the ownership policy.

Table 3: Overview of state ownership policy

| | Norwegian public company act | State ownership policy for (category 2 and 3) |
|--------------------------|--|---|
| Main goal | Protection of shareholders | High return on invested capital |
| Economic rights | Receive dividend | Yes |
| | Repayment in capital reductions | Yes |
| Management rights | Right to attend annual general meeting | Yes, the only time the state will act as owner is at the annual general meeting |
| | Right to choose board of representatives | Yes, however, the state does not want their own representatives on company boards. This decision is due to lack of competence, to avoid conflicts of interest, and the risk of being held liable. |
| | Right to present cases | Not likely, the state wants to be careful in instructing individual cases. |
| Disposal rights: | Right to instant return on investment through sale of shares | Not likely, the sale process requires several steps of approval and the focus is on long term return on invested capital. |
| | Right to exit company when dissatisfied with management | Not likely, more important to keep holding over 1/3 of share capital. |

3. Methodology

The study is based on the paradigm of positivism (Saunders et al, 2016). We take a deductive approach to research as the literature review will contribute to the development of the indexes and overall analysis.

3.1 Research methodology

The research objective is to explore companies' exposure to corruption risk in foreign markets, together with the ability to publicly disclose relevant information. Relevant information, for the purpose of the study, is transparency of corporate risk-taking, strategies to mitigate risk, anti-corruption initiatives and disclosure of ownership components. The research consists of two parts. A literature review enables greater understanding of the subject, while the risk index and transparency index underscore the respective company's performance. The index allows for a straightforward comparison of the state-owned and private companies. Hence, a conclusion can be reached on the hypotheses.

3.1.1 Data collection

Secondary data is used as the method of data collection. The literature review was conducted using search words such as 'risk', 'transparency', 'foreign direct investment', 'ownership theory', 'corporate governance', and 'corruption' among others. The journal or source of which the respective papers were published, were contemplated before considering the research paper to be of high enough standard to be included in the literature review. A range of peer-reviewed articles from established journals in the fields of economics, accounting and management, were most frequently used as a source of reference.

3.1.2 Literature review

The literature presents a multitude of perspectives on risk, ranging from operational risk to uncertainties related to new markets, disclosure of operations in high-risk countries, as well as strategies to mitigate risk. In order to better understand the topics of risk-taking and risk exposure, a literature review is considered as an intuitive step to better comprehend the subject. Moreover, the review work as a foundation for creating sound hypotheses. Firstly, the literature review will identify motivational components that help explain investment in high-risk markets. Secondly, the literature review will also underscore the role of ownership on the willingness to accept greater risk. The section supports the perspective that the type of ownership impact risk-taking. The final part of the review will introduce transparency and discuss the significance of transparency as exemplified by the compliance programmes. Although the literature review contributes to identify the research objective, and to better analyse the findings, there are some limitations to reviewing existing literature.

A limitation for conducting the literature review is the vast amount of research available on the subject of risk, transparency and corruption. It is unattainable to discover all relevant information and comprehend the data to assemble a perfectly objective assessment. Moreover, the time-scope allocated to complete the research does not allow for mapping out every piece of past research that are of relevance to the subject. Hence, a consideration will be made on which study is most relevant while being easily attainable through journal databases.

The combination of risk exposure and disclosure of risk-taking is a difficult subject to study and measure. The available data is limited and can only provide marginal indication of risk-taking and the inclination to accept greater risks, or be more exposed to corruption risk. Moreover, there has not been created a theoretical model that confirms or supports the combination of exposure to corruption risk and corporate transparency. The issue is rather discussed from different disciplinary areas that presents different assumptions, legal frameworks, or absence thereof. Hence, it is difficult to attain a unanimous understanding of corruption risk and transparency.

However, the literature review is decided to be the best means of method to study the subject of corruption risk and transparency, because of the advantages that a literature review provides. Firstly, an overview of existing studies will help achieve a greater understanding of

the subject of corruption, risk and transparency, as well as corporate governance and ownership. Secondly, a literature review provides knowledge of components that are important to include in the index. Previous indexes that have measured risk exposure and transparency, demonstrate which components work well to explore relevant and comparable information. Thirdly, the research hypotheses presented above were created after considering existing literature. Lastly, a literature review can help us to better understand the findings, as presented in chapter 7 'Discussion'.

4. Literature review

The literature review is part of the methodology in order to learn what aspects can be relevant for our empirical study. The purpose of this literature review is twofold. Firstly, it enables insight into why companies pursue high-risk markets, and large owners' ability to influence company risk-taking. This insight will be used in the discussion part of the study. Secondly, it presents current literature on transparency in corporate reporting. This builds the foundation for the factors making up the transparency index.

4.1 Motivation for investment in high-risk markets

Risk is variation of possible outcomes (March and Shapira, 1987). Risk can be measured by the differences in probability distribution of possible losses and gains (March and Shapira, 1987). Thus, greater risk represents larger variances. Risk perception is subjective judgement of probability and severity of the risk (Statt, 1977).

A foreign direct investment (FDI) means ownership of an enterprise is controlled by an organisation based in a different country (Caves, 1971). However, this study solely considers FDI in high-risk countries, which are countries considered subject to poor integrity systems, weak institutions or reduced law enforcement efficiency (Shleifer and Vishny, 1993; Rose-Ackerman, 1998; 2008). Thus, high-risk countries can present greater risk to the investing company because of the challenges that reduced law enforcement presents. The implications that weak institutions, integrity systems and law enforcement reactions have on foreign companies are highlighted in section 3.1.6 'Risk of law enforcement reaction'.

Natural resources, labour force, competitive pressure, market size, macroeconomic stability and the nature of particular sectors are generally considered important determinants for FDI in developing countries, although the most significant determinants for FDI vary over time (Jensen and Johnston, 2011). However, there are a range of additional objectives for FDI, particularly when considering investment in high-risk countries. Thus, the objectives that particularly represent investments in high-risk countries are introduced in the paragraphs

below: profitability, managerial experience, incentives, bonus schemes, as well as availability of long-term resources, risk of law enforcement reaction and political pressure.

4.1.1 Profitability

Profitability is the main objective for businesses and can be considered a necessary determinant for FDI as businesses seek to increase returns (Friedman, 1970; 2007). Furthermore, Dupuit's cost-benefit analysis state that when expected benefits outweigh correlated costs, the investment can be considered successful (Ekelund, 1968). Both the Friedman and Dupuit perspectives underscore the importance of securing profitability. When enterprises recognise a business opportunity, such as foreign direct investment, the enterprise will naturally seek to take part in the activity that can increase sales (Friedman, 1970; 2007). Thus, the opportunity to generate profit is one of several incentives for investing in high-risk countries. However, high-risk countries may be favoured over other countries when deciding which market to invest in because high-risk countries presents greater risk, and therefore the possibility of greater returns (Jimenez, 2011). Moreover, Leff (1964), as well as Egger and Winner (2003; 2005), found a positive relationship between corruption and FDI. The studies support the 'helping hand' interpretation that corruption encourages profitability and investment, however only for those who pay bribes (Egger and Winner, 2003; 2005). On the other hand, corruption means higher risk of unsuccessful business, especially for those who are honest. The perspective of corruption to present a disadvantage is referred to as 'grabbing hand'.

The 'grabbing hand' perspective implies that corruption does not increase profitability, but rather presents greater venture costs. There are three main arguments that underscore the 'grabbing hand' interpretation. Firstly, paying bribes is an additional expense (Murphy, Shleifer and Vishny, 1993). Secondly, corruption contributes to resource-wasting rent-seeking activities (Applebaum and Katz, 1987). Lastly, there are additional contract-related risks associated with a corrupt country such as weak property rights (Shleifer, 1997). When corruption is perceived through a 'grabbing hand' perspective, it is expected to reduce profits

(Rose-Ackerman, 1999). Thus, companies' incentive to invest in high-risk countries decreases.

Consequently, profitability as a motivation for investment in high-risk countries depends on the managerial perspective of corruption either presenting an opportunity for greater returns, because of greater risk, or corruption as a resource-wasting activity. Managers either consider the presence of corruption to be a 'helping hand' to increase investment profitability, or corruption as a 'grabbing hand' that decrease profitability.

The concept of economies of agglomeration refers to the advantages that companies secure by choosing a location near other companies. Kang and Jiang's study (2012) suggests that investments in established FDI agglomeration environments reduce strategic risk associated with institutional uncertainty and operational risks. Thus, investing in agglomerated environments can reduce market risk, although country specific risk may still be significant (Jensen, 2008a). However, some investors require greater returns and therefore choose to accept greater risks (Krugman, 1991). These investors, also referred to as first-movers, may seek to take advantage of non-agglomerated areas and capitalise unexplored opportunities. Hence, first movers' have a greater inclination to accept higher risk exposure (Mankinen, 2016). The example of economies of agglomeration illustrate that a country can expose companies to different levels of risk, depending on whether companies invest in agglomerated or non-agglomerated areas.

As a conclusion, the managerial perspective on whether high-risk countries presents opportunities or threats for profitability is important for investment strategies. Additionally, demands for greater returns affect the willingness to invest in high-risk, and predominantly more, corrupt countries. Although profitability in high-risk countries depends on several factors, the consequences of bribery is more important here than in low-risk countries. Thus, greater profitability can be a result of greater corruption, through the exercise of paying bribes.

4.1.2 Managerial experience

A company's previous experience can influence the attitude to risk when deciding on investment decisions (Buckley and Casson, 1981; 2016). On the other hand, personal history contributes to shape managers' cognition for future decision-making (Kahneman and Tversky, 1979). Managers with previous negative investment experience, where projects or products earned below average returns, are found to accept greater risk when considering new investments (Drake and Kohlmeyer, 2010). Drake and Kohlmeyer (2010) argue that there is a need for managers to redeem themselves and projects that they have managed. Nonetheless, previous FDI experience is argued to be of less relevance for choosing new FDI strategies, taking into account the 'what to consider' components of investment decision-making (Buckley and Ghauri, 2015).

Fear of decreasing sales, profits and potentially bankruptcy is another component that increases inclination to take risk (Bowman, 1982). Greater risks are taken in order to maintain contracts, sales and profits. Kahneman and Tversky (1979) underscore the perspective that loss aversion can increase risk taking because individuals choose the option of perceived gains, as opposed to the possibility of losses.

Because managerial decisions affect organisational approaches, managers and managers' experience are essential determinants for investment decision-making, together with fear of financial losses. (Buckley and Casson, 1981; 2016). Thus, there can be found great differences between companies' FDI commitments as managers' perspectives varies.

4.1.3 Incentive baskets

It is generally expected that multinational corporations that invest in less developed countries have a positive impact on employment, tax revenue, and technological advancement, among a range of other effects (Caves, 1971; Black and Hoyt, 1989). In order to attract more foreign direct investment, governments can create investment incentives (Black and Hoyt, 1989). Investment incentives can also be referred to as incentive baskets, when more than one inducement is offered. Incentive baskets consists of a range of motivations that can be

specifically created to attract particular investments, or consist of more general incentives that target a wider range of investments (Doyle and Van Wijnbergen, 1994; Rosenboim, Luski and Shavit, 2008). The incentives may include measures such as market and infrastructure preferences, tax relief, rights, grants and preferential loans (Rosenboim, Luski and Shavit, 2008). The variety of incentive baskets targeted at different investments structures, may help explain differences in FDI strategies between different enterprises. Despite the additional risks that a less developed market presents, investment baskets can help motivate investment in these environments.

4.1.4 Bonus schemes

Individuals are generally understood to respond to incentives (Bohlin, 1997). The incentive theory of motivation includes both extrinsic and intrinsic motivation (Logan, 1968). Extrinsic rewards are tangible, and are commonly a monetary incentive presented to individuals as a method of motivation to improve performance, or other means of achievements (Logan, 1968). Intrinsic rewards on the other hand, is the personal satisfaction a person derives from a sense of self-accomplishment related to personal goals (Logan, 1968). Accounting information is commonly used as a reference for measuring individuals' performance, such as the components considered in the bonus plan of Economic Value Added (Fan, 1975). Managerial bonus schemes can affect the level of risk managers are willing to take (Kohlmeyer and Drake, 2007; Drake and Kohlmeyer, 2010). Bonus schemes can be categorised as either a hurdle bonus scheme or a graduated bonus scheme. Hurdle schemes awards a fixed bonus when the set target is reached (Kohlmeyer and Drake, 2007; Drake and Kohlmeyer, 2010). If performance is above the target, the fixed bonus stays the same. A graduated scheme, on the other hand, applauds greater performance with incremental increase in bonus as performance increases (Kohlmeyer and Drake, 2007; Drake and Kohlmeyer, 2010). Thus, graduated bonus schemes encourages greater risk acceptance. The type of bonus schemes that corporations have in place can therefore have significant effect on managers' risk profile and decision-making (Fan, 1975, Windram, 2005).

4.1.5 Long-term resources and size of company

Less developed markets commonly lack adequate legal systems and efficient law enforcement (Keefer and Knack, 1997). Thus, companies operating in less developed markets tend to encounter institutional disruptions that requires rapid adjustments (Rose-Ackerman, 1998; Jensen, 2008a; 2008b). Consequently, companies need long-term resource engagement in order to be able to overcome sudden adjustments and unexpected resource demands (Lien and Filatotchev, 2015). Larger companies, in addition to state-owned enterprises, have a significant advantage when it comes to long-term resource commitment because they have access to greater amounts of capital and other relevant resources for FDI (Lien and Filatotchev, 2015). Moreover, Lien and Filatotchev (2015) argues that decisions to locate FDI in riskier, less developed economies, is positively associated with the percentage of stocks held by large companies or institutional investors. Additionally, larger companies, as well as state-owned enterprises, are found to be associated with lower political risk (Vadlamannati, 2012). The investments, including the knowledge, technological advancements, employment and infrastructure, that the corporations bring to the undeveloped region may help reduce political risk (Vadlamannati, 2012). Political risk and political pressure will be introduced further in the following paragraphs.

4.1.6 Risk of law enforcement reaction

Countries that have weak institutions normally lack efficient law enforcement, as well as well-functioning legal systems (OECD, 2013). Therefore, weak institutions present a greater risk of inefficient or unreasonable law enforcement reactions to unlawful activities. Countries with weak institutions are generally considered high-risk markets (Rose-Ackerman, 1998). As a consequence, corporations can use the argument of poor law enforcement reaction as leverage to secure better contracts because the market is not well protected against illegal behaviour (Leff, 1964; Egger and Winner, 2003; 2005). Furthermore, reduced risk of law enforcement reaction suggests that there are fewer convictions taking place. Reduced risk of getting caught can be another argument for investing in high-risk countries.

Most countries regulate corruption in the criminal code. Only the most severe crimes are sanctioned in the penal code. Corruption is commonly recognised to damage the society at large, including economic and socio-economic development, trust in government, and as a facilitator for other types of crime. On one hand, regulating corruption in the penal code enables better recognition of the seriousness of the problems that corruption promotes. On the other hand, the seriousness of crimes regulated under the criminal law establishes strict requirements for liability. The requirements for liability under criminal law are as follows:

1. a criminal act must have been committed
2. the individual(s) or entity responsible for the crime must be identified
3. the accused must be guilty
4. absence of legitimate excuses

These requirements are necessary for a fair and democratic legal process. However, identifying a crime, such as a case of corruption, can be difficult as many corruption cases can be considered located in a grey-zone (Hjelmeng and Søreide, 2016).

As mentioned in chapter 2, companies can be held liable for criminal offences committed on their behalf. This is an objective responsibility. The appropriateness of corporate liability is determined by the courts, based on an evaluation of criteria presented in the Penal Code §28 (see section 2.1.1). Corporate criminal liability is based on a legal standard, and its application can be unpredictable for companies. One criterion is; the preventative measures taken by the company and the likelihood that these measures could have prevented the crime. With regards to preventative measures, corporate liability should incentivise companies to implement anti-corruption programmes, not the opposite (Shea, 2014). In the corruption case against fertiliser producer Yara, the company accepted a fine of USD 32.5 million. In evaluation of whether corporate liability should be applied, an evaluation of Yara's efforts on anti-corruption and transparency was considered unsatisfactory. The prosecutor argued that the effect of implemented anti-corruption programmes is reduced when it is ignored by top management (Økokrim, 2014).

Another challenge related to sanctioning crimes under the penal code is who has the burden of proof. Norway ratified the European Convention for the protection of human rights and fundamental freedom in 1999. The law state that anyone charged with a criminal offence is presumed innocent until proven guilty (Menneskerettsloven, 1999, del I art. 6). The required evidence is dependent on a trade-off between the consequences of sanctioning an innocent, weighted against the consequences of not sanctioning a guilty person. The consequences of sanctioning an innocent are weighted greater in the Norwegian judicial system. The prosecutor has the burden of proof. Consequently, the evidentiary requirements increase and convicting the offender becomes more challenging.

A combination of the challenges associated with identifying a crime and providing satisfactory evidence can reduce the opportunity to be convicted for a criminal act. Moreover, the judicial challenges that Norwegian legislation presents may contribute to increase inclination to invest in high-risk markets.

Additionally, there may be a lack of competition authorities in high-risk markets. Competition authorities in high-risk markets may have few highly-trained legal and economic experts, and their powers to intervene when necessary are often weak (OECD, 2013). Competition authorities regulate and enforces competition law, and can also enforce consumer protection laws (OECD, 2013). Stronger competition is important because it lowers prices and can stimulate to growth and innovation (OECD, 2013). Moreover, efficient competition law enforcement exposes dominant firms that engage in anti-competitive conduct to more competition, and reduces entry barriers. Reduced barriers to entry help small or new firms to enter the market (OECD, 2013). Additionally, because competition authorities enforce competition law, a greater presence of competition authorities can provide more efficient competition law enforcement. Hence, corporations, as well as consumers, can trust the market to a greater extent because reactions and sanctions are put in place when laws and regulations are broken.

4.1.7 Political pressure

Political decisions obviously have significant impact on firms such as taxation, regulations, public procurement and budgets, among a range of additional components. Large contracts may be awarded to companies as a result of one or numerous political influences (Cui and Jiang, 2012). This may be the case when the client is another government. Whenever the politicians find great value in particular companies, contracts, raw materials or products, the pressure on those deals increases significantly (Shleifer, 1997; Goswami and Haider, 2012). Additionally, Shleifer (1997) argues that additional regulations could be motivated by the opportunity to secure bribes. Additional regulations can enable politicians to demand bribes by awarding bribe-paying entities to be excluded from the implemented regulation. Hence, political pressure is put on businesses in a form of extortive corruption because businesses that do not pay bribes are challenged by a disadvantage. Businesses would have to comply with implemented regulations that competing businesses who pay bribes are exempted from (Shleifer, 1997). Thus, companies that do not pay the bribe could experience an unfavourable disadvantage.

Another form of political pressure is the pressure exercised on governments and businesses from foreign governments (Knack, 2001; Martens et al., 2002). Governments who contribute developmental aid to other governments may come from a position of power because they ultimately decide how much developmental aid to donate, although pressure can be put on the donating governments from non-governmental and intergovernmental organisations alike. When governments are in a position to decide whether to contribute governmental aid, or the amount to be donated, they can be considered to come from a place of power. The respective governments may therefore choose to utilise that power in an extortive way to achieve their goals (Martens et al., 2002; Stokke, 2013). One example where extortive pressure can be exercised is through state-owned companies. The government can demand particular treatment for the state-owned company operating in the foreign country where developmental aid is provided (Cui and Jiang, 2012). Another example of extortive pressure is conditional aid. Governments may choose to provide developmental aid based on fulfilment of a variety of conditions (Knack, 2001; Brautigam and Knack, 2004).

Thus, it can be argued that state-owned companies, and their owner, the government, may be in a position to secure particular advantages for the state-owned entity, if they choose to exploit their opportunities (Stokke, 2013). The advantages may include a range of components from tax relief to better procurement contracts, reduced exposure to extortive corruption and lower repercussions from illegal activities (Stokke, 2013). Tax relief can also be used as an incentive, or part of an incentive basket, to attract foreign investments as underscored in section 3.1.3 'Incentive baskets'.

To what extent host governments choose to exercise extortive pressure on foreign direct investment can negatively affect the inclination to invest in the market. Additionally, the provision of developmental aid to host governments based on fulfilled conditions, enable state-owned companies that represent the contributing country, to secure favourable advantages. As a consequence, the government that exercises political pressure determine which companies are given an advantage or disadvantage, and therefore contribute to increase or decrease inclination to invest.

4.1.8 Summary of motivational factors

There are a variety of motivating factors at play for taking on greater risk when deciding to invest in high-risk countries. Table 1 presents important components that affect inclination to invest in high-risk markets. The company-specific and individual factors are general components that influence investment decision-making, while the country- and market specific factors can be attributed to investments in particular countries.

Table 4: Summary of motivating factors for investment in high-risk countries

| | |
|------------------------------------|---|
| Profitability (4.1.1) | Companies’ managerial perspective, including a cost-benefit analysis, determine whether investments in high-risk markets present opportunities or threats to profitability. |
| Long-term resources (4.1.2) | Companies that have access to long-term resources can rely on the provision of additional resources, instead of |

| | |
|---|--|
| | a self-sufficient project. Companies may therefore be able to choose projects with higher risk that may yield greater returns at a later stage. |
| Bonus schemes (4.1.3) | Graduated bonus schemes can encourage greater risk acceptance compared to hurdle bonus schemes. The particular bonus scheme implemented in a company or department therefore has the ability to influence decision-makers on investments strategies. |
| Managerial experience (4.1.4) | Managers with previous negative investment experience, for example when projects earned below expected returns, accept greater risk when considering new investments. Managers want to redeem themselves from a lack of success in the past. Thus, managers' accomplishments affect future investment strategies. |
| Incentive baskets (4.1.5) | When governments in high-risk markets create incentive baskets, this can motivate foreign investment despite the additional risks. |
| Risk of law enforcement reaction (4.1.6) | Because corruption is regulated under the criminal law, there are strict requirements for being sanctioned. It is both difficult to identify the crime, and provide satisfactory evidence, that can result in conviction. Reduced probability of being held accountable can increase inclination to invest in high-risk markets. |
| Political pressure (4.1.7) | <p>When the host government demands bribes from foreign companies in order to allow for equal competition, among other components, it can be argued that inclination to invest in the particular country decreases.</p> <p>On the other hand, when the home government requires a set of conditions to be fulfilled, or advantageous treatment for particular state-owned companies, in order to provide developmental aid, the motivation to invest in the particular high-risk country can increase.</p> |

The components presented above are difficult to measure because relevant information is not usually publicly available. Thus, the components cannot be proposed to affect one investment strategy over another. Nonetheless, considering a combination of the motivational factors may suggest a weak indication of how state-owned and private companies are inclined to invest in high-risk markets.

4.2 Ownership's influence on company risk-taking

The following section presents theories on how large shareholders are incentivised to monitor and influence the companies they own. The research shows how different types of owners, by exercising their rights as shareholders, have incentives to shape firm behaviour in order to achieve their own objectives. The literature presented below demonstrates the implications that different types of ownership can have on firm behaviour. Specifically, whether there are characteristics associated with the state as an owner that can explain differences between state-owned and private firms.

4.2.1 How large owners can influence corporate risk-taking

According to the agency theory, ownership structure affects the opportunity of owners to influence corporate risk-taking (Jensen and Meckling, 1976). When there is divergence between the goals of owners and managers, agency theory suggests mechanisms to better align the competing interests. The large shareholder is better able to monitor managers, since the large stake increases the incentive to monitor. According to Boyd and Solarino (2016), large investors are desirable for external owners and stakeholders. This is because large owners have both incentives, and are better able to monitor managers, compared to smaller owners. Monitoring reduces the information asymmetry between managers and shareholders at the cost of a risk transfer from manager to shareholder, presumably without affecting the performance incentives of the manager. Instead of compensating the manager for taking risk, large

shareholders take the risk themselves and receive compensation in form of greater returns from the company (Boyd and Solarino, 2016).

Agency theory assumes that managers are risk averse because they face employment risk, while owners are risk neutral because they can diversify the risk. Therefore, companies with large owners take higher risk, while companies with diffused ownership take less risk, as the risk-averse manager acts under less control (Paligorova, 2010). With an increase in ownership stake, the large owners' idiosyncratic risk increases. In order to maximise profits, a large shareholder accepts riskier projects with higher possible return. All else equal, this behaviour will increase as ownership stake increases. However, this link between large owners and risk-taking may be diluted because of the large stake invested in one company (John et al., 2008). In order to protect private benefits, the large owner choose projects with less risk exposure.

The literature draws mixed conclusions on the net effect of ownership structure on risk. The different profiles of large owners make it hard to draw intuitive conclusions. Two aspects that have received wide attention are the portfolio diversification of the large owner and the type of owner holding the large stake. These two will be discussed further to understand how a large shareholder can influence company risk-taking in different ways.

4.2.2 Portfolio diversification

A common assumption in agency theory is that while shareholders are risk-neutral there are some risks included in owning a large stake in a company. While all else equal, higher ownership stake would be expected to increase risk-taking. The risk of financial loss associated with concentrated ownership can alleviate this assumption. Considering the effect of a large owner on company risk profile, research has found that diversification of the large shareholder affects corporate choices.

The general assumption is that large shareholders are typically undiversified (Anderson and Reeb, 2003; John et al., 2008; Faccio et al., 2011). However, Faccio et al. (2011) find a high degree of heterogeneity amongst their sample of firms, and that there are many large shareholders holding well diversified portfolios. In accordance, a very low correlation between

ultimate ownership and diversification is identified. The low correlation suggests that while the typical large shareholder is undiversified, there are many small undiversified shareholders as well as large diversified shareholders. Thus, assuming that a large shareholder avoids risk will not hold true. Moreover, considering the large shareholders' portfolio can give better indication of risk management.

One reason why large shareholders take on less risk is the desire to protect their wealth. Firms with concentrated ownership can experience additional costs that are not present in firms with diverse ownership (Anderson and Reeb, 2003). These costs are associated with the large shareholder expropriating wealth from other shareholders because of their controlling interest. While diverse shareholders evaluate projects on the basis of the residual cash flow, large undiversified shareholders may receive greater benefits from focusing on long-term return on invested capital. This suggests that residual cash flow is not the sole determinant for evaluating investments (Anderson and Reeb, 2003). The dominant ownership position, together with concentration of wealth, can motivate large owners to influence the company to not take on riskier projects. Consequently, they protect their own wealth while a possible conflict with smaller shareholders arises.

The difference in risk appeal of the undiversified and diversified shareholder holds true under the assumption that the utility of the undiversified shareholder is lower than that of the diversified shareholder (Paligorova, 2010). Under this assumption, undiversified large shareholders would try to decrease firm-specific risk in order to increase their own utility. In contrast a well-diversified large shareholder would be unaffected by firm-specific risk because it has been diversified (Faccio et. al, 2011). Strong statistical evidence suggests that diversified large owners engage in riskier projects, because the goals of the large shareholder are more in line with that of the smaller investors (Faccio et. al, 2011). This is in contrast with the protectionist behaviour associated with undiversified large shareholders, as introduced above (Anderson and Reeb, 2003).

A large shareholder can both increase and decrease company risk-taking. While an undiversified large owner can decrease risk-taking, a well-diversified large owner would have more incentive to increase company risk-taking. The assumption that the typical large shareholder is less diversified is supported by research, however there are many large

shareholders holding well-diversified portfolios. The objectives of the shareholding can affect the inclination to influence on risk-taking, such as the type of investor holding the large position. If the objective of ownership is profit, the shareholder is more likely to be diversified. When the objective of ownership is to influence the strategy of the firm, social and political goals, the owner is less likely to be diversified. In the next section, we address the owners that despite being undiversified, still have incentive to impact risk-taking

4.2.3 Ownership objectives

Many researchers have studied the effect of large owners on corporate risk taking, and many have found that the type of owner holding the largest position matters (Anderson and Reeb, 2003; Paligorova, 2010; Faccio et al., 2011). Different owners have different goals for their ownership position, and the goals they have for the company can influence company risk-taking as either being more or less aggressive. Family ownership is often associated with a large holding, and has therefore been studied to see the effects of ownership on risk-taking. Families have the goal of transferring the business to the next generation. Because of this long-term orientation, together with an often undiversified portfolio, they are often expected to avoid risk-taking (Paligorova, 2010). In this same study, Paligorova (2010) finds that the type of shareholder plays a role in risk-taking. Group organisational structures, as opposed to family businesses, allows large shareholders to act from a more diversified position and thus take on riskier projects.

Family ownership as such represents the holdings of a committed long-term investor who potentially has different incentives relative to diversified shareholders. The long-term focus of families can lead to a protectionist focus where avoiding default is more important than maximising company value. In this situation, reduction in company risk-profile is likely. Consistent with the research in the section on diversification, large owners seeking to reduce risk can have conflicting goals compared to smaller investors. Family presence is beneficial rather than harmful to minority shareholders (Anderson and Reeb, 2003). Families pursue less risk reduction through diversification, use similar amounts of debt, and on average exhibit greater shareholder value. Minority shareholders seem to benefit from family presence. This

finding conflicts the belief that a goal alignment gap is created when large shareholder seeks to lower firm risk, as opposed to maximisation of shareholder wealth as required by minority shareholders. Controlling owners who suffer severe penalties for failure, place greater effort into enhancing shareholder wealth (Robe, 2002). Family firms, despite being associated with lower risk profiles, can have a net positive effect on shareholder value because of the importance of keeping the firm afloat.

From a theoretical perspective, state ownership can be compared with family ownership, because they have different objectives as opposed to solely maximising firm value. Despite nominal fiduciary duties, governments can impose their own goals on a firm more easily than private controlling shareholders (Kahan and Rock, 2010). Governments can also go to great lengths to avoid firm default. Governments will not allow firm default because of political and socially desirable goals, such as low unemployment and domestic investment; the desire to maintain key industries providing crucial services to the country; and the reluctance to be associated with a failed investment (Borisova et al., 2015).

Borisova and colleagues studied how government ownership can influence the cost of debt for the investment target. All else equal, a lower cost of debt decreases the default risk of a company, which can incentivise the manager to pursue more risk. Since it is less likely that a firm with state ownership would be allowed to fail, government ownership can carry an implicit guarantee on the debt of the firm. Research suggests that government guarantees are likely to lower the perceived risk of default, which in turn, reduces the risk premiums required by investors. This lowers the cost of debt for the issuing firm (Faccio et al., 2006; Borisova and Megginson, 2011). Because government impose non-profit maximising social and political objectives, yet also offer implicit guarantees, the influence of government ownership on the cost of debt is complex. There is a moral hazard associated with implicit government guarantees, which allows shareholders and managers to benefit from risk taking, while public funds are used to keep firms afloat (Stiglitz, 1993). Managers of guaranteed firms are expected to increase level of risk taking as a result of the guarantee.

The moral hazard problem can be reinforced by a monitoring gap that occurs because governments lack incentive or skills to supervise management. Moreover, other stakeholders can reduce monitoring as they expect government to rescue distressed firms. This monitoring

gap can lead the manager to increase risk because the lack of monitoring management. A possible alternative explanation to the reduction of cost of debt caused by government ownership arise from the government being a deep-pocketed investor capable of providing preferential access to state-owned banks or other types of financing.

4.2.4 Summary of ownerships' influence on risk-taking

A large ownership position affects the ability of owners to influence company risk-taking. Because of the incentives and ability to monitor management, large owners are desirable for smaller investors. However, there are situations when the goals of the large owner diverge from that of the smaller investors, typically when the large owner is less diversified and prefer securing their own investment over profit-maximisation. A diversified large owner is more likely to use their position to increase firm risk-taking, in line with the goal of smaller investors. The type of owner holding the large position also matters for firm risk-taking. Families and governments exemplify owners that have other goals for their investments. Despite the importance of firm-survival these types of large owners can increase firm risk-taking through guarantees, because of the importance of firm survival.

4.3 Exposure to corruption risk

In trying to identify differences between state-owned and private companies in Norway, we wonder what the state owns and why. Mapping state ownership around the world is beyond the scope of the study. But in terms of identifying the “what” in state ownership, looking internationally was helpful for getting an idea. The following sections seeks to identify in which sectors state ownership is most dominant on a global scale, and which sectors are most prone to exposure of corruption risk.

4.3.1 Sectors dominated by state ownership

OECD published a report in 2013 mapping state-owned entities and their role in the global economy (Kowalski et al., 2013). OECD tried to identify which countries own the international state-owned companies, and in what industries these companies most prevalent. The following ten countries represent a chronological order of the countries where state ownership is most dominant: China, United Arab Emirates, Russia, Indonesia, Malaysia, Saudi Arabia, India, Brazil, Norway, and Thailand (Kowalski et al., 2013). The OECD report finds that the share of state-owned companies is much higher in emerging markets, and less prevalent in OECD countries. Norway has the highest share state ownership amongst the OECD member countries. Traditionally, state ownership has been dominant in natural resource extraction and energy production. The OECD report finds that sectors most dominated by state ownership are the following: mining and support services; civil engineering; land transport and transport via pipeline; mining of coal and lignite; electricity gas and steam; telecommunication; and financial intermediation (Kowalski et al., 2013).

4.3.2 Sectors most affected by corruption

There are three structural requirements for corruption to take place in a sector (Kolstad and Søreide, 2009). These requirements include rent-seeking behaviour, a benefit that motivates the crime. Secondly, poor authority is required to enable distorted decisions. Thirdly, weak institutions give rise to the opportunity to be poorly sanctioned. Others facilitators of corruption are complex market structures and lack of competition. Additionally, natural monopolies create opportunities for discretionary decisions, often involving government regulation of the market. Government regulation of the market facilitates rent-seeking behaviour (OECD, 2015). Sectors with these characteristics are often associated with greater risk of corruption. Transparency International's Bribe Payers Index (BPI) ranks industries based on a survey of more than 3000 business executives worldwide (TI, 2011). The index maps the likelihood of paying a bribe in any given sector (TI, 2011). According to the BPI, five sectors are most prone to bribery. These are as follows: public works contracts and

construction; utilities; real estate property; legal and business services; oil, gas and mining (TI, 2011).

Comparing the two preceding paragraphs, it becomes apparent that the sectors most dominant with state ownership are similar to the same sectors that are most prone to bribery.

4.4 Transparency

Transparency is disclosure of information (Zhao, Kim and Du, 2003; Ball, 2008). Transparency can relate to a number of situations or components, although our reference to transparency is businesses' disclosure of information relevant to our analysis of risk exposure.

Despite the increase in popularity of transparency as seen by usage in policymaking, by journalists, and civil society, it is not always clear what the term means. Transparency is a broad term and is used in many different contexts. Typically, transparency is associated with openness and symmetric information. This chapter explores the transparency literature, particularly the rationale for corporate transparency and implementation of compliance programmes.

The rise of transparency as a field of research, can be explained by a mounting call from stakeholders to improve companies' ethical decision-making (Parris et al., 2015). Examples of recent events that has put pressure on increased transparency is the financial crisis in 2008 and the revelation of the Panama Papers in 2016.

Organisations benefit from being perceived as more transparent by their stakeholders. Stakeholders are anyone who can be affected by, or can affect, the company's activities. Transparency increase stakeholders' trust in the organisation, which can result in improved cooperation between stakeholders and the organisation (Jahansoozi, 2006).

Furthermore, transparency is considered an essential component for curbing corruption (Bac, 2001; Lindstedt and Naurin, 2010). However, disclosure of information and willingness to make information publicly available is of little value unless paired with other policy initiatives (Bac, 2001; Kolstad and Wiig, 2009). Additionally, making information publicly available

will not deter corruption when conditions of publicity and accountability, such as education, freedom of speech, media coverage and fair elections, are weak (Lindstedt and Naurin, 2010).

4.4.1 Rationale for corporate transparency

In essence, transparency is about reducing information asymmetries (Forsrbæk and Oxelheim, 2014). The most important motivation for transparency in economic research is efficiency, and that complete information will result in more efficient decision-making (Forsrbæk and Oxelheim, 2014). In the context of business transparency, the company is the agent with access to information that others do not have. This create information asymmetry. Improving transparency is considered to decrease information asymmetry, thus agents are prevented from adopting opportunistic behaviours (Bessire, 2005). To reduce information asymmetries, the agent discloses the information for interpretation by its stakeholders. Stakeholders have different information needs, and the company will have different preferences on the extent to which they want to reduce these asymmetries. For example, it may not be in the firm's best interest to reduce information asymmetries with their rivals, as this could reveal trade secrets or dilute competitive advantage.

As there is a demand side to transparency, the information is potentially of high value to the receiver. When information is of high value, providing the information may become costly for the disclosing party (Forsrbæk and Oxelheim, 2014). Thus, the disclosing part and the receiving part may have different views on bridging the information gap. Determinants for disclosure can be urged by incentives or social pressure from external parts. Assuming companies are profit-maximising, the disclosure of information is urged by either a potential future benefit, or may be required by law.

4.4.2 Assessing the legitimacy of corporate transparency

Corporate transparency can perform as a staging process that involves strategic disclosure of information and institutionalisation (Christensen, 2002). Corporations that disclose

information in order to appear sounder, is referred to as an act of “window-dressing”. Hence, greater transparency, in the context of our study, may be the result of either “window-dressing”, or a straightforward objective to disclose more information.

A compliance program consists of five main themes: leadership and “tone at the top”; risk assessment; standards and internal controls; training and communication; monitoring, auditing and responses (Baker & McKenzie, 2012). External pressure from regulators and stakeholders can lead to implementation of compliance programmes to gain legitimacy. However, compliance program implementation can range from sincere efforts to the symbolic appearance of commitment (MacLean et al., 2012). After adopting a formal compliance program, there is still the risk that compliance strategies are not altered. Although companies have compliance programmes that appear similar, they may have different underlying ethical cultures. The actual outcomes are based on cultural factors.

Research on compliance program implementation have found the effect of a poorly implemented compliance program to be related to more unethical behaviour in the organisation (MacLean and Behnam, 2010). Programmes implemented to protect company or top managers are found to have a positive effect on unethical behaviour (Treviño et al., 1999). Furthermore, a positive correlation has been identified between an unenforced compliance program and employees’ unethical behaviour when the program is perceived as an act of “window-dressing” (Treviño et al., 2014). Similarly, a compliance program designed to meet external requirements, without the proper implementation in the company, can harm the employees’ commitment, and program legitimacy (MacLean and Behnam, 2010). The values that the program was intended to promote may also lose legitimacy, and could lead to a decrease in employees’ commitment to ethical behaviour (MacLean and Behnam, 2010). As an example, sanctioning rebates secured by companies with proper compliance program implementation, could lead to an increase in the adaptation of programmes for the purpose of improved appearance. Therefore, compliance programmes implemented for the sole purpose of receiving milder sanctions are not likely to influence company behaviour (Treviño et al., 1999).

One of the most important prerequisites for a well-implemented compliance program is the managers’ personal commitment to ethics (Treviño et al., 1999). This is particularly the case

in large multinational corporations. With an increase in either the number of subsidiaries, or the number of geographical locations, there will also be an increase in employees or managers' opportunities to take part in illegal activities (Gabbioneta et al., 2013).

In order to meet external expectation, managers can focus on aspects of the program that can be easily audited. Examples include whether the company has given employees anti-bribery training, and whether the company has an anonymous whistle-blower program (Hess, 2014).

Increased transparency, in the form of a compliance program or increased corporate social responsibility efforts, can also serve as an insurance against sanctions (Hess, 2007; Jeffers, 2015). When this is the case, the insurance premium is the cost of appearing more transparent. The repayment comes if the company is involved in unethical behaviour, in the form of milder sanctioning or protection of reputation (Hess, 2007; Jeffers, 2015).

Corporate culture should be the area of focus when assessing a company's compliance program. Top management who view bribe payments as a necessity, or a means to get ahead, often have compliance programmes that match best practices (Hess, 2014). However, the company lack the culture to support the program. For compliance programmes to be successful at the corporate level, the programmes should not only consist of definitions and formal statements, but rather a more thorough implementation. Programmes implemented due to external pressure and regulations, are often subject to the risk of being implemented with the sole purpose of meeting additional expectations from stakeholders. Thus, the integrity and culture that is expected of the company is generated externally. Adopting external values could have the opposite effect of what is intended (Dunfee and Hess, 2001). Further, a compliance program implemented as a result of internal desire, is more likely to have a positive effect on ethical behaviour, compared to compliance programmes implemented due to external pressure (Dunfee and Hess, 2001).

Transparency is relevant for assessing companies' effort to improve ethical behaviour. Assessment of companies' transparency can be achieved through evaluating the information they disclose on compliance programmes. Corporate culture is the principal determinant for evaluating the success of the compliance program, although it is difficult to measure company culture. Further, because companies' compliance programmes may be subject to "window-dressing", this aspect is important to keep in mind when evaluating corporate transparency.

5. Empirical study

The empirical study consists of an index measuring exposure to corruption risk, and a transparency index. Firstly, the requirements for including companies in the analysis will be presented. Secondly, how to measure the corruption risk index for each company will be introduced. Lastly, the components included in the transparency index are presented following the categorical order of anti-corruption activities and ownership components. For an overview of the corruption risk and transparency indexes, see the appendix.

5.1 Requirements for companies

Four requirements determine which companies should be included in the analysis. We decided on a total of twenty companies, where ten represent state-owned companies, while the other ten represent private entities. The list 'Kapital 500' presents the 500 largest companies in Norway (Kapital, 2015). 'Kapital 500' has a declining structure so that the twenty largest corporations can easily be identified. However, because of the set requirements, many companies were not included. Firstly, the respective company is required to have headquarters in Norway. Secondly, the company has to be listed on the Oslo Stock Exchange. Thirdly, the company has to have a significant amount of operations abroad in several countries. We refer to 'a significant amount of operations abroad' as operations in at least eight countries besides Norway. Lastly, holding companies are not included in the analysis because of their business structure. A combination of the four requirements contribute to decide the twenty largest companies that are headquartered in Norway and listed on Oslo Børs, as well as carrying out significant operations abroad and are not categorised as a holding company. Thus, the following companies have fulfilled the set requirements and will be included for further analysis (declining order from largest to smallest based on annual revenue from 2015): Statoil, Telenor, Yara, Norsk Hydro, DNB, Statkraft, Orkla, Aker Solutions, Marine Harvest, Wilh Wilhelmsen, Norwegian Air Shuttle, Kongsberg gruppen, Austevoll Seafood, Schibsted, Kværner, Lerøy, AF gruppen, Kværner, Norske Skog, DOF, Nammo.

The table below presents the companies that are included in the analysis in a descending order according to their respective size. The rank allocated to each company is based on annual revenues for 2015. Companies identified as SO or P represent the ownership structure of the respective company. State-owned companies are referred to as SO, while private companies are identified as P.

Table 5: Companies included in the study

| | Company | Revenues (million NOK): | Ownership | Rank Kapital 500 |
|-----------|------------------------|--------------------------------|------------------|-------------------------|
| 1 | Statoil ASA | 482,800 | SO | 1 |
| 2 | Telenor ASA | 128,175 | SO | 2 |
| 3 | Yara International ASA | 111,897 | SO | 3 |
| 4 | Norsk Hydro ASA | 88,667 | SO | 4 |
| 5 | DNB ASA | 79,268 | SO | 5 |
| 6 | Statkraft | 53,094 | SO | 10 |
| 7 | Orkla | 33,198 | P | 16 |
| 8 | Aker Solutions | 31,896 | SO | 17 |
| 9 | Marine Harvest Norway | 27,881 | P | 22 |
| 10 | Wilh. Wilhelmsen | 26,814 | P | 23 |
| 11 | Norwegian Air Shuttle | 22,491 | P | 31 |
| 12 | Kongsberg Gruppen | 17,032 | SO | 36 |
| 13 | Austevoll Seafood | 15,240 | P | 43 |
| 14 | Schibsted | 15,117 | P | 45 |
| 15 | Lerøy Seafood Group | 13,589 | P | 50 |
| 16 | AF Gruppen | 12,398 | P | 55 |
| 17 | Kværner | 12,084 | SO | 59 |

| | | | | |
|-----------|-------------|--------|----|-----|
| 18 | Norske Skog | 11,538 | P | 63 |
| 19 | DOF | 10,291 | P | 70 |
| 20 | Nammo | 3,783 | SO | 174 |

Statkraft is not listed on Oslo Stock Exchange but have been included in the analysis because the company has the same reporting responsibilities to Oslo Stock Exchange as other listed companies. Statkraft has the same responsibilities as other listed companies because it issues bonds. We have therefore chosen to include the company in our analysis.

Another company that does not fulfil the set requirements, but are included in the analysis nonetheless, is Nammo. Nammo is not listed on Oslo Stock Exchange because it is equally owned by the Norwegian state and Patria, a Finnish provider of defence and security. The reason that Nammo has been included in the list of state owned companies, albeit not being listed on the stock exchange, is that there are no other state-owned company that has significant operations abroad. We value operations abroad to a greater extent than listing on the stock exchange, but to increase consistency when comparing the twenty companies, the requirement of being listed on Oslo Børs was set. If Nammo was not included, there would not be a more suitable company to be part of the analysis. Thus, there would be one less state-owned company to compare with the ten private companies. For equality measures, and to include a representative number of companies, we chose to include the analysis of Nammo because we believe that would contribute value to the index.

However, the index has some limitations. The components that form the index, present limitations relevant to subjectivity and consistency. The scores that are allocated to each company are based on an evaluation of publicly available data on the respective company. Some of the components may be more objective because the components only consider whether or not the company has made information on the relevant component available to the public. On the other hand, some components are based on a subjective evaluation of how good the quality of the component is. The index is subject to subjective evaluation, although measures are taken to reduce subjectivity. The information necessary to evaluate the fifteen components for each company are studied twice to reduce the limitation of subjectivity. Thus, some alterations have been made in the second round of information gathering to increase the

level of objectivity. Additionally, awareness that a high degree of objectivity is preferred, helps to reduce subjectivity.

Consistency is another limitation that have been considered. It is essential to give companies the same score for the same information. As the information needed for each component is considered twice, the level of consistency increases. On the other hand, human error may occur in qualitative data gathering and analysis. Twenty companies are evaluated based on fifteen components, thus, a total of three hundred scores are given. The larger the sample size, the larger risk there is to assign the wrong score to a company or evaluate the component in an inappropriate manner.

5.1.1 State-owned versus private owned companies

Existing literature does not appear to compare ownership structure and foreign direct investment. Because of recent corruption scandals, and the significance of state-owned enterprises in Norway, the focus of the thesis is on the differences between state-owned and private companies related to investment in high-risk countries and the willingness to disclose information about those activities. Thus, the above companies are divided into two groups; ten state-owned companies and ten private owned companies. Consequently, the companies represented in the list above are the largest companies for each category, taking into account that companies fulfil the requirements as stated above. The state-owned companies are Statoil, Telenor, Yara, Norsk Hydro, DNB, Statkraft, Aker Solutions, Kongsberg gruppen, Kværner, Nammo. The state-owned companies are presented in table 4.2. The middle column represents the percentage that the Norwegian state own for each company. The right column represents the category of ownership as presented in section 2.3.

Table 6: State-owned companies included in the study

| Company | Percentage of state ownership | Category |
|----------------|--------------------------------------|-----------------|
| Statoil | 67% | 2 |
| Telenor | 53,97% | 2 |

| | | |
|--------------------------|--|---|
| Yara | 36,21% | 2 |
| Norsk Hydro | 34,26% | 2 |
| DNB | 34% | 2 |
| Statkraft | 100% | 3 |
| Aker Solutions | 30% ownership in parent Aker Kværner Holding AS* | 2 |
| Kongsberg Gruppen | 50,001% | 2 |
| Kværner | 30% ownership in parent Aker Kværner Holding AS* | 2 |
| Nammo | 50% | 2 |

The ten private owned companies are Orkla, Marine Harvest, Wilh Wilhelmsen, Norwegian Air Shuttle, Austevoll Seafood, Schibsted, Lerøy, AF gruppen, Norske Skog, DOF.

As the empirical study can be divided into two parts, exposure to corruption risk and transparency, the following sections introduce the respective components for each of the two parts. Firstly, the components that make up the risk exposure index are introduced and discussed. Secondly, the fifteen factors that represent transparency are presented, followed by the reasoning behind choosing the particular factors.

5.2 Data collection

Our data collection consists of two parts. The first part includes data collection related to the risk exposure index. The index assesses country-risk through the application of four international indexes. The second part consists of the data that makes up the transparency index. Fifteen components are considered in total, although they are separated into two main categories; anti-corruption activities and disclosure of ownership.

5.2.1 Corruption risk index

We decided to apply the four indexes introduced below, because of how they complement each other to create a better picture of the level of risk that each country presents.

The three chosen countries are then allocated a score from each of following indexes: Corruption Perceptions Index (CPI), Economist Intelligence Unit Democracy Index (EIU index) and World Bank Doing Business Index (Doing Business). Thus, each of the three countries that are chosen based on the Rule of Law Index, are given a total of four scores. There are four scores for each of the three countries that add up to a total of twelve scores. The arithmetic and geometric average of the twelve scores are calculated to arrive at one score that represents companies' exposure to corruption risk. The arithmetic averages are calculated because it is a straightforward way of measuring averages. However, the indexes vary significantly both in terms of components used for measurement and the numeric score given to each country on the index. A geometric average reduces the variances between the indexes and thus compiles a better average with less 'noise'. Therefore, both arithmetic and geometric averages are applied to all of the listed countries.

The arithmetic and geometric averages from each of the twenty companies are used to calculate two average scores for the state-owned companies and two scores for the private companies. Lastly, the averages of the two groups are compared.

5.2.2 Transparency index

Information that were used in the index were gathered from the respective company's annual report, corporate social responsibility report, code of conduct and company webpage. Only publicly available information was evaluated and utilised for allocating scores to the index. The factors included in the index are considered and discussed in greater detail in the above paragraphs. Therefore, data collection for the index is straightforward as only publicly available information available on the company webpage or company reports are used.

5.3 Risk factors

Risk and uncertainty is difficult to measure. Thus, four established corruption- and governance indexes have been considered when analysing companies' exposure to corruption risk: The World Justice Project's Rule of Law Index, Transparency International's Corruption Perceptions Index, The Economist Intelligence Unit's Democracy Index and The World Bank's Doing Business Index. A combination of the four indexes demonstrate the respective companies' exposure to risk, and provide a combined score that is allocated to each of the twenty companies respectively.

Because large corporations normally operate in a variety of countries, only the three highest-risk countries that the company operate in, are considered in the view of the four indexes. The average sum based on the twelve scores indicates the company's overall exposure to corruption risk.

The four indexes are based on a variety of components. Some components are similar while others are unique to each index. Many of the companies included in the analysis operate in several high-risk countries. In order to achieve a consistent analysis, only the Rule of Law Index is used to identify the highest-risk countries which each company operates in. The country score for the three respective countries are combined to arrive at an average score that represent the company's foreign investments based on the Rule of Law Index. The first step in the risk analysis is to identify which countries should represent each company. The three countries which receive the lowest score from the Rule of Law Index will be used as a foundation for the three remaining indexes, in addition to form an average score for the Rule of Law Index of the analysis. Thus, each company will be evaluated and given a score based on a total of four indexes. The Rule of Law Index was chosen as the primary index because the directory evaluates the least amount of countries compared to the other indexes. As a consequence, the probability of wrongly evaluating a company based on countries that are not considered to be the riskiest, is reduced. This is because some of the highest-risk countries may not be included in the Rule of Law Index. Companies were therefore evaluated as either being appropriate for further analysis or not.

The Rule of Law Index measures the extent to which countries adhere to the rule of law in practice. The index is composed of nine principal components, with a range of sub-

components such as whether people have access to a fair justice system, and the processes by which laws are enacted and enforced. One apparent limitation to using the Rule of Law Index is that some countries are not allocated a score. These include the Arabian Peninsula, except for United Arab Emirates, and many of the African countries including Algeria, Angola, Libya and Niger, among several others. The countries that are not included in the Rule of Law Index are not included in the risk exposure index created in this study. The countries that are not included in the Rule of Law Index are usually countries that are less transparent about democracy, law enforcement and rule of law. Thus, it becomes difficult to evaluate the country's integrity processes. As a consequence of this limitation, the Norwegian oil company DNO was not included as one of the ten private companies. DNO operates in Iraq, Oman, Somalia, Tunisia, United Arab Emirates, and Yemen. However, only two of these countries, Tunisia and United Arab Emirates, are represented on the Rule of Law Index. Thus, DNO is excluded from our research because of the design of the risk assessment method.

The Corruption Perception Index (CPI) created by Transparency International measure the perceived level of corruption that exist among public officials and politicians (Transparency International, 2016). Thus, the measure is solely about perceptions of corruption in the public sector, excluding all private corporations from the assessment (Andersen and Heywood, 2009). Thus, only a percentage of businesses in a market are represented, although the number of organisations that represent a market varies from country to country. CPI uses opinion surveys from experts working in the business environment, together with performance assessments from a group of analysts (Transparency International, 2016). Measuring perceptions of corruption instead of corruption directly, may allow for reinforcement of stereotypes the index (Andersen and Heywood, 2009). However, the index contributes great value because it identifies governments which are perceived to be more corrupt.

The Democracy Index is created annually by The Intelligence Unit at The Economist. The Democracy Index measure the state of democracy through the application of sixty indicators. Each of the indicators are assessed by experts. However, the report does not state what kind of experts they are. Whether the expert works for The Economist Intelligence Unit or by another employer is not easily accessible information. Neither is the nationality of the experts, and the score they allocate to each indicator. Thus, the experts cannot be held accountable for inappropriate assumptions, and the scores that are given to each of the sixty indicators.

Nonetheless, The Democracy Index considers a broad range of components that constitute political culture, civil liberties and pluralism. The index contributes a greater understanding of the respective countries' macro-economic and political cultures that are valuable components in the evaluation of market- and country risk.

The Ease of Doing Business Index is an index created by The World Bank Group. The index assesses laws and regulations for businesses, as well as protection of property rights for a large proportion of the countries in the world. However, the index does not include information on Cuba, Western Sahara, Turkmenistan and North-Korea, among a few other smaller nations. The index is based on ten sub-indexes related to starting a business, registering property and enforcing contracts, among others. However, there are methodological weaknesses to the index as the ability of indicators to capture underlying business climate is uncertain. Countries may find it more convenient to improve components that are more easily evaluated by the World Bank Group, in order to improve scores. This is opposed to changing the underlying business environment that caused the suboptimal ranking in the first place. This phenomenon can also be referred to as rank-seeking behaviour. The occurrence of “window-dressing” is another limitation to the Ease of Doing Business Index because scores and overall rankings becomes more important than improving the underlying environment. Although the limitations reduce the influence of the index to some degree, it is still a useful tool to better apprehend the organisations' business environment.

5.4 Transparency factors

The transparency index consists of a variety of components related to openness and disclosure of information. Each company are given a score between 0 and 3, depending on the component in question. A lower score indicates less transparency. Whenever zero is allocated to a component, it indicates that information is not publicly available. All components in the index are meant to be publicly available information either found through the company website, in the annual report or in other reports such as the corporate social responsibility report or in the code of ethics document. Transparency is further divided into two sub-sections, disclosure of anti-corruption activities and ownership.

Our study is limited by the objective for increasing the flow of information, as we only consider to what extent companies disclose information relevant to the components included in the analysis.

‘Transparency in Corporate Reporting’ is a report created by Transparency International in 2014. The report presents a similar index to our risk- and transparency index. ‘Transparency in Corporate Reporting’ have for that reason been an influence for which components are relevant and that can be appropriately applied to explore the subject of transparency for uncomplicated comparison between companies.

5.4.1 Anti-corruption

When it comes to the ‘anti-corruption’ category, each company is evaluated upon ten factors, described in section 5.3.1 to 5.3.10. The ‘ownership component’ of the index consists of five factors that are presented in sections 5.3.10 to 5.3.15. The components are introduced below in the order they appear in the index and in the appendix.

Corporate Social Responsibility

A Corporate Social Responsibility (CSR) report is important because the report normally contain more detailed and better information about ethics, sustainability, corruption and suppliers. Companies that have a CSR report, either published separately, as a chapter in the annual report, or on a dedicated webpage, are allocated a score of 1, while companies that does not have a CSR report are given 0. Not operating with a specific CSR report may not be an indication of unsatisfactory activities, but because it is a common component of annual reports, a lack of a CSR report may be an indication of less knowledge or actions taken on the subject. It can also be an indication of lack of strategies for dealing with social responsibilities.

On the other hand, some companies may have a comprehensive Code of Conduct that complements their CSR report. What the CSR report tell us is not always clear. For some companies it states their true commitment to anti-corruption and other responsibilities. For

others, it may not be more than a “window-dressing” strategy, where the report is written primarily for the sake of calming external expectations of social responsibility without any real impact on corporate practices.

Nonetheless, presenting a CSR report in the annual report or on the company’s webpage can be a great means of communicating sound practices. In addition, it is relatively easy to measure whether a company has a CSR report, and it makes for straightforward comparison between companies.

Anti-corruption programme

Implementation of a sound anti-corruption programme can be a stepping-stone to avoid involvement in corruption. The programme usually entails strategies to avoid or detect corruption, training for employees and information on whistle-blower channels and protection. Not having a strategy or program that addresses can be argued as a measure of ignorance or avoidance of the problem. Companies that do not have an anti-corruption programme scores 0, while companies that do are given a score of 1, not considering the quality of the programme.

On the other hand, disclosing information about anti-corruption strategies may not necessarily be in the best interest of the company. The company may want to keep the information to themselves for a number of reasons. For example, when the company is testing existing processes, restructuring the processes or implementing new strategies. Consequently, suggesting that those who do not publicly report anti-corruption activities, have not implemented anti-corruption strategies, would be an incorrect generalisation. Moreover, anti-corruption programmes, as can be the case with corporate social responsibility reporting, can demonstrate a form of window dressing rather than actual performance. Thus, there is limitations to allocating scores based on transparency of an anti-corruption programmes, we still feel that the component can contribute value to the overall transparency index.

Anti-corruption programme for suppliers

A company's anti-corruption programme should set standards for supplier conduct. Because the quality of the anti-corruption programme as a whole is not evaluated in this study, only particular components of the program are evaluated to enable greater consistency when comparing the companies. Supplier requirements are specifically considered for a number of reasons. Firstly, the importance of setting a standard for suppliers, competitors and other businesses is inevitable. Secondly, a method of diminishing corruption can be not to take part in corrupt activities, as well as demanding business partners and suppliers to do the same. Companies can demand suppliers to comply with standards and requirements in order to become an eligible supplier and business partner. By setting these requirements, large companies can influence suppliers by demanding that they implement anti-corruption measures.

Whenever the company's anti-corruption programme explicitly states that it applies to suppliers, the company is given the highest score of 3. When suppliers are required to have implemented their own anti-corruption programme, a score of 2 is allocated. A score of 1 is given to companies that only mention supplier responsibilities without any particular requirements, while 0 is allocated to those that do not set ethical standards for their suppliers.

Supplier requirements for sound anti-corruption activities can be regarded as a means of sharing and teaching good practice as well as setting an example for how businesses can implement strategies to enhance anti-corruption activities.

Policy for gifts and hospitality

Corruption takes many forms. The giving and receiving of gifts is one of them. Therefore, implementation of a gift- and hospitality-specific policy can help reduce those forms of corruption. Companies that have a policy that includes giving and receiving gifts secure 1 point, while those that do not get 0 points. The quality of the policy is not evaluated, but rather whether there are policies in place to prevent inappropriate giving and receiving of gifts and hospitality expenses.

Gifts- and hospitality policies are important in order to inform employees and business partners of sound practices. The policies identify inappropriate gifts and hospitality expenses, which in turn enables awareness amongst employees to not give or decline to receive gifts, or other expenses.

Anti-corruption training

In order to combat corruption at all levels, employees need training and knowledge in order to be able to identify and inform management about relevant problems. Sound anti-corruption training can prevent the company from taking part in corrupt activities. However, a lot of companies are still in the process of implementing anti-corruption training for their employees, so it can be expected that more companies will implement and disclose information on this component in the future.

Wherever anti-corruption training is mandatory for all employees, the company receives a score of 2, while when training only applies to particular groups of employees it receives 1 point. When there is no anti-corruption training available to employees, the company get 0 points.

Although anti-corruption training for employees can be considered essential in order to detect and prevent corruption, the cost of educating the entire staff can be costly. Another question that has been raised is whether all employees need training on anti-corruption issues. It can be argued that only management and employees working in particular parts of the business need training because they are more likely to encounter problems of corruption. For example, how relevant would it be for the cleaning staff to undertake anti-corruption training.

On the other hand, employees at lower levels can observe information just as well as management, particularly when they know what to look for. For that reason, companies that require all employees to undertake anti-corruption training are allocated the highest score.

Whistle-blower programme

An effective whistle-blower process can be argued to be one of the most powerful measures to detect fraud and other irregularities. A well-functioning whistle-blower programme enables anonymous reporting both internally and externally. In order to be able to raise concerns about irregularities or unethical behaviour, it is important to be able to detect and investigate possible unlawful activities. They are believed to establish efficient channels of communication that enables businesses to become proactive and learn about the company's problems from internal sources.

Companies that promote anonymous reporting internally as well as externally receive the maximum score of 3. Companies with limited reporting possibilities, either only internal reporting or disabling anonymous reporting, receive 2 points. Companies that only allow internal reporting receive 1, while those that do not have any information on opportunities to report irregularities receive 0 points.

The opportunity to report irregularities can be considered one of the essential components for companies to inform the public about. It is additionally important for employees, because of the significance and effect that a sound whistle-blower program can have. Companies should be aware that highlighting the particular policy on the webpage, in codes of conduct or in other reports, is particularly important because the program may help future whistle-blowers to speak up.

Whistle-blower reprisals

Whistle-blower reprisals is a separate component in the transparency index. Employees may be aware of wrongdoing but feel unable to raise concern in fear of reprisals. Moreover, employees are normally the first to recognise irregularities at work. Thus, empowering them to speak up without fear of reprisal can help companies detect and deter wrongdoing. In the private sector, protecting whistle-blowers can help companies identify cases of bribery, among a range of other corrupt activities. Additionally, protecting whistle-blowers from reprisals can help businesses prevent and detect bribery in commercial transactions. As a consequence, protecting whistle-blowers is essential for promoting a culture of integrity and accountability.

Moreover, the Norwegian Working Environment Act §2-4, states that whistle-blowers should be protected and not be subject to retaliation (Arbeidsmiljøloven, 2005, §2-4). The law also states that the burden of proof is reversed for whistle-blowers, which implies that the companies associated with irregularities are allocated the burden of proof. Thus, the whistle-blower is not responsible for providing proof of the company's wrongdoings.

Companies that do not explicitly mention that whistle-blower will be protected against retaliation, score 0, while companies that specifically state that they will not sanction whistle-blowers receive 1 point.

'Corruption'

Analysis of the respective companies' anti-corruption practices demonstrates differences between the companies. While some companies identify problems related to corruption, and adopt strategies to overcome them, others seem less engaged in developing practices and processes, at least considering the information they have made publicly available. Therefore, a specific component on the number of times a company mention the word 'corruption', including 'anti-corruption' and other words where corruption is part of the word, in their annual report, is registered. The number of times the company refers to 'corruption' is divided by one hundred to reduce abnormal differences between the companies based on one component solely.

To what extent mentioning corruption in the annual report is an indication of unethical and illegal behaviour, or represent information on strategies to combat those activities is unknown. The study will not draw any conclusions on whether a high number of mentioning 'corruption' is better than a lower number.

Operating risk

The companies that are included in this analysis have greater operating risks compared to those who only operate in one country. Companies that operate in several countries, specifically those that operate in countries with weak institutions or law enforcement, are faced with greater risk as more subsidiaries present greater uncertainties. Thus, the factor of operating

risk is included in the index. When companies share their operating risks in the annual report, CSR report or similar reports, or on their webpage, they are more willing to share information on the risk they take. Shareholders become better informed about the company's risk profile and can make a better decision based on the level of risk and expected returns. Companies that are open about operating risks secure 1 point, while others get 0 points.

Although the company may be exposed to higher operating risks, and choose not to share the information, it does not imply that the company are less able to deal with the additional risks. However, because identifying the appropriate level of risk is essential for investors in order to establish expected return, disclosing information about such risks can therefore help shareholders decide whether to sell or buy stocks. Furthermore, it can be argued that because shareholders are the owners of the company, they are entitled to be informed about the current level of risk exposure.

Mitigating risk

Disclosing information about operating risk can be considered essential information for shareholder decision-making. The component of mitigating risk strategies therefore complements the operating risk factor, as risk mitigation help justify the greater level of operating risk. Mitigating risk strategies help users of financial statements to evaluate whether the company have implemented appropriate measures to deal with the additional risks of investment in high-risk countries. Companies that display these strategies, either in a publicly available reports or on their webpage, receive a score of 1, while companies that do not share risk mitigating strategies receive 0 points.

It can be expected that companies with a high level of risk exposure should present and promote strategies to mitigate these risks. However, because of the scope of the study, the quality of each risk mitigation strategy was not evaluated, but rather whether a process was disclosed.

The problem of window dressing is a limitation that appear in all components introduced above whenever the quality of the component is not evaluated. Thus, the components can only

work as a suggestion or indication of practice, rather than how well the processes and strategies are carried out.

The ten factors highlighted above are added together to arrive at one score that represent overall anti-corruption activities for each company. The score of each company is then added together to reach a sum total for both ownership groups. The sum is used to calculate both the arithmetic and geometric averages for each group, so that the average score can be used for comparison between the two categories.

5.4.2 Ownership

The second part of the transparency index consists of disclosure of ownership information. The factors included in this part are introduced below.

Group structure

Users of annual reports appreciate easy-to-understand financial reports. It enables more efficient evaluation of the report, and can reduce time spent to search for particular information. Application of a corporate group structure map in the annual report, or on the company website, enables users a better overview of the company as a whole. A clear and informative map or illustration of the group structure is awarded 3 points, while illustrations that lack either understanding or information, is awarded 2 points. Information that is difficult to understand or not easily found is awarded 1 point while no information on group structure receives 0 points.

Because an illustration of the company's group structure helps understand the company as a whole, it can be a helpful part of stakeholders' assessment and monitoring. Thus, disclosure and transparency can prove to be a useful tool for informing stakeholders' decision-making.

Subsidiaries

Companies are required to disclose information on material or significant subsidiaries. A complete list of all subsidiaries should include all companies owned by the parent company. The subsidiaries are usually owned by more than fifty percent. Knowledge about a company's subsidiaries are important in order to better understand the parent company and business activities. Companies that have listed all subsidiaries, receive 2 points, while companies that only have a list of material subsidiaries receive 1 point. Companies that only present a list of material subsidiaries do not disclose information about all the companies they are involved in. The society as a whole is unaware of associated companies and business partners of the parent company. The companies that do not present a list of subsidiaries will not receive any points.

Board of directors

Information on board of directors can help evaluate possible biases that the board may have toward politics, investments and risk-taking. Thus, publicly available information about the board of directors can be of great value when considering the company's transparency. The degree of available information regarding name, age, education, experience, board function, compensation, and number of meetings attended is given a score between 0 and 3. Companies that disclose all of the above factors receive a score of 3. For each information factor not disclosed the company lose one point, when three or more factors are not disclosed the company is given 0 points.

Although a greater amount of information on board members solely may not be of significance, it can be a useful source of additional information when evaluating a combination of transparency components. For example, when unusual contracts are agreed upon, understanding the independence of board members can help determine whether the unusual contract presents greater risk of unethical decision-making. Although the disclosed information on board members may receive 3 points, and fulfil the set requirements, this is not a guarantee that board members are in fact independent. However, for the purpose of this study, the information presented is evaluated without speculating in board members' factual independence.

Shares owned by the board

Knowledge about whether board members have large ownership stakes in the company help form an understanding of the board's objectivity. Because the number of shares held by members of the board is required to be disclosed in annual accounts by Norwegian legislation, no company should receive 0 points, which indicate that there is no information available on the number of shares. 1 point signifies that the information is available. Regardless of whether all companies receive the same score, the component has comparable characteristics and is an important factor in itself,

Management

While information on the board of directors is important, the same goes for information on the management, and key decision-makers. The information enables greater apprehension of the company, strategic positioning and decision-making. A greater understanding of management as a whole enables watchdogs and the media, among others, to evaluate their decisions on new investments. The more information made available to the public, the more informed the society becomes, and the better able we are to detect, regulate and control corrupt behaviour. Information on management is given the same scores as information on the board of directors. 3 points represents information easily available on all components: name, age, education, experience, management position and compensation. 1 and 2 points work as a scale between 0 and 3, where one factor that is not disclosed reduce the score by 1, and when there are three factors missing, the company is allocated 0 points.

The limitation to the component on management transparency is similar to that of the corporate board, where the information provided may be insignificant or superfluous.

All of the twenty companies receive a score between 0 and 3 on the components introduced above. Then, all components are added together to arrive at a total score for each company. The ten companies of each group contribute to a group average that is compared with the other group average. Hence, each group present one score that can easily be compared to the contrasting group's score. The comparison enables a conclusion to be made about whether one ownership structure appear to take more risk or be less transparent than the other group, or whether the results are too similar to make any indication of differences.

5.5 Data Analysis

Because the data collection is of a small size, the significance level and related statistics will not be tested. The result for each group of company will rather be compared to the other companies and their respective ownership group. Moreover, the average of the ten companies for each group will be calculated and compared to the other group. The result will indicate whether one group is more exposed to corruption risk, or is more transparent than the other group, or whether there is little difference between the analysed state-owned and private companies.

6. Analysis

The analysis is divided into three parts. The second and third hypotheses consider exposure to corruption risk and disclosure of information separately. The findings related to these hypotheses will be analysed before presenting a combined evaluation of the two elements. Consequently, an assessment of the first hypothesis is presented last, because this hypothesis consists of both elements of risk exposure and transparency, which functions as an intuitive summary. The corruption risk and transparency indexes of companies' performance can be found in the appendix.

6.1 Risk exposure

H2: There is no systematic difference in exposure to corruption risk between state-owned and private companies.

The second research objective discovers whether Norwegian state-owned and private companies are subject to similar exposure to corruption risk. This section will highlight the findings from the risk exposure analysis that assessed the highest-risk markets of companies' foreign investment.

Figure 1 demonstrates risk exposure of the companies separated in their respective groups. A lower score represents foreign investments in countries associated with higher risk, based on the four country indexes introduced above. Thus, the lower the score, the higher the risk exposure. The lower line represents the state-owned companies, while the higher line represents the private companies. Figure 1 illustrates that the state-owned companies score lower compared to the private companies, on the subject of risk exposure. Therefore, we perceive the analysed state-owned companies to operate in markets with greater exposure to corruption risk, compared to the group of private companies.

Figure 1: Overview of exposure to corruption risk

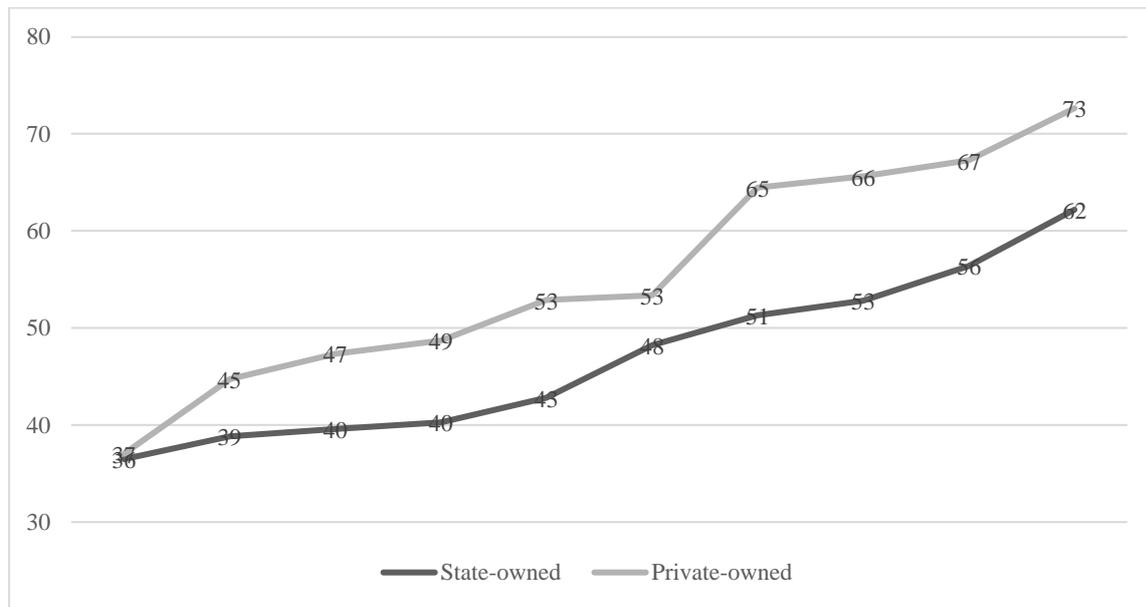


Table 7 presents a summary of statistics for the group totals. State-owned companies are consistently more exposed to corruption risk when considering all key figures. Taking into consideration each company's countries of operation, the three countries that perform the worst on the Rule of Law index makes the basis for the company's score on risk exposure. The three worst performing countries for each state-owned company score on average 8.5 points worse than that of the private companies. Furthermore, state-owned companies also have the lowest recorded score, the lowest of the maximum scores, and the lowest median score. Thus, the selection of state-owned companies operates in countries where they are more likely to be exposed to corruption risk.

Table 7: Summary statistics for risk exposure

| Group totals | State-owned | Private |
|---------------------------|--------------------|----------------|
| Geometric Average | 46,9 | 55,4 |
| Arithmetic Average | 48,0 | 56,2 |
| Min | 36,5 | 37,0 |
| Max | 62,2 | 72,7 |
| Median | 45,5 | 53,1 |

The data collected for the two groups suggests that state-owned companies are exposed to greater corruption risks. The reason for higher corruption risk is the tendency to operate in markets that presents greater risks. As a result, the second hypothesis *'there is no systematic differences in exposure to corruption risk between state-owned and private companies'* should be rejected.

6.2 Transparency

H3: There is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies.

The third hypothesis state that *'there is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies'*. The transparency components allocate scores between 0 and 3, depending on the particular component. A higher score indicates greater transparency about the particular component.

H3 can be divided into two subcategories: disclosure on anti-corruption activities and disclosure of ownership components. Disclosure on anti-corruption activities will be analysed before an assessment of the ownership components. Conclusively, the analysis will conclude on whether to accept or reject H3.

6.2.1 Disclosure of anti-corruption activities

This section will discuss the findings related to anti-corruption disclosure among the state-owned and private companies.

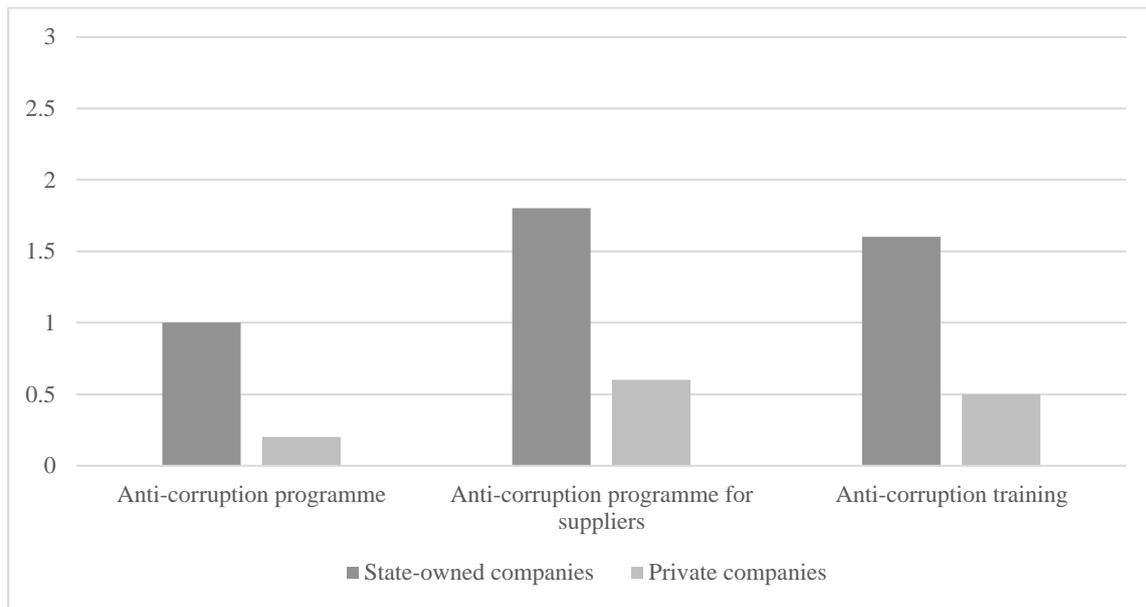
Disclosure of anti-corruption activities consists of ten components. Although all components are important, only those factors that present the greatest difference between state-owned and private companies are highlighted below. We find the components of anti-corruption

programme, programme for suppliers and anti-corruption training, as well as whistle-blower programme and reprisals, to present the greatest differences between the groups.

Disclosure of a corporate social responsibility report, policy on gifts and hospitality, as well as strategies for mitigating operating risk, are therefore excluded from further analysis. These components, and relevant data for each component, can be found in the appendix. Additionally, how many times a company's annual report states the word 'corruption', including headings, subtitles, 'anti-corruption' and other words that may include the word 'corruption', is not included, although there are large differences between the groups. This component is not elaborated on because stating a particular word does not automatically contribute to greater transparency. The choice of words may vary from company to company, and therefore holds less value compared to other disclosure components. The component of mentioning operating risks is also excluded.

Figure 2 illustrates the differences between state-owned and private companies related to disclosure of anti-corruption programmes, anti-corruption programme for suppliers, and anti-corruption training. Each of these components are highlighted in the order that they appear. The darker line represents state-owned companies, while the light grey line represents private companies. The y-axis range from 0 to 3 because 3 is the maximum score that can be achieved for 'anti-corruption programme for suppliers'. Anti-corruption programmes are allocated scores of 0 or 1, while anti-corruption training range from 0 to 2. This information underscores the maximum attainable score for each of the three components.

Figure 2: Disclosure of anti-corruption programmes and training



Performance on disclosure of anti-corruption programmes vary significantly between state-owned and private companies. Figure 2 illustrates how poorly private companies perform compared to state-owned companies. Only two private companies shared information on programmes or strategies that concern anti-corruption measures. On the other hand, every state-owned company disclosed information on anti-corruption measures.

Anti-corruption programmes for suppliers demonstrate similar differences to anti-corruption programmes for the analysed companies. Figure 2 underscores that state-owned companies secured an average arithmetic score of 1.8, as opposed to 0.6 for private companies. This difference underscores that the state-owned entities disclose more information on their anti-corruption programmes. Geometric averages cannot be calculated because of the presence of zero-values.

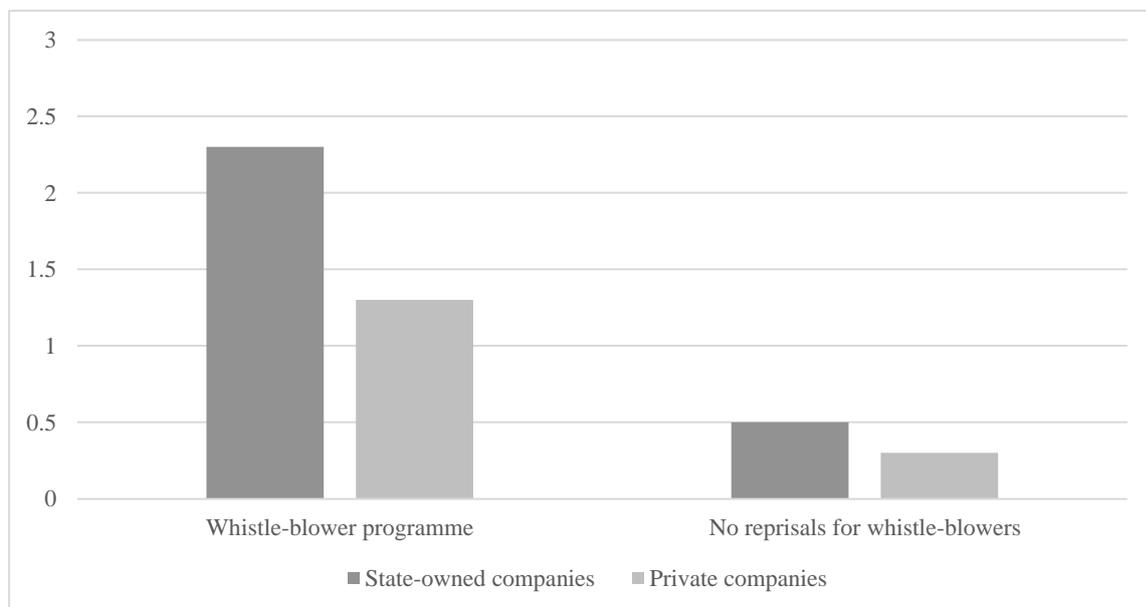
State-owned companies continue to outperform private companies according to the scores secured for disclosure of anti-corruption training. Figure 2 illustrates that arithmetic averages are consistently higher for the state-owned entities as they disclose more information on both anti-corruption programmes and programmes for suppliers, as well as anti-corruption training.

Although state-owned companies are better at disclosing relevant information for these components, the findings do not suggest that state-owned companies have implemented better programmes or training. Rather, they have made more information available. The above findings are not able to suggest how good the disclosed anti-corruption programmes, and

training, are at managing unethical behaviour. Moreover, if a company has implemented any of the above components, but do not publicly disclose this information, we are unable to allocate them any points.

Figure 3 illustrates disclosure of whistle-blower programmes and whistle-blower reprisals for the groups. Firstly, state-owned companies disclose either more information, or better information, on the opportunities for whistle-blowers, compared to private entities. Secondly, state-owned companies disclose more explicitly that whistle-blowers do not need to fear reprisals. Overall, private companies score on average 1 point lower on whistle-blower programmes, and 0.2 points lower on explicitly disclosing no whistle-blower reprisals.

Figure 3: Disclosure of whistle-blower information

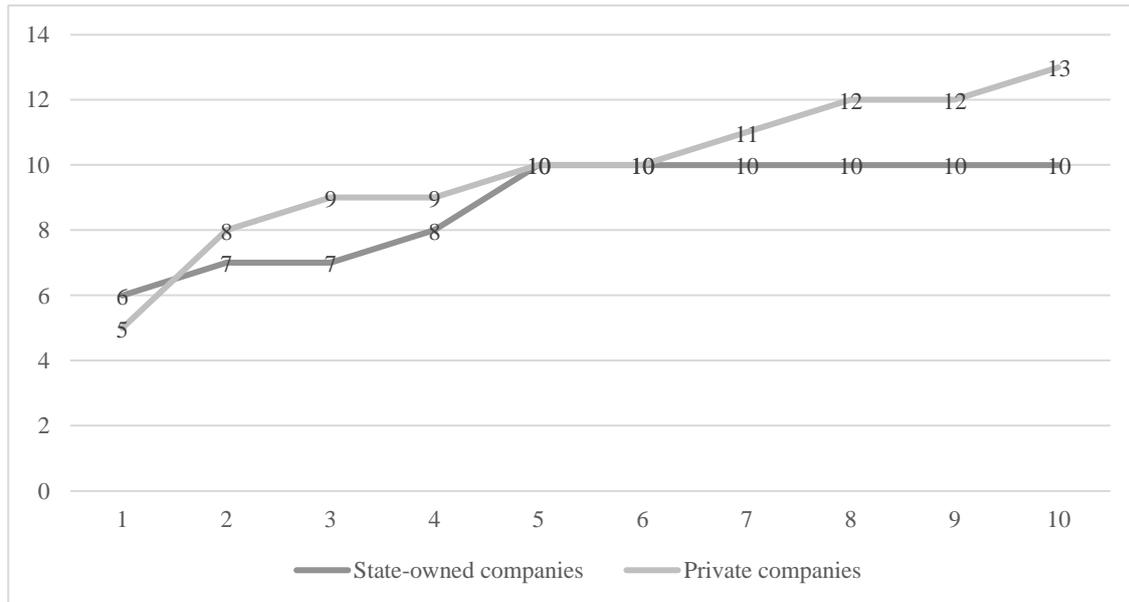


6.2.2 Disclosure of ownership components

Because both ownership groups score similarly on disclosure of ownership components, the five factors that represent overall ownership are presented in one figure. Figure 4 demonstrates similarities between state-owned and private companies on the five ownership components: map of group structure, list of subsidiaries, information on corporate board, number of shares owned by board members and information on top management.

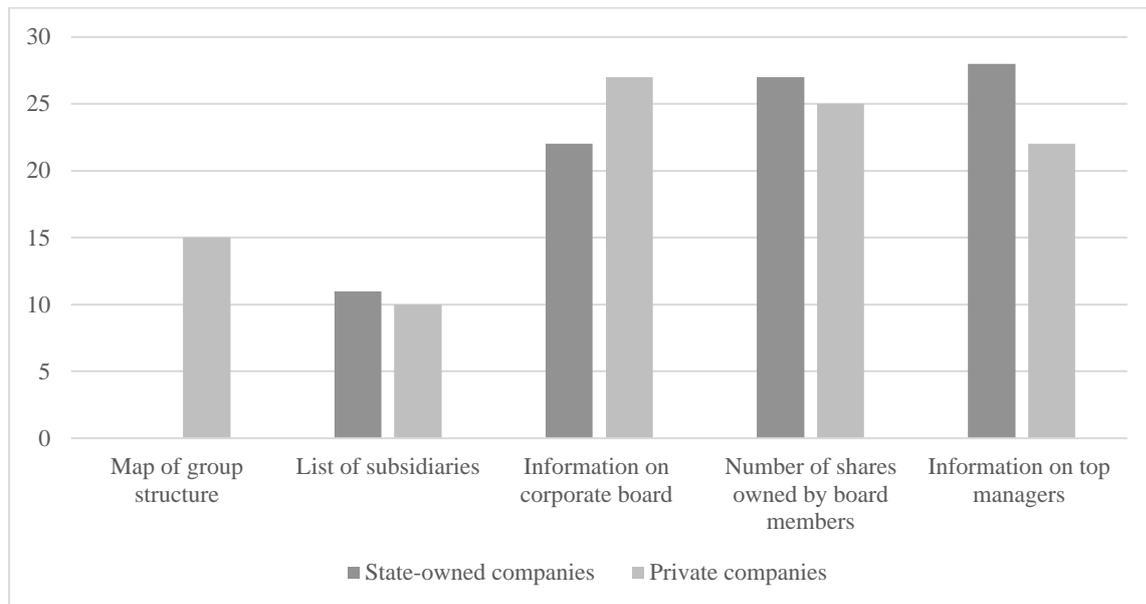
Each data point in Figure 4 represents a company. The number for each data point represents the total score from all five ownership factors for one company. The maximum attainable score is 14. The colour of the line determines whether the company is state-owned or private. Additionally, the least transparent companies are displayed on the left of Figure 4.

Figure 4: Companies' total scores on the ownership component



Although there is no significant difference between the categories considering all components combined, disclosure of the component 'map of group structure' stands out. Figure 5 underscores the difference between state-owned and private companies for each component separately. As illustrated in Figure 5, none of the state-owned companies has an easily accessible illustration or map of their group structure. Considering all transparency components as a whole, and that state-owned companies are consistently more transparent, it is peculiar that no state-owned company has an easily accessible map of group structure.

Figure 5: State-owned and private companies' group performance on each of the ownership components



6.2.3 Transparency index

Table 8 highlights the overall difference between state-owned and private companies related to disclosure of both anti-corruption activities and ownership factors. State-owned companies disclose on average more information on all key measures, as highlighted in Table 8, compared to private companies. There are large differences between the two ownership groups as state-owned companies score a total of 197 points, compared to 151 points for private companies. Moreover, the geometric average is vastly different for the two groups. The variances presented in Table 8 suggest that the state-owned companies as a group are more transparent than the private companies analysed in this study.

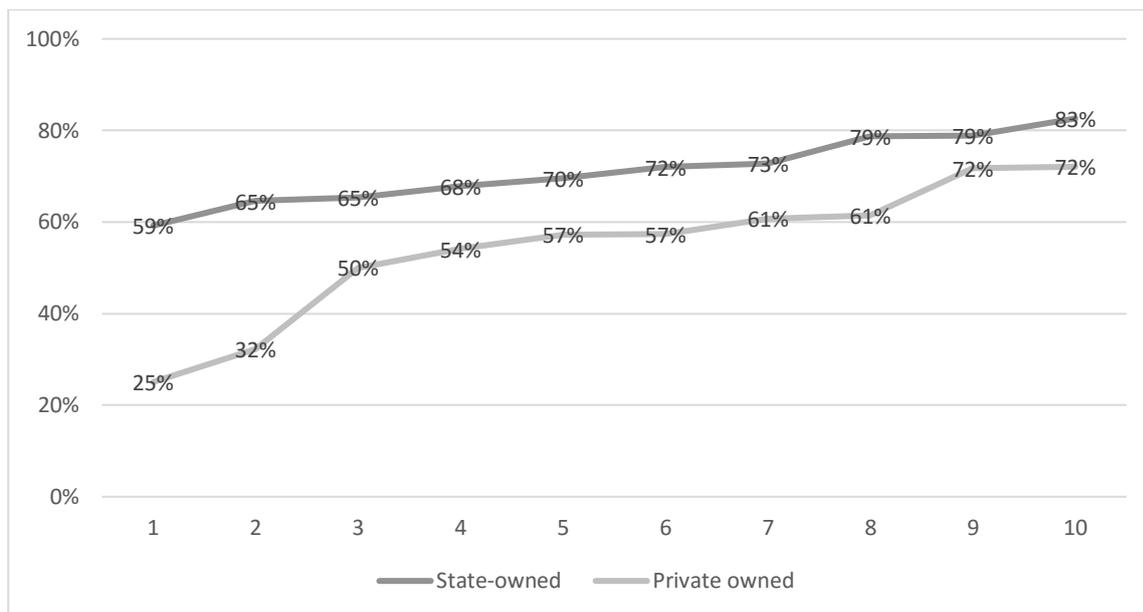
Table 8: Summary statistics for transparency components

| | State-owned | Private |
|---------------------------|--------------------|----------------|
| Arithmetic average | 19.7 | 15.1 |
| Geometric average | 19.6 | 14.4 |
| Sum | 197 | 151 |
| Min | 16 | 7 |

| | | |
|---------------|------|----|
| Max | 23 | 20 |
| Median | 19.5 | 16 |

Each data point in Figure 6 represents a company. The percentage score allocated to each company represents how transparent the company is, considering all fifteen transparency components. Thus, the higher the percentage, the more transparent the company is. The dark line constitutes state-owned companies, consistent with previous figures, while private companies are coloured in light grey. Conclusively, state-owned companies, as underscored in Table 8 and Figure 6, continuously outperform private companies related to disclosure of information on anti-corruption activities and ownership components.

Figure 6: Scores for state-owned and private compared to maximum attainable score



The data collected for the two groups suggests that state-owned companies are more transparent in comparison to private companies. The tendency for state-owned companies to disclose more information on anti-corruption activities and ownership components illustrates that the analysed state-owned companies are generally more transparent. As a result, H3 '*there is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies*' should be rejected.

6.3 Conclusion on exposure to corruption risk and transparency

H1: There is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies.

As seen in section 6.1 'Exposure to corruption risk', H2 should be rejected as there appear to be a systematic difference in exposure to corruption risk between state-owned and private companies. Furthermore, section 6.2 'Transparency' presents H3 which includes disclosure on anti-corruption initiatives and ownership components. It appears that H3 should also be rejected.

As the second and third hypotheses should be rejected because of the apparent differences between the groups, so should the first hypothesis. As a consequence, the principal hypothesis '*there is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies*' should be rejected.

7. Discussion

Chapter 6 ‘Analysis’ presented the findings from both the risk exposure component and transparency index. This chapter will discuss the implications of the findings in light of the literature review and state ownership policy. The main goal of the study has been to examine whether there are no systematic differences between state-owned and private companies related to exposure to corruption risk and transparency. By only including companies headquartered in Norway, the companies are subject to the same home-country legislation and disclosure requirements. Operating under the same legislation formed the basis for developing the null hypotheses. Chapter 7 presents each component in the order that they appear, followed by a discussion of the respective implications.

H1: There is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies.

H2: There is no systematic difference in exposure to corruption risk between state-owned and private companies.

H3: There is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies.

7.1 Risk exposure

H2: There is no systematic difference in exposure to corruption risk between state-owned and private companies.

Section 6.1 ‘Exposure to corruption risk’ found that the second hypothesis should be rejected. The findings suggest that the state-owned companies have a higher exposure to corruption risk. Because the results are based on a small sample, we are unable to suggest significant findings. Nonetheless, the differences identified in section 6.1 contribute to the following discussion. The principal aspects of the discussion include ownership rights, regulated industries, developmental aid, financial guarantees, the state as a diversified owner, monitoring as well as ownership objectives.

Ownership rights

The literature review established that large owners come from a position of power, and are therefore able to influence management through monitoring and voting rights. The owner can exercise these rights in the form of voting at the general assembly, electing board members, or being represented on the company board.

Table 3 presents information on the fact that the Norwegian government has chosen not to utilise the right to representation on corporate boards. The state owns approximately seventy companies, and can be considered a diversified owner. As a diversified owner, it becomes increasingly difficult to keep up with the rapidly changing market conditions of the industries that the companies represent. The fact that the state is not represented on corporate boards, implies that the state has chosen to become a passive owner. This limits the state's opportunity to contribute to corporate decision-making and risk-mitigating strategies.

The government also takes precautions when it comes to give instructions to state-owned companies on particular matters. The government prefers to be a professional shareholder and aims to intervene as little as possible in corporate decision-making. This includes not intervening when companies take on projects in high-risk markets. The main objective of return on invested capital can result in the state's reluctance to be involved in companies' social responsibility issues.

According to the ownership policy, quarterly meetings are held between the ministry and the state-owned companies. These meetings present an opportunity for the government to influence corporate strategies. However, because there is little information made available to the public on the content of these meetings, we are unable to determine to what extent the ministry is able to influence corporate decision-making.

Regulated industries

There are three structural requirements for corruption to take place in a sector (Kolstad and Søreide, 2009). These requirements include rent-seeking behaviour, poor authority and weak institutions. Government regulation of industries may facilitate rent-seeking behaviour (OECD, 2015). Sectors with these characteristics are often associated with greater risk of

corruption. According to the Bribe Payers' Index, five sectors are most likely to encounter bribery: construction, utilities, real estate, legal and business services, in addition to the extractive industry (TI, 2011).

The sectors most affected by bribery are also the sectors most dominated by state ownership (Kowalski et al., 2013). Although we do not take into consideration the industry in which the analysed companies operate, we recognise the importance of government regulated sectors. The analysed state-owned companies operate in heavily regulated sectors, such as the extractive industry. The additional risks present in these sectors are external risks that can be difficult to mitigate. The external risk can help explain the state-owned companies' higher overall risk exposure compared to private companies. Increased exposure to corruption risk can be mitigated through a range of initiatives, however, external risks cannot be eliminated. In other words, although risk-mitigating strategies may help to reduce systematic risk, companies' risk exposure remains the same. Because the Norwegian state is heavily involved in regulated industries, the analysed state-owned companies are more exposed to corruption risk.

Developmental aid

When governments support countries with developmental aid, they come from a position of power (Stokke, 2013). This position of power may enable a range of advantages, such as reduced exposure to corruption in the host country, or lower repercussions from illegal activities for the state-owned companies (Stokke, 2013). These advantages can result in greater inclination to invest in high-risk markets. The fact that Norway provides large contributions to global developmental aid, can result in the government securing advantages that would otherwise be unavailable. Countries that receive aid often have the characteristics of a high-risk country. Consequently, Norwegian state-owned companies may be inclined to accept greater risk exposure because the additional risks present in high-risk markets are outweighed by additional benefits.

Financial guarantees

Table 4 summarises motivational factors for investments in high-risk markets. Companies that have access to long-term resources can rely on the provision of additional resources. Companies may therefore be able to choose projects with higher risk that yield greater returns at a later stage. Moreover, section 4.2.3 underscores that governments can go to great lengths to avoid firm default. Governments can be inclined to avoid companies' default because of the desire to maintain key industries in the country, or the reluctance to be associated with a failed investment (Borisova et al., 2015). As a result, state-owned companies can experience an implicit default guarantee. When the government provides an implicit guarantee, it reduces firms' perceived risk of default. The additional security provided by the government may lead management to increase company risk-taking. If this is the case for state-owned companies, the documented higher risk exposure, may be a result of an implicit low risk of default. The ownership policy states that the government is open to contributing resources to companies, if additional capital enables reactions to strategic and competitive changes.

The state as a diversified owner

The Norwegian state has negative control of all the state-owned companies included in the analysis. As a consequence, the state is the largest sole shareholder in most of the analysed companies. The literature review presented the general assumption that large owners are undiversified. The higher risk associated with being an undiversified owner reduces risk-appetite of large shareholders. However, the state has direct ownership in approximately seventy companies in a range of industries, and can therefore be considered a large diversified owner. Moreover, large diversified owners engage in riskier projects, because the firm-specific risk has been diversified (Faccio et al., 2011). As a consequence, the state could have incentive to engage in, or support, riskier investments.

Monitoring

Another aspect of state ownership that may induce the company to accept greater exposure to risk, is the possibility of a monitoring gap. A monitoring gap can occur when the state lacks incentives or competencies to monitor corporate management. Additionally, shareholders may

reduce monitoring as they rely on the government to monitor the company. The lack of governmental monitoring may lead management to increase risk-taking.

The ownership policy acknowledges that a potential conflict of interest can emerge because of the government's different roles and responsibilities. The government has the role of an owner, policy-maker and administrative authority. Because of the nature of state ownership, the state chooses not to be presented on corporate boards. This suggests that the state is aware of their limited knowledge as a shareholder. The lack of knowledge may create a monitoring gap, as demonstrated in the literature review, section 4.2.3 'Ownership objectives'. The state places a great amount of effort into the process of selecting experienced and knowledgeable board members. This effort contributes to balance out the potential monitoring gap.

Ownership objectives

In order to explain the higher exposure to corruption risk amongst the state-owned companies, the objective of the ownership has to be considered. The Norwegian government categorise their ownership interests into four categories, ranging from sector-specific political goals and regulation in category 4, to solely commercial goals in category 1. Table 2 presents an overview of ownership categories. Most state-owned companies included in the study are category 2 ownerships; commercial purposes with an objective of maintaining head office functions in Norway. Maintaining head office functions in Norway is achieved by having negative control of category 2 firms, because the negative control enables the government to block attempts to change company bylaws. The ownership policy states that a reduction below the level of negative control is unlikely for firms in this category. Apart from this objective, the holding of category 2 companies is primarily commercial. As a result, the goal becomes profit maximisation.

Governments can impose their objectives on a company, more easily than that of private investors because of the nature of the owner (Kahan and Rock, 2010). Examples of governmental objectives include political and social goals, such as low unemployment and domestic investments; the reluctance to be associated with a failed investment; and the desire to maintain key industries that provides crucial services to the country. The government does not appear to block investments or other projects that interfere with profit-maximisation. Thus,

it can be argued that the Norwegian state does not impose governmental objectives on the state-owned companies included in this study. The objective of maintaining head office function in Norway requires a large ownership stake, although this position is not utilised to achieve political or social goals.

The above components contribute to help explain why state-owned companies are more exposed to corruption risk. Firstly, the highly regulated sectors that state-owned companies operate in present greater external risks that cannot be compensated by increased risk-mitigating strategies. Secondly, a combination of unutilised ownership rights, financial guarantees provided by the state, lack of monitoring and the state's ownership objectives, contribute to underscore the higher risk exposure for state-owned companies. Thirdly, Developmental aid can enable undue advantages for state-owned companies. Lastly, diversified owners such as the Norwegian state, are found to take on additional risks because of diversification of ownership.

7.2 Transparency

H3: There is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies.

Chapter 6 'Analysis' documented that H3 should be rejected. There appears to be a systematic difference in transparency between state-owned and private companies. This section will discuss the findings from chapter 6 together with the principal components from the literature review. We have found the following four components to be of most importance in explaining why state-owned companies are more transparent compared to private companies: internal expectations, external expectations, risk exposure and "window-dressing".

Internal and external expectations

The state has different roles in relation to state-owned companies, being the owner, policy-maker and administrative authority. Because of the different roles, there are additional requirements and expectations for how the state should behave. For example, the increased

expectations of the state can take form through expectations of greater transparency. Expectations of more transparency may be one reason why the state-owned companies disclose more information compared to private companies.

Organisations benefit from being perceived as more transparent by their stakeholders because improved trust normally results in improved reputation (Jahansoozi, 2006). Moreover, external pressure from regulators can increase disclosure of information as additional regulations need to be implemented, in order to achieve legitimacy. On the other hand, in order to meet external expectations, corporate management may focus on aspects of the regulations that can be easily audited (Hess, 2014). Thus, the company will appear more transparent without making underlying changes.

Additionally, determinants for disclosure can be urged by incentives, or social pressure, from external parties. Assuming companies are profit-maximising entities, the disclosure of information is urged by a potential future benefit, if not required by law. As mentioned section 4.4 'Transparency', recent events have increased demand for transparency. These demands have resulted in some legal requirements, like a corporate social responsibility report, and some recommendations for best practice. The state-owned and private companies appear to be most different on the components where increased transparency is recommended for best practice. These recommendations include implementation of anti-corruption programmes and anti-corruption training. It is possible that state-owned companies are encouraged, to a greater extent, to exercise best practice because of the fact that they are state-owned.

In comparison to state-owned companies, private companies experience less external expectations because of the nature of state ownership. Therefore, private companies can utilise the cost-benefit analysis to determine whether anti-corruption initiatives should be implemented, and, or disclosed.

Risk exposure

Because the state-owned companies in the study are documented to be more exposed to corruption risk, the companies may adopt internal measures in order to respond to the additional risk exposure. A sound corporate culture can reduce companies' corruption risk, even for firms operating in high-risk markets (Keig et al., 2015). Thus, state-owned companies that appear more transparent, may be the result of additional risk management measures. A

sincere effort on corporate social responsibility initiatives can effectively help lower companies' risk to be involved in corruption (Lopatta et al., 2016). Consequently, the increased corruption risk can in fact be reduced by implementation of transparency initiatives, when paired with a sound corporate culture.

Moreover, increased transparency can serve as additional insurance against sanctions because preventative measures contribute to reduce the risk of corporate liability. State-owned companies are documented to be more exposed to corruption risk, and may therefore seek additional insurance through disclosure of more information.

“Window-dressing”

Corporate transparency can perform as a staging process that involves strategic disclosure of information (Christensen, 2002). Corporations that disclose information in order to appear more sound, is referred to as an act of “window-dressing” (Christensen, 2002). Some transparency initiatives may be implemented solely for the purpose of being perceived as more ethical. Because of the inherent limitation of measuring transparency, we are unable to determine whether state-owned companies are in fact more ethical than the private companies. Disclosure of information, and willingness to make information publicly available, is of little value unless paired with cultural change in the company (Bac, 2001).

Measuring transparency is limited to assessing how much information a company has made publicly available. Assessing ethical behaviour, on the other hand, implies access to information on cultural factors and “tone at the top”. The corporate culture is difficult to evaluate because it has to be assessed through interviews with employees, observations of the workplace, or through application of other qualitative techniques. Implementation of transparency initiatives can range from implementation of sincere efforts to become more ethical, to the symbolic appearance of commitment (MacLean et al., 2012).

Based on the scores presented in the transparency index, we conclude that the analysed state-owned companies appear to be more transparent than private companies. However, appearing more transparent does not necessarily imply that the state-owned companies are more ethical. The corruption cases involving Yara, Vimpelcom and Statoil exemplify how bribery was not

discovered, despite the companies' transparency efforts. Making information publicly available, as a sole component, will not deter corruption (Kolstad and Wiig, 2009).

7.3 Risk exposure and transparency

H1: There is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies.

The empirical study documents differences in both exposure to corruption risk and disclosure of anti-corruption initiatives and ownership components between the two categories.

Section 7.1 'Exposure to corruption risk' and section 7.2 'Transparency', discuss the findings identified in the light of the literature review. The sections present separate discussions for each of the second and third hypothesis. This section aims to combine the discussion of the two hypotheses, in order to arrive at one overall conclusion.

The findings imply that the state-owned companies are more exposed to corruption risk, not that they are more involved in corruption. However, it can be argued that the more exposed a company is to corruption risk, the more likely the company is to take part in corrupt activities. Moreover, the findings suggest that the state-owned companies disclose more information related to anti-corruption activities and ownership components, compared to private companies. Intuitively, greater transparency indicates more ethical behaviour because they appear to have less to hide. Although the information provided in chapter 2 and 4 is valuable, we are unable to conclude whether greater transparency is implemented in order to reduce additional risks of investment in high-risk markets, or as a staging process in order to appear more ethical.

The discussion underscores how the differences may be attributed to the characteristics of the state as an owner, as well as higher corruption risks in the highly regulated sectors that state-owned companies operate in. Because the discussion views the findings in light of information from the literature review and ownership policy, other explanatory factors not related to ownership is not addressed. We recognise that the observable differences may also be explained by factors not related to ownership.

8. Conclusion

The purpose of the study has been to explore whether there are no systematic differences in exposure to corruption risk and disclosure of information between state-owned and private companies.

8.1 Summary

Recent corruption cases involve some of the largest Norwegian companies, and these are partially owned by the Norwegian government. The recent media coverage intrigued us to explore whether there were in fact no systematic differences between state-owned and private companies considering their exposure to corruption risk.

The study consisted of a literature review, as well as an empirical study on companies' exposure to corruption risk and transparency. We selected the ten largest private and state-owned companies in Norway for a qualitative comparison. The twenty companies were selected based on four requirements; listed on Oslo Stock Exchange, headquartered in Norway, significant operations abroad, as well as not being categorised as a holding company. Because the companies are subject to the same home-country legislation, there should be no systematic differences between the groups. Therefore, we had no assumption about systematic differences between the companies' performance in the analysis.

Because there appeared to be a lack of research on exposure to corruption risk and transparency combined, we decided to create two indexes that represents exposure to corruption risk and transparency separately. In order to combine the element of corruption risk with transparency, the first part consisted of a scale that measured companies' exposure to corruption risk. To determine companies' exposure to corruption risk, we explored a combination of four governance, democracy and corruption indexes based the companies' countries of operation. Application of the indexes determined companies' level of exposure to corruption risk. The second part consisted of the transparency index. In order to determine companies' degree of transparency, we rated companies depending on disclosure of anti-

corruption initiatives and ownership components. Each company was measured on the ability to report relevant information for each of the components.

The first hypothesis is essentially a combination of the second and third hypothesis. Because H1 consists of two elements, separating the two components enabled a more structured approach to the study.

H1: There is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies.

H2: There is no systematic difference in exposure to corruption risk between state-owned and private companies.

H3: There is no systematic difference in disclosure of anti-corruption initiatives and ownership components between state-owned and private companies.

H1 states that ‘*there is no systematic difference in exposure to corruption risk and transparency between state-owned and private companies*’. Considering the findings, this hypothesis should be rejected because we documented a systematic difference in exposure of corruption risk and transparency. Similarly, we found that both H2 and H3 should also be rejected. We found that state-owned companies are more exposed to corruption risk as well as being more transparent.

We have documented that the state-owned companies are more exposed to corruption risk. Nonetheless, they disclose more information on their anti-corruption initiatives and corporate governance. However, on the basis of these results, we are unable to conclude the firms’ ethical behaviour.

8.2 Normative discussion

The final part of the study introduces a normative discussion on the Norwegian government’s ownership role. We believe the following subjects can contribute to the public debate on the role of the state as an owner, and their ability to influence companies’ corruption risk.

Profit-maximising

The main objective for Norwegian state-owned companies is return on invested capital. Although the companies included in the study are categorised based on objective for ownership, the analysis of the state ownership policy found that the Norwegian government is a profit-maximising owner. Intuitively, the objective of profit-maximisation does not support additional exposure to corruption risk. Because return on invested capital is the main objective, an evaluation of how exposed investments or subsidiaries are to corruption risk should be completed similarly to that of a profitability analysis.

When companies are held liable for unethical conduct, the result can be substantial corporate fines. The question can be raised as to whether paying these fines supports the objective of return on invested capital. One argument can suggest that the Norwegian state would benefit from the increase in imposed fines, when fines are paid to the Norwegian government. On the other hand, extraterritorial jurisdiction increases the risk that Norwegian companies can be held liable by foreign governments. As a consequence, the large fines become a liability for the Norwegian government. Examples include the Horton and Vimpelcom cases, where substantial fines were imposed by US prosecutors.

Ethical business conduct

When the government has negative control, as is the case with the companies analysed, they can use shareholder rights to influence corporate strategies. However, the focus on profitability may result in reluctance to address unethical behaviour, or stop investments that are subject to higher exposure to corruption risk. Considering the government's range of responsibilities, our impression is that the focus on returns outweigh other responsibilities, such as securing the ethical behaviour of Norwegian companies.

Passive professional owner

The ownership policy expresses how the ministry wishes to be a professional owner. Further, being a professional owner implies that involvement in companies' operations and strategies are kept at a minimum. As section 2.1.1 'Shareholders' legal rights' underscored, shareholders

can express dissatisfaction with management by selling shares or aligning shareholder and company objectives through management rights. This opportunity becomes somewhat limited by the fact that the government wishes to secure negative control for the analysed companies, together with the goal to limit involvement in company matters. When the ministry is dissatisfied with management, the most likely response, and possibly only response, is an expression of dissatisfaction.

Expectations and lack of consequences

We have mostly considered the governments ownership role based on the information that they provide in the ownership policy. As expressed in chapter two, the government has high expectations of the state-owned companies with regards to their work on corporate social responsibility. This may have contributed to superior performance by state-owned companies in the transparency index. However, two limitations arise in the assessment of the governments work on corporate social responsibility. Firstly, the government's high expectations do not level the actions that will be enforced when the state-owned companies do not meet the high expectations. In other words, although the government has high expectations for the state-owned companies, the consequences of not meeting the expectations, is uncertain. Hence, companies may consider the expectations to be of less value, and therefore choose not to implement the expected initiatives or activities. Secondly, the ownership policy states that corporate social responsibility is addressed in annual meetings with the state-owned companies. There is no information on the issues addressed at these meetings, which makes us unable to evaluate the government's efforts.

Our impression is that the ministry may utilise the high expectations as protection against criticism when state-owned companies are involved in unethical behaviour. As documented in the transparency index, these expectations may have a greater effect on state-owned companies compared to private companies. However, recent cases of corruption involving state-owned companies suggest that expectations and transparency are not sufficient in order to prevent involvement in corruption when operating in high-risk markets.

9. Bibliography

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Appendix

Corruption risk index

| | Countries based on Rule of Law | Rule of Law | TI CPI | EIC Democracy index | WB Doing business | Arithmetic avg | Geometric avg | Sum: |
|----------------------------|---|-------------|--------|---------------------|-------------------|----------------|---------------|---------------|
| State: | | | | | | | | |
| 1 Statoil | Venezuela (0.28), Nicaragua (0.42), Myanmar (0.43) | 0,38 | 22,00 | 4,80 | 44,56 | 38,06 | 36,49 | 38,06 |
| 2 Telenor | Pakistan (0.38), Bangladesh (0.41), Myanmar (0.43) | 0,41 | 25,67 | 4,76 | 45,72 | 39,91 | 38,82 | 39,91 |
| 3 Yara | Egypt (0.37), Cameroon (0.37), Bolivia (0.40) | 0,38 | 32,67 | 4,20 | 50,59 | 40,81 | 40,29 | 40,81 |
| 4 Norsk Hydro | China (0.48), Brazil (0.55), Spain (0.70) | 0,58 | 44,33 | 6,13 | 64,51 | 56,96 | 56,40 | 56,96 |
| 5 DNB | China (0.48), Brazil (0.55), Spain (0.70) | 0,51 | 37,67 | 6,13 | 65,51 | 53,96 | 52,80 | 53,96 |
| 6 Statkraft | Turkey (0.43), Zambia (0.48), Philippines (0.51) | 0,47 | 38,33 | 6,08 | 62,71 | 52,29 | 51,29 | 52,29 |
| 7 Aker Solution | Myanmar (0.43), Nigeria (0.44), Russia (0.45) | 0,44 | 25,67 | 4,02 | 54,13 | 41,01 | 39,60 | 41,01 |
| 8 Kongsberg grupp | Nigeria (0.44), China (0.48), Malaysia (0.54) | 0,49 | 37,67 | 4,73 | 62,34 | 48,99 | 48,22 | 48,99 |
| 9 Kværner | Russia (0.45), China (0.48), Kazakhstan (0.50) | 0,48 | 31,33 | 3,17 | 70,85 | 45,39 | 42,80 | 45,39 |
| 10 Nammo | India (0.51), United Arab Emirates (0.66), Spain (0.70) | 0,62 | 55,33 | 6,26 | 69,30 | 62,40 | 62,20 | 62,40 |
| | | | | | | 47,98 | 46,89 | 479,77 |
| Private: | | | | | | | | |
| 1 Orkla | Russland (0.45), India (0.51), Myanmar (0.54) | 0,50 | 39,00 | 5,83 | 68,84 | 54,03 | 52,88 | 54,03 |
| 2 Marine Harvest | Turkey (0.43), China (0.48), Vietnam (0.51) | 0,47 | 36,67 | 3,93 | 58,53 | 45,46 | 44,70 | 45,46 |
| 3 Wilh Wilhemsen | Venezuela (0.28), Egypt (0.37), Pakistan (0.38) | 0,34 | 27,67 | 4,19 | 47,26 | 37,80 | 37,04 | 37,80 |
| 4 Norwegian Air Sh | Thailand (0.51), Spain (0.70), United States (0.74) | 0,65 | 57,33 | 7,15 | 76,90 | 67,68 | 67,27 | 67,68 |
| 5 Austevoll Seafood | Turkey (0.43), Panama (0.51), Peru (0.52) | 0,49 | 39,00 | 6,30 | 67,88 | 54,63 | 53,37 | 54,63 |
| 6 Schibsted | Bangladesh (0.41), Mexico (0.46), Dominican Republic (0.47) | 0,45 | 31,00 | 6,32 | 57,49 | 49,08 | 47,35 | 49,08 |
| 7 Lerøy Seafood | Turkey (0.43), Spain (0.70), Portugal (0.71) | 0,61 | 54,33 | 7,07 | 73,44 | 64,95 | 64,50 | 64,95 |
| 8 AF gruppen | China (0.48), Poland (0.71), United Kingdom (0.81) | 0,67 | 60,00 | 6,18 | 74,94 | 65,85 | 65,61 | 65,85 |
| 9 Norske Skog | Malaysia (0.54), France (0.72), Australia (0.81) | 0,69 | 66,33 | 7,79 | 78,21 | 72,85 | 72,66 | 72,85 |
| 10 DOF | Egypt (0.37), Argentina (0.55), Brazil (0.55) | 0,49 | 35,33 | 5,72 | 56,87 | 49,60 | 48,72 | 49,60 |
| | | | | | | 56,19 | 55,41 | 561,93 |

Transparency index: anti-corruption initiatives

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | | | |
|-------------------------|-----------|-----------|-----------|-------------|---------------|-----------|--------------|-------------|-----------------|------------------|---------------|---------------|---------------|
| State: | CSR | ACP | ACP suppl | AC training | Gifts/hospita | WB | No reprisals | corruption' | operating risks | mitigating risks | SUM | Aritmetic avg | Geometric avg |
| 1 Statoil | 1 | 1 | 2 | 2 | 1 | 3 | 1 | 0,13 | 1 | 1 | 13,13 | 13,13 | 13,33 |
| 2 Telenor | 1 | 1 | 2 | 2 | 1 | 2 | 0 | 0,47 | 1 | 1 | 11,47 | 11,47 | 11,47 |
| 3 Yara | 1 | 1 | 3 | 1 | 1 | 2 | 1 | 0,07 | 1 | 1 | 12,07 | 12,07 | 12,07 |
| 4 Norsk Hydro | 1 | 1 | 2 | 1 | 0 | 3 | 0 | 0,38 | 1 | 1 | 10,38 | 10,38 | 10,38 |
| 5 DNB | 1 | 1 | 1 | 2 | 1 | 2 | 0 | 0,16 | 1 | 1 | 10,16 | 10,16 | 10,16 |
| 6 Statkraft | 1 | 1 | 3 | 2 | 0 | 2 | 0 | 0,31 | 1 | 1 | 11,31 | 11,31 | 11,31 |
| 7 Aker Solution | 1 | 1 | 1 | 2 | 1 | 3 | 1 | 0,03 | 1 | 1 | 12,03 | 12,03 | 12,03 |
| 8 Kongsberg gruppen | 1 | 1 | 1 | 1 | 0 | 2 | 1 | 0,58 | 1 | 1 | 9,58 | 9,58 | 9,58 |
| 9 Kværner | 1 | 1 | 0 | 2 | 1 | 2 | 0 | 0 | 1 | 1 | 9 | 9 | 9 |
| 10 Nammo | 1 | 1 | 3 | 1 | 1 | 2 | 1 | 0,09 | 1 | 1 | 12,09 | 12,09 | 12,09 |
| Sum | 10 | 10 | 18 | 16 | 7 | 23 | 5 | 2,22 | 10 | 10 | 111,22 | 11,12 | 11,07 |
| Private: | | | | | | | | | | | | | |
| 1 Orkla | 1 | 0 | 2 | 1 | 0 | 1 | 0 | 0,19 | 0 | 0 | 5,19 | 5,19 | 5,19 |
| 2 Marine Harvest | 1 | 0 | 0 | 0 | 0 | 3 | 0 | 0,07 | 1 | 1 | 6,07 | 6,07 | 6,07 |
| 3 Wilh Wilhemsen | 1 | 1 | 2 | 2 | 1 | 2 | 0 | 0,18 | 1 | 1 | 11,18 | 11,18 | 11,18 |
| 4 Norwegian Air Shuttle | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0,01 | 0 | 0 | 1,01 | 1,01 | 1,01 |
| 5 Austevoll Seafood | 1 | 1 | 0 | 1 | 1 | 2 | 1 | 0,16 | 0 | 0 | 7,16 | 7,16 | 7,16 |
| 6 Schibsted | 1 | 0 | 0 | 1 | 1 | 3 | 1 | 0,1 | 1 | 1 | 9,1 | 9,1 | 9,1 |
| 7 Lerøy Seafood | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0,02 | 1 | 1 | 2,02 | 2,02 | 2,02 |
| 8 AF gruppen | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 0,02 | 1 | 1 | 5,02 | 5,02 | 5,02 |
| 9 Norske Skog | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 0,04 | 1 | 1 | 6,04 | 6,04 | 6,04 |
| 10 DOF | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0,04 | 0 | 0 | 0,04 | 0,04 | 0,04 |
| Sum | 6 | 2 | 6 | 5 | 5 | 13 | 3 | 0,83 | 6 | 6 | 52,83 | 5,28 | 2,99 |
| Max score: | 1 | 1 | 3 | 2 | 1 | 3 | 1 | 1 | 1 | 1 | 15 | | |

Transparency index: ownership components

| | | 11 | 12 | 13 | 14 | 15 | | | |
|-----------------|-------------------|-------------------------------|-----------------------------|--------------------------|------------------------------|--------------------------|------------|----------------------|----------------------|
| State: | | Map of group structure | List of subsidiaries | Board information | Shares owned by board | Mgmt. information | SUM | Aritmetic avg | Geometric avg |
| 1 | Statoil | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 2 | Telenor | 0 | 1 | 2 | 3 | 2 | 8 | 8 | 8 |
| 3 | Yara | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 4 | Norsk Hydro | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 5 | DNB | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 6 | Statkraft | 0 | 2 | 2 | 0 | 3 | 7 | 7 | 7 |
| 7 | Aker Solution | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 8 | Kongsberg grupp | 0 | 1 | 0 | 3 | 3 | 7 | 7 | 7 |
| 9 | Kværner | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 10 | Nammo | 0 | 1 | 0 | 3 | 2 | 6 | 6 | 6 |
| | Sum | 0 | 11 | 22 | 27 | 28 | 88 | 8,8 | 8,65 |
| Private: | | | | | | | | | |
| 1 | Orkla | 2 | 1 | 3 | 3 | 3 | 12 | 12 | 12 |
| 2 | Marine Harvest | 0 | 1 | 3 | 3 | 3 | 10 | 10 | 10 |
| 3 | Wilh Wilhemsen | 0 | 1 | 3 | 3 | 2 | 9 | 9 | 9 |
| 4 | Norwegian Air Sh | 3 | 1 | 3 | 3 | 3 | 13 | 13 | 13 |
| 5 | Austevoll Seafood | 3 | 0 | 2 | 1 | 2 | 8 | 8 | 8 |
| 6 | Schibsted | 0 | 2 | 3 | 3 | 3 | 11 | 11 | 11 |
| 7 | Lerøy Seafood | 2 | 0 | 3 | 0 | 0 | 5 | 5 | 5 |
| 8 | AF gruppen | 3 | 1 | 2 | 3 | 3 | 12 | 12 | 12 |
| 9 | Norske Skog | 0 | 2 | 2 | 3 | 3 | 10 | 10 | 10 |
| 10 | DOF | 2 | 1 | 3 | 3 | 0 | 9 | 9 | 9 |
| | Sum | 15 | 10 | 27 | 25 | 22 | 99 | 9,9 | 9,60 |
| | Max score | 3 | 2 | 3 | 3 | 3 | 14 | | |

List of abbreviations

CSR: corporate social responsibility

ACP: anti-corruption programme

ACP supplier: anti-corruption programme for suppliers

AC training: anti-corruption training

WB: whistle-blower programme

| Transparency Index | | | |
|-------------------------------------|---|---------------|--|
| Anti-corruption initiatives: | | | |
| Factor | | Points | Criteria |
| 1. | Corporate Social Responsibility | 0 | no corporate social responsibility report, chapter or section in annual report, other company-produced reports or on company webpage |
| | | 1 | separate CSR report, CSR chapter or section in annual report, other reports or on company webpage |
| 2. | Anti-corruption programme | 0 | does not mention anti-corruption programme |
| | | 1 | mentions anti-corruption programme |
| 3. | Anti-corruption programme for suppliers | 0 | does not mention supplier responsibility |
| | | 1 | mentions supplier responsibility |
| | | 2 | the company require suppliers to have implemented an anti-corruption programme |
| | | 3 | the company's anti-corruption programme also applies to suppliers and agents |
| 4. | Anti-corruption training | 0 | do not mention anti-corruption training |
| | | 1 | anti-corruption training applies to some employees |

| | | | |
|-----|--------------------------|---|--|
| | | 2 | anti-corruption training applies to all employees |
| 5. | Gifts/hospitality | 0 | does not mention a policy that includes giving and receiving gifts |
| | | 1 | mentions a policy that includes giving and receiving gifts |
| 6. | Whistle-blower programme | 0 | does not mention possibilities to report concerns |
| | | 1 | there is an opportunity to report concerns internally |
| | | 2 | there is an opportunity to report concerns internally and either anonymously or externally |
| | | 3 | there is an opportunity to report concerns to external agents and anonymously |
| 7. | No reprisals | 0 | does not explicitly mention that whistle-blowers will be protected against retaliation |
| | | 1 | explicitly mentions that whistle-blowers will be protected against retaliation |
| 8. | ‘Corruption’ | The number allocated to companies for the component ‘corruption’ is based on the total number of times that the annual report uses the word ‘corruption’, including ‘anti-corruption’ and other words where corruption is part of the word. The total number of times a company refers to ‘corruption’ is divided by one hundred in order to reduce abnormal differences between the companies. | |
| 9. | Operating risk | 0 | does not disclose information on operating risks |
| | | 1 | disclose information on operating risks |
| 10. | Mitigating risk | 0 | does not disclose strategies on mitigating risk |

| | | | |
|--|--|---|--|
| | | 1 | disclose strategies on mitigating risk |
|--|--|---|--|

| Transparency Index | | | |
|------------------------------|--------------------------------|---------------|---|
| Ownership components: | | | |
| Factor | | Points | Criteria |
| 11. | Map of group structure | 0 | no group structure map |
| | | 1 | group structure map is difficult to understand or not easily found |
| | | 2 | group structure map that either lacks understanding or information |
| | | 3 | a clear and informative group structure map |
| 12. | List of subsidiaries | 0 | no list of subsidiaries disclosed |
| | | 1 | only a list of material subsidiaries disclosed |
| | | 2 | list of all subsidiaries disclosed |
| 13. | Information on corporate board | 0 | three of the following factors are not disclosed: name, age, education, experience, board function, compensation, and number of meetings attended |
| | | 1 | two of the factors are not disclosed |
| | | 2 | one of the following factors is not disclosed |
| | | 3 | disclose information on all of the factors |

| | | | |
|-----|---|---|--|
| 14. | Number of shares owned by board members | 0 | no information available on the number of shares owned by board members |
| | | 1 | there is information on the number of shares owned by board members |
| 15. | Management information | 0 | three of the following factors are not disclosed: name, age, education, experience, management position and compensation |
| | | 1 | two of the factors are not disclosed |
| | | 2 | one of the factors is not disclosed |
| | | 3 | all factors are disclosed |