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Risk Management in the Nigerian Oil Sector

A case study of how companies identify and mitigate risks of non-compliance in the Nigerian business climate

Andreas Håskjold & Andreas Kleiven
Supervisor: Tina Søreide

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Abstract

Nigeria is the largest oil producer in Africa. As the country suffers from civil conflicts, corruption and theft, international companies have a responsibility when operating in the country. Our study explores these companies' risk management in Nigeria with a particular emphasis on the risk of corruption. Through interviews of sector representatives, we evaluate how companies identify and mitigate different sorts of risk. In terms of normative analysis, we apply findings from our interviews together with cross-country data and compare these findings against best practice guidelines provided by the Department of Justice in the United States, to analyse their work with risk management

During our analysis, cross-country data identifies that compared to other countries in the region, there is a lack of regulations for insight especially in governmental budget documents and challenges regarding online distribution of these documents. According to interviews, firms are aware of the risks that is illuminated by indexes we have analysed and apply good systems for continuous risk identification. Risks regarding petty corruption, government contracts and infrastructure are highlighted as most significant. What we however find is that companies do not address tools to identify internal and external risk attitude, which makes it difficult to predict precisely when and with whom illicit activities could occur.

Furthermore, we identify that firms prevent internal technical non-compliance, mainly through strategies of training, deterrence and zero-tolerance policies. Based on business surveys and interviews, it is difficult to have tools to prevent non-compliance as a result of internal culture. Preventing external involvement is done by training third parties and use of contracts restricting all cooperation to compliant activities. Surprisingly, we found that companies do not apply success fees as a tool in third party contracts as we hypothesized. Instead they addressed the risks occurring if success fees was applied, which is positive. At last we find that companies have clear and strong response plans when misconducts by third parties occur, but firms are not as willing to disclose confidential information publicly, even though transparency could strengthen social compliance.

Preface

This master thesis marks the completion of our respective Masters of Science in Economics and Business Administration at NHH Norwegian School of Economics.

The idea to write about corruption and risk assessment came through the course BUS452 Corruption –Incentives, Disclosure and Liability, held by our supervisor Professor Tina Søreide. Our thesis is written with a grant from the project group Corporate Compliance and Enforcement. Together with our supervisor we decided to write about the effect risk management has for decision making, as this is important knowledge to further research on corporate liability. The thesis can also be a tool for companies in the future, to consider if risk of being involved in illegal acts are too high to go through with an investment. Working with this thesis has been a demanding, but also a rewarding and an exciting experience.

For their help and assistance along the way, there are several people whose contributions we would like to acknowledge. Especially our supervisor Tina Søreide, as an expert in our field she has guided us safe and sound through a challenging process. She has understood that we wanted to challenge ourselves through the thesis, but also given constructive criticism when we have been outside our area of knowledge. Furthermore, we want to thank professor Erling Hjelmeng for feedback on our judicial approach. Lise Stensrud for providing us with contacts in Nigeria. Monica Håskjold Eide for her perusal and feedback on language. Finally, we would like to thank the project group Corporate Compliance and Enforcement, and the Centre of Ethics and Economy at the Norwegian School of Economics, for accepting us for their grants.

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Andreas Håskjold	Andreas Kleiven

X.I Content

X.II Figures

X.III Tables

1. Introduction

Corporate leaders today have access to large amounts of information about corruption risks in a given market. Risk management is an important tool for multinational companies (from now: MNC's), to diversify risk between several entities and to utilize risk estimations before entering a region, prevent risks during operation and know how to respond when illicit activities occur. Illicit activities will be used in this paper to include practices which can be illegal according to law, but also potential unethical practices. If corporate risk management is performed in a consistent and sufficient matter, corruption problems can be reduced, and companies can benefit from operations.

Zero-tolerance policies is applied by several MNC's but is still an approach that should be applied with caution by companies. Zero tolerance policies are by Peterson & Skiba (1999) defined as those that "punish all offences severely, no matter how minor". Recently it has also been used to indicate "strong measures and clear resolve". It is an efficient measure to signal commitment to investigate, prosecute and punish all instances of a certain type of offense, regardless of severity. Despite this, DeSimone and Taxell (2014) argue that such policies lack proportionality, makes law enforcement less flexible and can discourage reporting.

Over the last two decades both government, private sector and civil society have realized to what extent corruption have damaged welfare and stability. Especially have the OECD Convention on Combating Business Bribery from 2009, been adopted to the legal frameworks of several companies. The convention has also resulted in strict national laws as the UK Bribery Act and Sapin II, which we will discuss later. Unfortunately, there are still examples of prosecution cases with MNC's where sufficient consequences for individuals involved do not seem to be in place. An example of the lack of consequences from a trial is the Rolls Royce case, where the company and the Serious Fraud Office (from now: SFO) reached a deferred prosecution agreement and where no individuals have yet been prosecuted for the illegalities (Transparency, 2017). Despite that this prosecution case is far away from our main study, it shows how senior management in a large MNC are not held responsible for illicit activities, in a deferred prosecution agreement, which as Transparency International have put it; “only are successful when followed up by individual prosecutions of those committing the wrongdoing.”

Today there is an ongoing trial regarding two petroleum companies in Nigeria. The interest for this case is one of the main drivers for our choice of Nigeria as case study. The case concerns the operation of the British-Dutch owned Shell, and the Italian-owned ENI, with charges of aggravated international corruption for their role in the 2011 $1,3 billion acquisition of the oil block known as OPL 245. A number of intermediaries involved in the deal have also been prosecuted, along with a former Nigerian oil minister, Dan Etete. In Nigeria, the subsidiaries of Shell and Eni have been charged with conspiracy to commit corruption. Shell is also under investigation in The Netherlands, and US authorities have also investigated the case. OPL 245 is estimated to be one of the largest oil fields in Africa and is a centrepiece of new offshore oil development in Nigeria. Shell and Eni acquired the block from Malabu in 2011, using the Federal Government of Nigeria as a go-between. Internal Shell emails, leaked to the press in 2017, reveal that senior executives knew the massive payment that ensured the oil block to Etete – a convicted money launderer. He spent some of it on a private jet, armoured cars, and shotguns. The Italian authorities have already frozen a total of some $195 million relating to the deal in the UK and Switzerland. It have been estimated that deal could cause revenue losses to the Nigerian society of about $5,6 billion (Corner House Research, 2019).

The case is an example of companies that have significant compliance programs and applies zero-tolerance policies[1] and still end up being prosecuted for illegal practice. This shows that even though companies apply several measures to avoid corruption, there are risks that cannot be avoided or mitigated. This is important in a country like Nigeria where the challenges in the business climate are many. Norad address weak institutions, several internal conflicts, large differences in income and corruption as some of them (Norad, last updated: January, 2018). The political situation, which we will address later in the chapter, is severely complicated, with several militant groups and an earlier militant dictator as president.

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[1] (Rolls-Royce, 2017) and (Shell, 2018)

With this in mind, we became curious to how companies in the oil sector approach these challenges in Nigeria. Is there any risks that a company's compliance program alone, cannot mitigate?

1.2 Purpose

Our thesis will provide information about what risk factors decision makers evaluate, address the importance of anti-corruption work today and, in the future, and how corruption is damaging both for employees, companies and the society. Literature today agrees on several risks that are significant for our study and how risk management should be performed. Still, there is a lack of literature which compiles this information and consider to what extent it actually is possible for companies to identify and mitigate these risks. Hopefully, the paper can enlighten future research and how guidelines and regulations should be developed to improve risk management in the oil sector of business climates as Nigeria.

Based on this we want to answer the following research question:
"To what extent is it possible to identify and prevent business climate challenges, focusing on non-compliance and similar problems?"

"What is the common plan of response for management teams if they realize their firm is involved in non-compliance?"

The research questions will be addressed by analysing cross-country data based on surveys and indexes in the light of best practice guidelines. We have applied six sources of data; corruption perception index, TRACE Bribery Matrix, Index of public integrity, Open Budget Index, World Bank enterprise surveys and resource governance index. This constitutes our desk study. Further on we analysed performed interviews and how well results from interviews addressed our findings from the desk study. The interviews constitutes our field work. Hopefully our findings can give a relevant picture of how companies perform risk management and what risks that is actually possible to mitigate or not mitigate.

The next section gives a thorough description of the Nigerian business climate. After that we will present methodical approach before, we discuss literature's insight into our research questions and present our hypothesis based on that literature. Then we present data from our data sampling, before we analyse and present both expected and unexpected empirical findings. At last, we will use some time on discussing our findings, following some recommendations to strengthen risk assessment and management in Nigeria, present limitations of our research and suggest future research.

1.3 Introduction to the Nigerian business climate

Nigeria is a country which have had a relatively short democratic lifetime. Until 1960 it was a British colony, under a military regime for a total of 28 years in the time after, where two to three years of them were at war. It returned to a democratic system in 1999, when also a new constitution came in place. Nigeria is by far the largest economy in Africa, exceeding South Africa as the second largest, with over 100%. Still the country suffers from many challenges, leading to an unsatisfied society. The weakness of the agricultural sector in Nigeria damages prospects for the rural poor, while high food price inflation adversely impacts the livelihoods of the urban poor. Despite expansion in some sectors, employment remains weak and insufficient to meet the growth of labour force, following from the population growth. Furthermore, the lack of stability in the North lead to displacements of people into militarization.

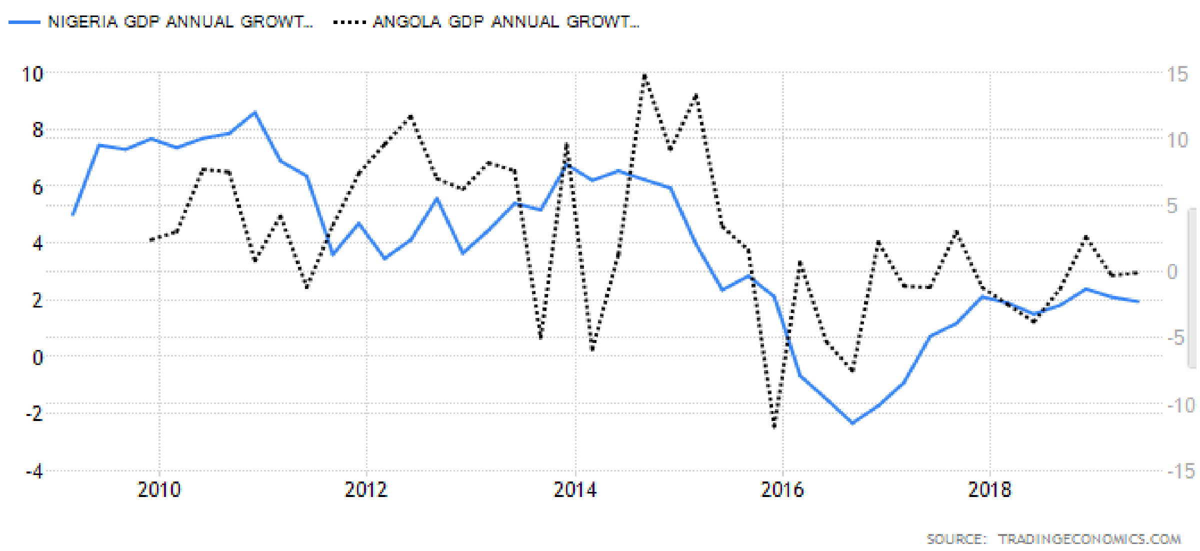

Figure 1 Nigeria GDP annual growth rate[2]

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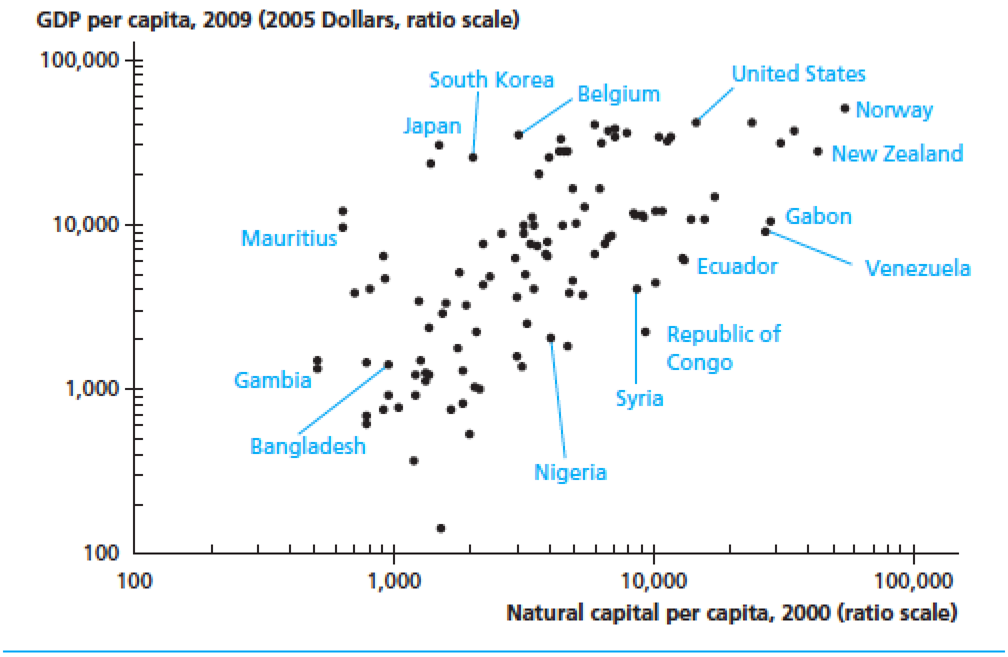
[2] (*Nigeria GDP Annual Growth Rate | 2019 | Data | Chart | Calendar | Forecast*)

According to figure 1 the medium-term growth is expected to stabilize on around 2% the next years, if no political structured reforms come to place. These forecasts show an expected economic growth, lower than the population growth, causing a decrease in living standards (*Overview*, 2019). There are several macroeconomic constraints of the economic growth, among else from the central bank. External balances are fragile to money movements, and fiscal buffers are exhausted, making Nigeria's economy vulnerable to external risks (*Overview*, 2019).

Nigeria is the largest producer of oil in Africa and the tenth largest in the world. The production consists of both oil and gas, mainly onshore. The exploration started in 1903, and Chevron entered in 1913. Shell came after in 1937, but the first oil field did not begin the production before 1958. The Nigerian economy have not experienced the same relative growth as the Norwegian economy, even though oil were found earlier in Nigeria. The market players competed for profits from oil and as a consequence of lacking regulations, this led to great level of conflicts for those living in the regions. The volatility in the oil price continuously influences the growth in Nigeria. From 2000 and until the oil crisis in 2014, the gross domestic product of Nigeria had an average annual growth of 7%. After the oil price collapsed, followed a drop in the growth rate to 2,7% in 2015 and 1,6% in 2016(see Figure 1). This led to the first recession in 25 years. Growth averaged 1.9% in 2018 and remained stable at 2% in the first half of 2019.



Sources: World Bank (2006), Heston, Summers, and Aten (2011).

Figure 2 GDP per capita, 2000

Nigerians today, generally still believe that they have not benefited economically from the country's resources. Even though figure 2 is somewhat old, it shows a positive relationship between natural capital and income, which still applies unless the oil crisis have changed this relationship. However, there are resource rich countries like Ecuador where there is a low income relative to the size of their natural resources. Oppositely, countries like Belgium are amongst the most resource poor, but have relatively high income. Thereby the figure suggests that natural resources are helpful to economic growth, but are neither necessary nor sufficient to create growth (Weil, 2012). The Nigerian government are still the majority shareholders of the profits created. Thereby the government capture nearly all production, while the society do not see any socio-economic benefits. As the oil fields the last years have lacked highly effective production (mostly because of international pricing) the earnings from joint operations (private sector together with federal government), have been sent back to exploration and production of petroleum.

Niger delta is defined as the region consisting of nine coastal southern states. This region has by far the highest oil production. The region encompasses 78 of 159 oil fields, mostly smaller. It is in this region the inhabitants' protests have been highest. The conflict began in the early 1990´s, as tensions between the large foreign oil corporations, the federal government, and many of the ethnic groups. The conflict is a result of the groups' demands of compensation from ecological damage and loss of control over their region´s oil resources. Shell was actually prosecuted for the damages in the Nigeria Delta (Ridderhof, 2013).

The fight for the profitable oil has led to a high degree of militarisation in most of the many ethnic groups living in the region. As a consequence of the relatively small oil fields, Nigeria have built an extensive network of pipelines, for an effective transport of the crude oil. This have made the resource exposable for bunkering, by thieves but also by federal army and protesting inhabitants especially in the Niger Delta region. Bunkering is when pipelines are being tapped for theft and pipelines are often damaged. The countries´ position on the west coast also makes it an exposed area for piracy (Abubakar, 2019).

The petroleum earnings stand central in the Nigerian economy. It is as mentioned a resource quite unavailable for Nigerians, because of an expensive product. Therefore, most of the oil is refined overseas. The multinational companies also control the exportation terminals. Shell accounts for roughly 50% of total oil production, in a joint venture with NNPC, a daughter company of Total and Agip. After Shell, different joint ventures led by Chevron, Exxon Mobil, Agip and Total, follows as the largest.

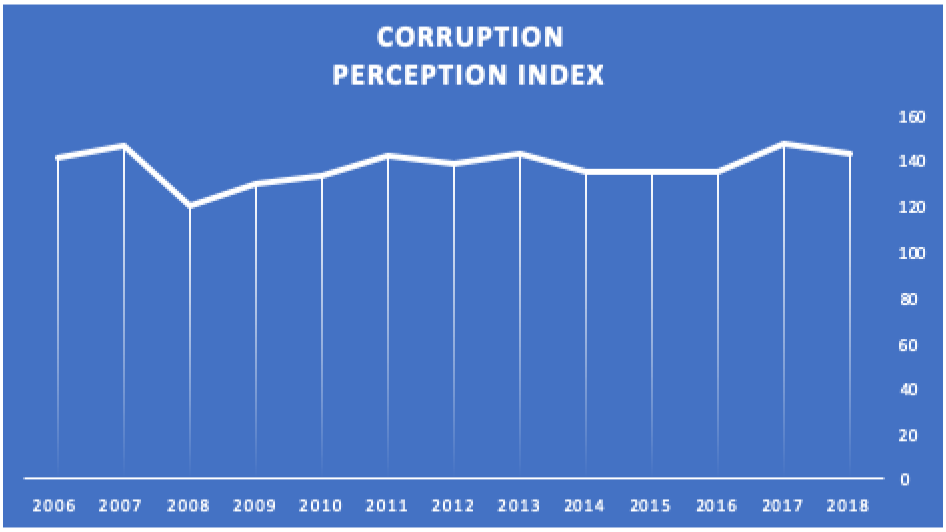


Figure 3: Corruption perception index, Nigeria[3]

[3](Transparency International e. V, Updated: 2019)-ranking Nigeria

In general, the region with highest oil production, is characterized by a high rate of poverty, unsatisfied inhabitants, militant groups that sabotage development of infrastructure and corruption amongst elected leaders on a large-scale. There is an unstable labour market, with temporary employments, unsustainable spending habits, and men taken out of the communities in search for work. In other words, they hinder development as a part of keeping the inhabitants depending on the leadership. This lays clear ground rules for an enter with caution and a corporate social responsibility, for MNC's (Boele, Fabig and Wheeler, 2001).

As you can see in figure 3 Nigeria have not made any large leaps the last thirteen years, on the CPI ranking from Transparency international. This ranking displays the corruption perception index, which is an index based on the perceived impression from the population. This index will be used more in our analysis in chapter 5.

1.3.1 Petroleum governance in Nigeria

The governance of the oil and gas sector in Nigeria is carried out through several regulators, including the following entities:

- The Nigerian Government and the Ministry of Petroleum Resources: which legally owns all oil and gas reserves in Nigeria initiate policies for the sector and supervises the implementation of approved policies. Its mission is an effective implementation of Nigeria's policies on oil and gas exploration, exploitation and utilisation;
- The Department of Petroleum Resources (DPR) is a department within the Ministry of Petroleum Resources and is the body responsible for the statutory responsibility of ensuring compliance with petroleum laws, regulations and guidelines in the oil and gas Industry;
- Petroleum Product Pricing Regulatory Agency23 (PPPRA): the main mission of the PPPRA include the following tasks: to determine the pricing policy of petroleum product and regulate the supply and distribution of petroleum products; and to moderate volatility in petroleum products prices, while ensuring reasonable returns to operator, and maintain constant surveillance over all key indices relevant to pricing policy and periodically approve benchmark prices for all petroleum products;
- NNPC24 (Nigerian National Petroleum Company): it is the state oil corporation and the SOE through which the Federal Government participates in the oil and gas industry (please

refer to Section 3.5 of the report for more details).

Table 1: Responsible regulators for petroleum governance in Nigeria[4]

The minister of petroleum economics is responsible for setting the overall policy and strategy in the sector. Regulation is the responsibility of the National Petroleum Regulatory Commission. The Nigerian Petroleum Assets Management Company are responsible for managing all assets currently held by NNPC (Ajayi, Anyanechi and Salaudeen, 2017). There is neither any information whether the Government appropriates a fund to settle liabilities in transfer, nor if shareholders are required to fund the NAPLMC[5] and settle liabilities. In the last case it could impact viability of any investment in NPC. The enablement to carry out the role, depends on incentives to do the job, financial or managerial authority, auditing etc. CSR are accounted for the petroleum sector separately, and the dialogue between the relevant communities and operators are quite clear. Still the transparency and internal audit mechanisms, are somewhat unclear and criterias for awarding licenses are not always explained (Ajayi, Anyanechi and Salaudeen, 2017).

[4] Nigeria's Oil & Gas Commodity Trading Pilot Report - August 22, 2019

[5] Nigerian Petroleum Liability Management Company

2. Analytical approach and methodology

2.1 Introduction to methodology

By setting the case to Nigeria we chose a resource rich country with weak institutions, which also perform weak on ratings such as Transparency's Corruption Perception Index. It can be seen as an emblematic case, where the focus is on a single case to embody the key aspects of processes in organisations (Silverman, 2009). We have examined the risk profile of oil companies and risk attitude of the companies´ managers. Our case study will seek to inform about a specific area; risk management of illicit activities in the oil sector.

In this chapter we describe how we have approached our study, what elements that have been included, why we have included them, foundations for our analysis and at last limitations and implications of our approach. In the next section we describe the methodology of our interviews and then the methodology in some of the indexes in our analysis. This is done to make it easier for the reader to understand the data we have analysed in chapter 4. After that we introduce definitions and terms regarding the topic of corruption. When these definitions are in place, we explain legislations from British, French and American jurisdictions that have been utilized as a part of the theoretical approach to our analysis. These legislations are relevant for our analysis for several reasons; they describe which companies that can be held liable under the legislations; what actions they can be held liable for; and requirements for mitigating actions that must be fulfilled to avoid prosecution. At last in this chapter we have also included economic theory as a fundamental approach about how companies and decision makers value their decisions.

In chapter 3 we discuss earlier empirical findings and literature; first we introduce risk management and strategies suggested by literature; secondly, we focus on risk identification and especially a theoretical foundation of how decision makers think; and at last we illuminate some empirical studies regarding preventive measures and response plans for risk mitigation. We have also included The US Attorneys' Manual's Principles of Federal Prosecution of Business Organizations, in the literature, as a guide for the factors that the government evaluates when determining whether to charge a company or not. This include any effort to implement an effective corporate compliance program or to improve an existing one (Department of justice, 2015). We chose guidelines from American legislations as the FCPA is a globally leading legislation which enable prosecution of American companies operating abroad and reduced bribery for foreign countries. In our analysis it will be used as a comparison to our findings, as we seek to understand how the companies work with risk according to their own risk profile, decision makers' risk attitude in real life and how that comply with the best practice guidance (Blume, Partridge and Lumumba, 2017). At the end of chapter 3 we discuss empirical findings on the resource curse and determinants of foreign direct investments, before we illuminate empirical findings on risks for petroleum companies in the Nigerian business climate.

In chapter 4 we have analysed cross-country data and specific country data for Nigeria, through indexes and surveys that all describe different sources of risk in the Nigerian business climate. This analysis has primarily been done as a desk study, to illuminate what risks international organizations address for Nigeria, secondarily the indexes can be compared both with findings from literature and interviews. It has also been a part of the foundation of our interview guide and thus to evaluate whether indexes has been used by companies in their own risk assessments. In chapter 5 we have summed up findings from indexes and then introduced findings from interviews. The analysis can describe what risks actual decision makers identify as more significant than others, how they mitigate these risks and what risks they may not be able to mitigate.

2.2 Methodology for desk study

To assess which risks that are considered as significant in Nigeria and in the oil sector, we have applied cross-country data and specific country data from indexes and business surveys. In this section the indexes with more complex methodologies will be explained in depth.

2.2.1 Bribery risk matrix

The Bribery Risk Matrix provides an overall risk score and risk scores in four domains deemed to be indicators of potential business bribery risk; the first domain, business interactions with government, reflects the risk associated with business interactions with government agencies. This includes three subdomains; measuring the frequency of government interaction; the likelihood of a bribe arising through those interactions; and the overall regulatory burden. The second domain identifies factors operating to deter bribery, both informally through societal attitudes and formally through governmental enforcement, comprising the subdomains; societal disapproval of bribery; anti-bribery deterrence; and governmental enforcement. The third domain addresses government and civil service transparency including subdomains concerning; whether government budgets are publicly available and the quality of these budgets; and whether there are regulations addressing conflicts of interest for civil servants. The fourth domain captures information concerning the subdomains; extent of press freedom and civil engagement, both of which serve as indicators of a robust civil society that can provide government oversight (TRACE, 2019).

The overall risk score provides a general, high-level way to compare countries and to group them by overall risk. However, the distinguishing characteristic of the Bribery Risk Matrix is the availability of additional information on the risk factors within a given country. Therefore, when using the data one must examine both the domain and subdomain scores, while assessing them in the context of the firm's own characteristics and activities (TRACE, 2019).

2.2.2 World bank enterprise survey

An Enterprise Survey is a firm-level survey of a representative sample of an economy's private sector. The surveys cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures. Findings and recommendations are helping policy makers identify, prioritize and implement reforms of policies and institutions that support efficient private economic activity. Regional- and all country averages of indicators are computed by taking a simple average of country-level point estimates. For each economy, only the latest available years of survey data is applied in this computation. Only surveys, posted during the years 2011-2018, and adhering to the Enterprise Surveys Global Methodology are used to compute the averages. (World bank, 2019).

2.2.3 Index of public integrity

The IPI is a composite index consisting of six components based on years of empirical research and theoretical framework conducted by the European Research Centre for Anti-Corruption and State-Building (ERCAS). The components adumbrate the idea that corruption reflects a national-level equilibrium between resources and constraints; judicial independence represent an assessment of how independent the judiciary are from government, civil society and companies; administrative burden is based on the number of procedures and the associate time frame to start a business and conduct tax payment for a given society; trade openness evaluates the quantity of documents and required time in import/export procedures; budget transparency look at how executive budget proposals are published; E-citizenship is the indicator of opportunity to participate in online discussions and basically consider internet access, broadband subscriptions and Facebook users; at last, freedom of press look at legal and social frameworks that journalists operate under and scope of interference(European Research Centre for Anti-Corruption and State-Building, 2017).

The basis of the tests fits to this study as it put focus on the chosen components to be objective and actionable. Thus, they can help in the design of evidence-based strategies, for companies. The standardization procedure ensures that the IPI does not depend strongly on the component with the greatest dispersion. Thereby improvement areas for countries are illuminated, without one component making significant impact on the overall score (European Research Centre for Anti-Corruption and State-Building, 2017).

2.2.4 Resource governance index

The first component, value realization, measures the quality of governance around exploration, production, environmental protection, revenue collection and state-owned enterprises (SOEs). These are the aspects of resource governance that together work to realize public value from a country’s extractive industries, and that protect a country’s local environment and communities. The second component, revenue management, covers the aspects of governments’ revenue management that are particularly important in resource-producing countries: national budgeting, subnational resource revenue sharing and sovereign wealth funds. The third component—enabling environment—measures the quality of governance in the country as a whole. This component assumes that how resource production affects people, is a function of both specific rules and practices directed at the extractive sector and its revenues, and the governance in a country that either enables or disables resource governance. Following the World Governance Indicators, we define enabling environment as covering seven dimensions: voice and accountability, government effectiveness, regulatory quality, rule of law, corruption control, and political stability and absence of violence(Natural resource governance institute, 2019).

2.3 Methodology for field work

Hedges and Olkin (1985), claims that for a serious project 4-6 interviews form a reasonable minimum for a case study. Stake (1994) points out that the criteria for case selection is not representativeness, instead it is the choice of each case. The collection of our interviews primarily happened by sending information about our study to contact persons in selected companies, where we urged them to participate. This resulted in four interviews with company representatives from two larger MNC's, one daughter company of a MNC and one former employee of a MNC, who is currently working to establish a new company in Nigeria. The participants have different backgrounds; two are legal counsels, who have worked with compliance and corporate law for several years; one CEO with background from engineering for a MNC in Nigeria; and one Nigerian geologist. We sent out informal emails for consent of participation and their rights regarding citation checks and anonymity. All information has been handled according to the accepted application to Norwegian Center for Research Data.

In our field work we conducted qualitative semi-structured interviews of the key informants, where the conversations were directed both by prepared questions and questions emerging from the interview participants responses along the way[6]. We decided to structure our interview guide in terms of five categories: 1. Small talk, 2. Informative talk, 3. Transition issues and explorative questions, 4. Explanatory questions and 5. Summary (see A.2). When interviewing the objects, our initial goal was to let them speak as freely as possible, give them time to think and encourage them to elaborate on their responses, to not intervene the process too much. Questions regarded the interview participants' experience with and perception of

[6] As recommended by Kvale (1996).

risk management, which we formulated based on findings from our desk study and on our hypothesis from work with earlier empirical studies. All interviews were recorded and lasted from 60 to 70 minutes. This resulted in rich and elaborated responses.

We worked with the interview questions both independently and jointly with our supervisor. The interviews addressed respondents' contextualized experience, which is not available through other methods (Kvale, 1996). It is still important to reduce the threat to reliability in order to pursue access to the experiences of interest and thereby also to strengthen the validity of the analytic findings (Silverman, 2009). Thereby we avoided having either too open or too narrow questions and to avoid misinterpretations.

The interview data were then transcribed verbatim in full length. In alignment with what Derry *et al.* (2010) promotes as an essential part of working with audio-data as a source for analysis, we have been reviewing the tape several times with the support of field notes. The transcribed interviews were interpreted separately and in a joint context. Transcription was fully coded, but codes that did not involve the most central issues of concern, were not accounted for in detail in further analysis. We primarily looked for patterns in the case, arising from the data and whether or not these supported or/and added to our field notes and desk study.

The work with our research questions has been an iterative process and throughout the whole process we have strived to continuously reflect on how our background affects our perspectives, in order to minimize bias. To the extent that our methods is analysed through triangulation, it is in terms of an approach to gather deeper understanding of a studied phenomenon, rather than using it as a strategy to generalise findings (Denzin, 1989). The interview guide has been updated after each interview, based on feedback from interview participants and designed to fit for each of the interview objects.

In order to avoid threats to reliability in the transcripts both regarding methodical faults and the possibility of bias when using analytic categories (Silverman, 2009), we discussed the transcripts with co-students for external feedback. Accordingly to Derry *et al.* (2010) focusing on selection have a great impact on the analysis, and that it is most worrying in the earliest phases of collecting data. We have tried to make interpretations accountable, by providing sufficient context description.

The inspiration for our methodology grounds from the previous master thesis of Skjong and Øverland (2018): “Finally, it would be interesting to study the experiences of managers and employees of firms sanctioned for FCPA violations using a more qualitative approach. The cases could affect motivation, work environment, and overall employee well-being in the organization, even as we are unable to identify effects on profitability.” Even though we chose to not focus on companies’ profitability, we believed that a qualitative approach for companies operating in a business climate, where they are prone to be exposed to illicit activities, would be a good direction for our study as well. The qualitative study have been designed as a case study, which according to (Rowley, 2002) is the most appropriate tool when the focus is to get a deeper knowledge usually through questions of “how” and “why”, about a contemporary set of questions that the interviewer lack control over. Yin, (1981), also argue that a case study is appropriate when “an empirical inquiry must examine a contemporary phenomenon in its real-life context”.

2.4 Definitions

This section is devoted to introducing terms and different drivers of corruption that companies need to be aware of and defining them in an understandable way for readers.[7]
A common definition of risk is:

> An uncertain event that if it occurs, can have a positive or negative effect on a project’s goals.

The potential for a risk to have a positive or negative effect is an important concept, because it is natural to think that risks have inherently negative effects. If you are also open to those risks that create positive opportunities, you can make a project smarter, streamlined and more profitable. Uncertainty is at the heart of risk. You may be unsure if an event is likely to occur or not. Also, you may be uncertain what its consequences would be if it did occur. Likelihood

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[7] When nothing else is written, the following definitions and explanations are based on lecture notes from the course BUS452

– the probability of an event occurring, and consequence – the impact or outcome of an event, are the two components that characterize the magnitude of the risk (Kloosterman, 2019).

The term corruption refers to:

> The core concept of such crime, meaning a quid pro quo agreement between two or more parties on how to manipulate an administrative decision.

Authority can be misused in several ways, however, and the distinction between embezzlement, fraud and absenteeism from duties is not always clear – especially since giving a bribe to witnesses may help keep other offences secret.

Political corruption refers to:

> Illegal acts at the political level, often with high-level civil servants involved as well; in the more serious cases a situation where those with the highest authority appear more concerned with personal benefits and power, than development for society at large.

Its consequences will often depend on the specific source of revenues available for "grabbing". For this reason, the environment for anti-corruption is different in an emerging-market economy (where taxes are an increasingly important source of state revenues) compared with an aid-dependent society or a natural-resource exporter (where the government is less dependent on domestic markets and citizens).

Bureaucratic corruption refers to:

> Illegal acts by the state administration at central and local levels.

The extent of risks will depend on how authority is organised, as well as the context-specific opportunities to generate rents for grabbing. Regardless of the level of authority, it is important to distinguish between collusive and extortive corruption.

Collusive corruption is:

> When both parties involved are motivated for the illegal deal and conspire to keep the crime hidden; often the case in procurement-related corruption or other business deals.

This form of corruption is often initiated by those who benefit from a certain government decision, whether they are market players or individuals.

Extortive- (petty) corruption is:

> When a public official elicits (small) bribes from citizens for providing public services, license or approval that the citizens are legally entitled to receive.

An individual's or entity's use of company, organizational or individual resources to obtain economic gain without reciprocating any benefits to society through wealth creation, is called rent-seeking. Such bribery is often associated with facilitation payments, although these payments may well be offered quite voluntarily by the one who benefits from the public sector service or decision in question. The (extortive) demand for bribes may come from any level of decision making authority, and the term’s relevance goes beyond petty corruption(OECD, 2015).

Facilitation payment is defined as:

> A certain type of payment to foreign officials that is not considered to be bribery according to legislations of some states as well as in the international anti-bribery conventions, e.g., coming from the OECD.

In contrast to extortion, a facilitation payment may serve as an informal price that clears the market: makes the supply of services fit the demand, given users willingness to pay.

Patronage is defined as:

> When civil servants and politicians who exercise their authority, favour ethnic groups, relatives or citizens from the same area of the country, instead of acting neutrally, as formal rules prescribe.

Such corruption is not necessarily motivated by greed; often, it expresses low recognition of normal state structures and loyalty to allies. This is often complicated by the use of intermediaries, which are agents or companies assisting especially MNC’s in procurement of contracts, lobbyism and in general understanding of a foreign business climate. A tendency is that these intermediaries work in grey zones and provide incentives for decision makers to influence procurements.

Transparency in public procurement means that information on the public procurement process must be available to everyone: contractors, suppliers, service providers and the public at large, unless there are valid and legal reasons to keep certain information confidential.

Examples of confidential information are proprietary information of companies or individuals participating in the solicitation process, and certain military/defence procurements. While due diligence are reasonable steps taken by a person or corporate to avoid committing a tort or offence.

Governance and corporate governance are defined as:

> Establishment of policies, and continuous monitoring of a proper implementation, by the members of the organization’s governing body. The guide of rules, practices, and processes by which a firm is directed and controlled.

It includes the mechanisms required to balance the powers of the members (with the associated accountability), and their primary duty of enhancing the prosperity and viability of the organization. Corporate governance essentially involves balance interests of the company's many stakeholders such as; shareholders, senior management executives, customers, suppliers, financiers, the government, and the community. (Chen, 2019)

Checks and balances are defined as:

> The internal control mechanism that guards against fraud and errors due to omission.

In a system with checks and balances, the authority to make a decision, and the associated responsibility to verify its proper execution, is distributed among different departments. These departments are kept logically and physically apart, and no department can complete a transaction all on its own.

When considering in trial whether there are reasons to believe that criminal acts have occurred, there are three different acts to consider; active and passive bribery of national public officials, active and passive bribery in the private sector and active bribery of foreign and international public officials. Further on criminal law demand that there exist no legitimate excuse, for the suspect. Legitimate excuses can occur through following actions: early confession that may exculpate the suspect completely, encourage to reporting the illegal act, but most likely defence of effective regret, mitigating blameworthiness and lead to sanction rebate. Effective regret could either be admitting or reporting the illegal act.

Self-reporting is defined as:

> Companies who report misconduct before the government know about the committed crime.

Cooperation refers to all information provided post the beginning of investigating a potential misconduct by the firm, to the government. Cooperation can also function as self-reporting. This occur when information about detected misconduct outside the scope of the government's investigation, is provided. Cooperation can also refer to firms that do nothing more than voluntarily provide documents or witness interviews that the government has the right to obtain. This should not be treated as adequate cooperation when determining whether a company is entitled to cooperation credit.[8]

Leniency is defined as:

> Reduced criminal law reaction for those who self-report their involvement in crime (such as corruption).

This can regard negligence as well, which is a possible reason for liability. Debarment is the state of being excluded from enjoying certain possessions, rights, privileges, or practices and the act of prevention by legal means. For example, companies can be debarred from contracts due to allegations of fraud, mismanagement, and similar improprieties.

The next step is to consider whether the suspect can be prosecuted as guilty. Actus non facit reum nisi mens sit rea; "An act does not make person guilty unless (their) mind is also guilty". Thereby there are two considerations of guiltiness; actus rea, -guilty act or an illegal action and mens rea, -guilty mind or blameworthiness. The last part is the condition for liability; "some level of criminal intent". In other words, prosecutors must prove beyond reasonable doubt that the suspect either were grossly negligent or did the illegal act on purpose. A reasonable doubt exists when a factfinder cannot say with moral certainty that a person is guilty, or a particular fact exists. It is often defined judicially as such doubt as

[8] For a complete definition of full cooperation see United States Department of Justice, 9-28.700 - The Value of Cooperation, Justice Manual:

https://www.justice.gov/jm/jm-9-28000-principles-federal-prosecution-business-organizations#9-28.700.

would cause a reasonable person to hesitate before acting in a matter of importance (*Legal Definition of reasonable doubt*, 2019).

There are several approaches for prosecutors and offenders to reach non-trial solutions. The three most precarious are negotiated settlements, non-prosecution agreements and deferred prosecution agreements. The expected benefits with settlements exceed the reduction in administrative expenses per case. The option of offering corporate offenders a settlement, implies a flexibility that prosecutors could use to influence the corporation. Holding out the threat of a lengthier and riskier court process, prosecutors are in a position to request changes within the corporation and facts about the case that would otherwise be difficult if not impossible to retrieve. For these reasons, settlements – or non-trial resolutions – are seen as an opportunity not only to deter crime through law enforcement, but also to promote compliant business practice.

2.5 Judicial analysis

Now we will explain legislations from relevant jurisdictions. The jurisdictions we will describe are respectfully the British, American and the French.

2.5.1 Liability in the UK

The UK Bribery Act (UKBA) came through on July 1st 2011 and is considered to be among the strictest anti-corruption legislations in the international arena (Transparency International 2013). The UKBA does not distinguish between corruption in the public- and private sector and requires companies to implement adequate anti-corruption procedures to prevent corrupt practices within the organization and/or by third parties acting on the company's behalf.

UKBA applies for "relevant commercial organization" – "a body or partnership incorporated or formed in the UK, or an incorporated body or partnership which carries on a business or part of a business in the UK irrespective of the place of incorporation or formation" (The UK Ministry of Justice 2011)[9]. Companies registered in the UK must take note of the extra-

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[9] The Bribery Act (2010 c. 23), Section 7-9

territorial reach of the UKBA. A company can commit an offence under section 7 of failure to prevent bribery if an employee, subsidiary, agent or service provider ('associated persons') bribes another person anywhere in the world to obtain or retain business or a business advantage (*UK Bribery Act*, 2019). A foreign subsidiary of a UK company can cause the parent company to become liable under section 7 when; "the subsidiary commits an act of bribery in the context of performing services for the UK parent". This falls away if the foreign subsidiary were acting entirely on its own account, as it would not then be performing services for the UK parent. A statutory defence would be to prove the existence of adequate systems and controls (*UK Bribery Act*, 2019).

To prosecute legal persons, the directing mind of the corporations need to be involved. Liability for natural persons is relevant for those who perform or know about an act or connives in any act or omission which forms part of an offence under UKBA in the UK. UKBA also provides for strict penalties for active and passive bribery by individuals as well as companies. UKBA places strict liability upon companies for failure to prevent bribes being given (active bribery) and the only defence is adequate procedures designed to prevent persons associated with it, from undertaking bribery.

2.5.2 Liability in US

The US Foreign Corrupt Practices Act (FCPA) of 1977 address the challenges of international corruption by anti-bribery provisions and accounting provisions. The anti-bribery provision has a broad scope and prohibits actors to perform corrupt payments to foreign officials, in order to obtain or retain business[10]. The FCPA address briberies in the public sector and does not govern corrupt acts conducted in the private sector. While the legislation has a limited associated power in theory, it covers a broad range in practice, as a corrupt act conducted in US currency abroad, is enough to convict a company or person under US law (Blume, Partridge and Lumumba, 2017).

[10] (FCPA 2012a)

BR & IC[11] applies to companies that fall within the definition of issuers in the FCPA, including any issuer of securities on a US stock exchange, whether the issuer is a US or non-US company, or any officer, director, employee, or third-party agent of such issuer or any stockholder thereof acting on behalf of such issuer. (Securities Exchange Act, 1934)

Strict vicarious liability for crime committed by employees, sub-divisions or associates, applies for legal persons. While liability for natural persons reaches CEOs, CFOs and employees for the stipulated acts and for proven intent to commit the act, vicarious liability applies for “control persons” – those with the practical ability to manage, direct, and oversee those who have direct liability (Blume, Partridge and Lumumba, 2017).

2.5.3 Liability in France

The Sapin II law is mostly preventive in nature, with the French anti-corruption agency, Agence Française Anti-Corruption (AFA), mandated to make recommendations for companies on the effectiveness of, and potential improvements to, their anti-corruption programs. If not followed, the AFA can issue warnings and impose sanctions. (*Sapin II*, 2017)

[11] Books & Records: Section 13(b)(2)(A) of the Exchange Act (15 U.S.C. §78m(b)(2)(A)) and Internal Controls: Section 13(b)(2)(B) of the Exchange Act (15 U.S.C. § 78m(b)(2)(B))

Article 3-2[12] applies to persons or entities who carry out all or part of their economic activity on French territory. Legal persons are evaluated based on number of employees and the revenues of the company and can be sanctioned if they are:
-Any company located in France with 500 employees or more, and an annual turnover reaching at least EUR 100 million;
-Any company belonging to a group whose headquarters located in France, with a minimum of 500 employees worldwide and an annual turnover of at least EUR 100 million;
-Any French public entity with an industrial or commercial character, with at least 500 employees and an annual turnover of at least EUR 100 million;
And sanctioned:
-A fine up to EUR one million for the breach of the obligation to implement measures to prevent and detect corruption.
Natural persons are evaluated as and can be sanctioned if they are:
-Members of the executive board, presidents and directors of companies accountable under the law, i.e. the CEO;
-CEOs and presidents of French public entities with a commercial character with at least 500 employees and an annual turnover of at least EUR 100 million;
And sanctioned;
-A fine up to EUR 200,000 for failure to implement measures to prevent and detect corruption.

Table 2: Criteria to sanction legal and natural persons according to Sapin II (2017)

Unlike under the FCPA, where DPA´s are reached whenever a suspicion or an identification of an actual breach occurs, and unlike under the UK Bribery Act, where companies may demonstrate a full defence of ‘adequate procedures’ in case of a breach, the companies can under the Sapin II be held liable, if failing to implement an efficient anti-corruption program, even if no illegal activity has taken place. There is no admission of guilt (*Sapin II*, 2017).

[12] Transparency, Anti-Corruption and Economic Modernisation Act 2016-1691 of 9 December 2016 (*French Anticorruption Agency Guidelines*, 2017)

2.6 Economic theory

The neoclassical economic theory explain that a company's decision making is based on maximization of outcome, rationality and risk neutrality. It is argued that due to the speed some forms of corruption create in normally substantial and time-taking procedures, corruption in some cases is of a benefit for both the company and the society. Corruption enables a "greasing to prosperity", as Chris Blattman puts it (*When corruption is good for the economy*, 2014). This is mainly because in countries with weak institutions, certain levels of corruption can increase efficiency in otherwise time-consuming procedures. Still, companies will not commit an illegal act if expected net gain of corruption is negative, where moral costs are a part of the equation. During this section we will describe economic theory based on Søreide (2006), to have a foundational understanding of basic economics regarding corruption.

Companies assumes that corruption influence decision making processes of authorities with a probability reflecting perceived extent of corruption, which lead to the probability to succeed with an honest business approach. The firm's probability of gaining benefit, under an illegal business approach, depend on the level of corruption and the specific probability of the firm succeeding (factors as market conditions, personal relationships etc.). The outcome if it succeeds, will be the invested amount and bribe paid, subtracted from expected benefit.

Prosecutions and following consequences are often time consuming, and the benefit gained from the underlying activity, will often already be secured by the sentencing time. Therefore, we consider benefit as independent of consequences if caught. The expected revenue from an illegal business approach gives a convex curve, where expected value of an illegal business approach, increase as corruption level increases.

The factors that affect risk taking by individuals and organizations can conveniently be divided into three sets:
1. risk estimation. If the risk is underestimated, so current corruption level is higher than perceived corruption level, decisions will reflect greater risk taking than is intended. If the risk is overestimated, decisions will reflect less risk taking than intended, because of increased utility. We define risk here as reduced utility.

2. risk-taking propensity. In some choice theories, decision makers are described as having "preferences" for risk. Observations of risk taking suggest that the term of preferences may incorrectly imply that individual risk propensities are primarily conscious preferences, whereas they appear to arise only partly through conscious choice.[13]

3. structural factors within which risk taking occurs. Both risk estimation and risk-taking propensity are affected by the context in which they occur. Features of organizing for decisions introduce systematic effects into risk taking. We will look more into literature regarding decision making in the next chapter.

2.6 Limitations

Every person has his own unconscious bias. Even though the case study method is designed to limit the influence of this bias by collecting fact-based data, the real-time data being collected, may be based on the results the researcher wants to see from the entity instead. Participants can also influence outcomes through inaccurate or incomplete answers to questions they are asked. Because of the lack of response from contacted objects, the size and similarity of respondents are not as optimal as it could be. Instead, the interviewed objects are from different types of companies in the sector. Therefore, there are limitations to the possibility to generalize the findings.

At last, a case study is normally conducted over a longer period, than we have available. This is done to secure that the desk study pre field work, covers most of the relevant data available, and to have enough time to schedule a sufficient number of interviews and for a larger data sampling. Preferably we should have been able to conduct additional interviews, especially from those with expertise in the Nigerian business climate to ensure that the portraying is done through a sufficient number of perspectives. Still we have been constrained by time and unwillingness from contacted companies. Still we refer to the law of

[13] The mathematical approach of this theory, stems from Søreide (2006, p. 30), and can be found in A.2

diminishing return; as this is an explorative case study, it could be that the additional data would have provided marginal value.

2.7 Ethical implications

Ethical issues inherent in case study research, where study designs evolve and the numbers and exact nature of participants are difficult to predict in advance, can make justification and gaining ethical approval challenging (Haines, 2017). This study also offers a challenge in collecting data. It may not give a sufficient image of employees' perception of their compliance work or business climate. The consideration here is about the interrelationship between the three key concepts in the democratic model – confidentiality, negotiation and accessibility. Confidentiality secure trust and necessary conditions in sampling, honest and valid data. Negotiation are the means of releasing non-harmful data about interview objects, to the public. Accessibility is the necessity to inform audience in an understandable way (Simons, 2009). We believe that we have followed this model as sufficiently as possible.

Before we discuss earlier literature, we repeat the presentation of our research questions:
To what extent is it possible to identify and prevent business climate challenges, including corruption and similar problems?

What is the common plan of response for management teams if they realize their firm is involved in something illegal?

3. Literature

Risk is about uncertainty. By identifying and managing a comprehensive list of project risks, unpleasant surprises and barriers can be reduced and golden opportunities discovered. The risk management process also helps to resolve problems when they occur, because those problems have been envisaged, and plans to treat them have already been developed and agreed.

According to Johnsøn (2015), risk management is about both outward and inward analysis which can be disaggregated into three steps; risk identification, what specific types of corruption risk that are likely to affect the desired outcomes of this activity, by identifying specific corrupt behaviour and internal weaknesses, addressed by both internal and external stakeholders; risk assessment, measuring probability, frequency of occurrence and the impact or magnitude of identified risks, for desired outcomes; risk mitigation, reducing potential frequency and/or effect of the behaviours identified, by strengthening internal processes and/or conducting activities to mitigate risky conditions in the external environment. Johnsøn also argues that risk of corruption never can be reduced to zero, and it would be prohibitively expensive to try in any case. Therefore, sophisticated corruption risk management is distinguished from more common "control" approaches by a cost-benefit orientation. Cost-benefit analysis weighs the costs of minimizing any given risk against the expected benefits of the activity. Our analysis will especially focus on the steps of risk identification and mitigation.

Hansen (2010), argues that the constitution of corruption risks relates to the rise of new actors and networks that supply corporations with managerial instruments, benchmarks of best practice, rankings and information and surveillance systems. These are measures that we include in our analysis and makes the foundation of our first hypothesis. Pan and Tse (2000), refers to Beams and Banks (1987) that defines two different types of risk; contextual risk and transactional risk. They define contextual risks as external uncertainties especially political risk, operational risk and ownership risk, while transactional risks are fiscal risks, depending on corporate behaviour. Further they argue that equity-mode (full operation) in a country complicate mitigation against all risks and that extent of willingness to take on risk, will also depend on the firms or decision makers home country uncertainty avoidance score; firms from home countries with high uncertainty score, will be cautious and try to minimize exposure to risk when entering. Park et.al (2014) studies how MNC's adapt to emerging markets and find that reliance on local leadership and speedy expansion of local employees, lead to public crisis. They therefore suggest that MNC's, at least for emerging markets, need to pay attention to both economic and social components to avoid this and sustain growth.

In this chapter, academic findings to our research questions will be presented, and our accompanying hypotheses. First, we will discuss identification of risk and assessments regarding decision making, before we discuss strategies for risk mitigation; preventing and responding to risks. At last in the chapter we introduce relevant risks in extractive industries and in the Nigerian business climate.

3.1 Risk identification

The DOJ's Fraud Section issued in 2017 a guide regarding the key questions they may consider when evaluating the effectiveness of a compliance program. We will first introduce two steps from the guideline, applying especially for risk identification[14]; risk assessment processes, companies must regularly identify company-specific risks in the business climate, and effectively address these risks through the compliance program; mergers and acquisitions, the company must be able to identify compliance risks in merger and acquisition transactions, while the role of the compliance function in due diligence and integration processes, at the same time must be clear for all outsiders.

According to Neubürger (1986) the assessment of which risks the decision makers are willing to take on, depends on: amount of risk; probability of risk that is combined with amount of risk; the decision makers attitude to risk; and the achievement of objectives.

March (1994), is considered as the main theoretical capstone when it comes to decision making and will in the following sections be the foundation for our argument. Normally a rational procedure of making decisions is pursuing a logic of consequence, that makes a

[14] Jezierski et.al (2017)

choice conditional based on four questions: alternatives, what actions are possible; expectations, what future consequences might follow from each alternative; how likely is each possible consequence, from a chosen alternative; preferences, how valuable (subjective for decision maker) are the consequences associated with each consequence; and a decision rule, how is a choice made among the alternatives in terms of values of their consequences?

The most common situations where uncertainty is involved are decisions made under risk; you have uncertain consequences, but with known probabilities. In these cases, rationality tell us to maximize expected value over time (mean), considering uncertainty(variance) of the probability distribution over outcomes conditional on choice of a particular alternative. In real life decision makers intentional or not, lack the cognitive capability, complete information, and opportunity to consider all alternatives with consequences simultaneously. Instead they consider some of them sequentially and search for a choice good enough, instead of the best decision. This is according to March (1994), called limited rationality.

Kahneman and Tversky (2009) explains that the prospect theory of choice, assumes that decision makers are more risk averse when returns are expected to be above a target than when they are expected to be below a target. March (1994) claims individuals adapt their target to reflect experience. Experience of success and failure, (both risk taking and learning from experience) depend not only on current performance but also on current aspirations for performance (thus also on records of performance). Risk-taking behaviour will thereby be affected by how the decision makers knowledge, changes. These changes affect the actual level of risk exhibited by decision makers. March (1994) claim that as a result, successful decision makers (with good experience of risk taking) will underestimate risks they face, and unsuccessful decision makers will overestimate. Pan and Tse (2000) however, refer to Hofstede (1994), which find that managers from different countries substantially differ when it comes to decision making in uncertain situations. Risk estimation are systematically biased from organizational experiences according to March (1994).

Companies make decisions based on willingness to increase profits and to analysis of net present value. One aspect illuminated by Skjong and Øverland (2018), that makes it more difficult to determine consequences of corruption and expected earnings and losses, is that when deciding to pay bribes to obtain a profit, the counterfactual would not necessarily be no profits at all. Typically, a large corporation has many projects to choose from, and due to limited capacity has to select only a few of the options available. The alternative to pursuing a project where the risk of corruption is looming, often is to invest somewhere else, not to leave the capital idle. Then again, when faced with a demand for bribes, the alternative to paying bribes may be anything from a slight delay in the transport of crucial equipment, to abandoning the project altogether. Thus, the alternative revenues are relevant when determining the sum that is actually gained through corruption.

Søreide and Rose-Ackerman (2018), pointed out that deciding if to engage in illegal act, is still based on analysing earnings versus loss, but when crime is involved, the calculation get complicated through moral costs. If their moral burden is sufficiently heavy, no benefit can tempt them to commit crime.

Based on the latter section we present the following null hypothesis and alternative hypothesis:

> *1 H0: Sufficient measures to properly estimate risk for non-compliance, is applied and companies thereby manage to identify the most significant risks in a business climate*
>
> *1 H1: Sufficient measures to properly estimate risk for non-compliance, is not applied and companies thereby do not manage to identify the most significant risks in a business climate*

Hansen (2010) argues as mentioned, that there exist tools to properly identify corruption risks. Literature also find that it is possible to predict how decision makers will evaluate risks, and thus it is possible to perform proper risk identification in a business climate. Further on, only the alternative hypotheses will be presented.

3.2 Preventing risk

Following are the seven steps from the DOJ Fraud Section's best practice guide, that apply for risk mitigation strategies to prevent non-compliance[15]; tone at the top, suggesting the need for increased attention on the leadership of the company and whether their acts and decisions reflects a sincere commitment to streamline their compliance program; autonomy and resources, stating that the company must illuminate the independence, experience, foundation and qualification of the program´s function; training, strengthening the employee training, at the same time as clarifying communication when responding to employee´s misconduct, customize training for risk-seeking employees; third party management, the company must essentialize the evaluation of third parties through screening and monitoring based on risk profile and any red flags; risk-based and integrated processes, it must be clear how the process in managing the third party, correspond to identified risks; management of relationships, the company must have considered and analysed the third party's incentive model against compliance risks; monitored the third parties it uses, trained the relationship managers about the compliance risks involved and how to manage them; and incentivized third parties to act ethically and in compliance with all relevant laws.

All too often, organisations opt for the 'high level' or 'light touch' and rely on corporate culture and on-line policy portals to steady the ship, rather than investing the time and effort required to proactively identify misconduct. This can create blind spots. Control Risks' "IBAC survey" found that large organisations are still not harnessing proactive measures such as compliance audits (41% of companies) (Control risks, 2017). Bjorvatn and Søreide (2014) argues that countries cannot effectively deter corporate misconduct, through structure of both corporate criminal liability and of a DPA, unless corporations are liable for all their employees' crimes committed in the scope of employment. The threat of criminal liability also motivates companies to take the actions needed to obtain a DPA.

Companies will be led to institute preventive measures that deter by making misconduct more difficult or expensive for wrongdoers, or by reducing the illicit benefits of unpunished (or

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[15] Jezierski et.al (2017)

successful) misconduct, without affecting the probability that it is detected by enforcement officials, according to Arlen and Kraakman (1997). Examples of such measures can assume many forms, ranging from personnel policies, to sophisticated financial controls and mechanisms for limiting agents' opportunities to commit misconduct.

Arlen and Kraakman (1997) argue that corporate liability for companies that are not owner-managed should focus on deterrence, instead of blame, for two reasons; firstly, because corporate crime imposes enormous costs on victims and society—harms that can be reduced by deterring corporate misconduct; secondly, corporate criminal liability for firms that are not owner-managed is hard to justify on grounds of retribution because liability ultimately falls on shareholders who are powerless to prevent the crime. Hart (2016) refer to DeSimone & Taxell (2014) and argue that even though zero tolerance policies cannot be applied strictly they should not be abandoned. This is because they establish the deterrent effect, setting tone from the top and clearly communicate institutions tough stance against illicit activities.

According to Hart (2016), DeSimone & Taxell (2014)'s study address that training performed both online and in-person, have reported effects to have operational personnel handle allegations more effectively. This approach can also help staff to better understand how zero tolerance policies should be interpreted and applied, while simultaneously provide clear guidelines on roles and responsibility in detecting red flags and suggestions to handle specific cases. While Stöber, Kotzian and Weizenberger (2018) find that more specific compliance training are more effective than general training. They argue that employees need to be trained in problems actually encountered by specifying training to specific departments of the company and make interactive presentations (two-way communication is essential), with continuous feedback. These are measures confirmed by OECD recommendations (OECD, 2016).

Stöber et.al (2018) also find contradictions from earlier studies regarding the importance of code of conduct and the design or content to put them in. They find that several design elements as “positive” forewords, apply to compliant behaviour which improve managers ethical intent. Codes regarding the value of gifts will strengthen the tone at the top and lead to increased effectiveness of ethical intent. While codes focusing on consequences, oppositely, is not effective to increase ethical intent.

When it comes to preventing non-compliance through external stakeholders as third parties and CSR projects, the strategies are more complex. Hills et.al (2009) argue that preventive measures for firms alone are not enough and require strong collective action and common integrity pacts to improve. According to the study, comprehensive approach to fighting corruption, requires a focus on the demand side (public sector). However, corporations typically shy away from this approach, as it implies being critical of a government that is often a key customer or stakeholder in its business activity. Trying to root out corruption among key government actors, while maintaining a strong business presence, is often perceived as too difficult or risky for companies acting alone. Krishnamurti et.al (2018) actually finds that CSR in itself, can mitigate risk, but the findings are restricted to countries with higher institutional quality and press freedom.

Third parties may help companies secure contracts, as they can play an important role when establishing a presence through local market knowledge and local business know-how (FCPA 2012b). Anderson et.al (2011) argues that increased regulatory scrutiny and continuing cost pressures, in addition to active investors and public awareness, force companies to create an understanding of the risks associated with third party relationships. Fosmark and Meidell (2013) finds that four of five MNCs have established a clear attitude towards the risk of using third parties, in particular because of increased legislations. They also address that MNC's not operating under British jurisdiction, may not define third parties as including joint ventures, as British jurisdiction defines it. This could lead to inconclusive answers in our study.

Success fees have been considered as a tool to secure consistency in third party contracts. Still it is assumed that provision could lead to more incentives to perform corruption to i.e. secure contracts, as payments depend on the outcome of assignment. The DOJ found that Unaoil only got paid by Technip FMC if they won a contract and received payment from Iraqi government (*United States of America vs TechnipFMC*, 2019).

Gillies (2019) argue that the transparency that Trafigura shows by revealing their new policy of removing third parties, is an important step in the right direction. It also validates the importance described during the section of best practices, the importance of securing compliance work also involving third parties and not only your own company. If risks is considered too high, it seems possible to work without them.

Based on the latter section we introduce the following alternative hypotheses:

> *2 H1: Compliance programs in place are not sufficient to make preventive measures for internal involvements in non-compliance*

Literature shows there are several tools that companies can apply in their programs to prevent internal involvement in non-compliance.

> *3 H1: Compliance programs in place are sufficient to make preventive measures for indirect involvements in external non-compliance.*

Literature shows that preventing indirect external involvements in non-compliance are difficult and suggest either limited involvement with third parties or none at all. There are many suggestions to improve but there are few findings of tools that work sufficiently and use of success fees lead to more risk exposure. Some literature actually points out that corporate preventive measures, are not enough in itself and instead requires collective action.

3.3 Responding to misconducts

The final two steps from the DOJ Fraud Section best practice guide applies especially for risk mitigation strategies for how to respond to non-compliance[16]; continuous improvement, periodic testing and review, the type and frequency of internal audits, while showing that the compliance program is regularly evaluated to identify issues and weaknesses; Compliance policies and procedures, focusing on the ability to identify employee(s) responsible for the integration of compliance policies, in addition to revealing other links in the company or third parties consulted during this process.

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[16] Jezierski et.al (2017)

Both the Serious Fraud Office (SFO) and the Department of Justice (DoJ) have recently re-emphasized the position of self-reporting as a key to reaching resolution through deferred prosecution. DPAs in the US have shown leniency in cases where corporates have brought matters to the US Department of Justice rather than the other way around. This provides companies with incentives to how they choose to respond when identifying issues of serious misconduct.

The impression that management investigates and takes action is a key deterrent for non-compliant behaviour. Demetriades (2017) argues that the reality is unfortunately that many companies simply are not aware of issues until it is too late: a whistle-blower, a leak or a letter from the regulator after the misconduct. Again, one can only investigate what they know, so it is imperative that investigations follow from findings identified through internal audit, monitoring and whistle-blowing hotlines. Understanding cultural nuances towards whistle-blowing, making sure they are properly translated and readily available in a practical format for the local environment, are some of the factors needed to be considered when assessing how effective your whistle-blower hotline will be (OECD, 2016).

Weber and Wasieleski (2013) finds from their analysis that compliance programs remain vulnerable to sufficient resource allocation by the organization, to be fully effective. Control risks (2017) address that the key question is how to make the best possible use of available resources. In the current climate of over-stretched and under-resourced compliance teams, robust monitoring and review across mass geographical footprints seems costly and disruptive. Demetriades (2017) argues that to avoid this, new technologies in data analytics can be implemented throughout the compliance lifecycle: enriching risk assessment, strengthening management information and focussing monitoring activities**.** He also claims that efficient and targeted data collation can especially support under-resourced compliance teams, both in the risk assessment and monitoring elements of their programmes. Further, current visualisation tools can also translate data into powerful management information regarding key risk metrics and local business activity to investigate after possible illicit activities are discovered, according to Sampath (2017).

OECD (2018) argue that disciplinary procedures should include an internal investigation, including the suspected misconduct, the origin of the report, the relevant documents, recommended sanctions and remedial actions. Keeping track of the internal investigation can be of great importance to make the process easier. OECD also argue that disciplinary measures should be proportionate with the level and intention of the offense. Available sanctions include oral warning, written warning, temporary suspension, indefinite suspension, revocation, fine, and termination. OECD also recommends that companies could opt for a public disclosure of the enforcement of its policy, which is central for one of our findings that we will discuss later (OECD, 2018).

Control risks (2017) argues that all the detection measures listed above should be a part of a compliance officer's repertoire. However, it is important to be smart in applying them: The officer need to justify the ethical importance of reporting and ensure that colleagues understand, respect and accept the importance of this measure. If employees do not trust the confidentiality, or set loyalty first, the whistle-blowing lines will be of little benefit. A good programme must also evaluate if monitoring must relate to the risk assessment, by addressing the most relevant issues. A good monitoring system also enables the assessment of the whole compliance programme: as monitoring uncover weaknesses in the programme, the programme can be strengthened accordingly.

Carey and Marrazzo (2018) suggest collaborating with internal audits in identifying the role of third parties, in addition to monitor identified characteristics and address these throughout the company.

We thereby find literature describing what kind of actions that can be taken after misconducts have occurred. There are international recommendations for what makes strong compliance teams, and how to make processes cost-efficient. Based on the latter section we have little literature regarding responding to third parties, and thus must assume that internal audit should be sufficient if applied. We introduce the following alternative hypotheses:

> *4 H1: The response plan does not have consistent incentives for proper ethical behaviour and disciplinary measures for non-compliance for internal activities.*

Literature find several tools to incentivize ethical behaviour and discipline non-compliance for internal activities.

> *5 H1: The response plan does not have consistent incentives for proper ethical behaviour and disciplinary measures for non-compliance for external activities.*

Literature also find that suggested response plan tools are available to incentivize ethical behaviour and discipline non-compliance for external activities. Tools for self-reporting and monitoring are significant, and public disclosure is an international recommendation.

3.4 Empirical studies on business climate risks

In the following sections, we discuss what we consider the most significant risks in the Nigerian business climate. Charles Duross explains it in the following matter: “assessment of country risk is fundamental to developing an effective compliance program and risk-based due diligence procedures” (*TRACE*, 2019).

3.1.2 Resource curse

The resource curse is a complex set of political, economic and social factors whereby countries richly endowed with natural resources experience low economic growth and significant welfare inequalities. Governments in resource-rich development countries experience increased opportunities as a result of an increase of MNC´s in their countries. In the same way it leads to challenges for the resident MNC´s. Al-Kasim (2008), suggests that an explanation for weak sector performance could be the lack of sufficient human resources and professional competence to regulate such a complex industry.

Kolstad and Søreide (2009), concludes that based on available evidence on natural resources and corruption, explored for implications for resource-rich developing countries, in the form of rent-seeking and patronage is at the core of the resource curse phenomenon.

Bjorvatn and Søreide (2014) argues that involved investors could be willing to accept and offer bribes to access resources abroad even though they may be disadvantaged because of technology. Bjorvatn and Søreide also disclose that when investors are involved in competition it does not necessarily lead to an increase in bribes and decrease in taxes relative to the situation with two honest investors. The study illuminates some of the mechanisms underlying the resource curse, like the connection between natural resources and economic development, which mainly applies for countries with weak institutions.

Illegal acts in resource related foreign direct investments, may have a negative impact also on the institutional development of a country, with damaging impacts on its long-term growth potential. This will be discussed further as we explore the literature of foreign direct investments.

3.1.3 Determinants FDI

Foreign direct investments (FDI) is mostly defined as capital flows resulting from the behaviour of MNC's (Agiomirgianakis, Asteriou and Papathoma, 2003). International oil companies FDI is predominantly resource-seeking. Buckley (2008) highlights especially Dunning's (1977) sector specific motives such as high fixed and sunk costs, the large presence of state owned firms with strategic motives, and the lumpiness of investments, which may have implications for the effect of host country corruption. According to Kolstad and Wiig (2010) investors may prefer a situation of extensive patronage that keeps the ruling political elite in power, to a situation where the rents from resource exploitation would also have to be shared with the host country population.

Existing empirical studies have considered different combinations of political factors, business facilitation and economic factors with mixed results both for the importance of these variables and also in terms of the direction of the affect. In Demirhan and Masca (2008) political risk, infrastructure, tax, openness and market size are variables being discussed.

According to Overseas development institute (1997) where the host country owns rich natural resources, no further incentive may be required, as it is seen in politically unstable countries, Nigeria and Angola, where high returns in the extractive industries seem to compensate for political instability. Infrastructure covers many dimensions ranging from roads, ports, railways and telecommunication system to institutional development (Demirhan and Masca, 2008). According to Jordaan (2004), good quality and well-developed infrastructure increases the productivity potential of investments in a country and therefore stimulates FDI flows towards the country.

The literature remains fairly indecisive regarding whether FDI may be sensitive to tax incentives. Grubert and Mutti (1991) and Kemsley (1998) find that host country corporate income taxes have a significant negative effect on attracting FDI flows. However, Root and

Ahmed (1979) and Porcano and Price (1996), conclude that taxes do not have a significant effect on FDI. While Wei (2000) argues that corruption works as a tax on international investors, increasing the costs of doing business and hence reducing incentives to invest in more corrupt countries.

Demirhan and Masca (2008) conclude that the willingness of a country to accept foreign investment affects FDI positively, low inflation rates have been effective in attracting FDI to developing countries, while low wage and risk has not been determinant factors.

Iyoha (2001) finds that market size attracts FDI to Nigeria whereas inflation discourages it. While Dinda (2016) suggest that the endowment of natural resources, trade intensity, macroeconomic risk factors such as inflation and exchange rates are significant determinants of FDI flow to Nigeria.

Ali et.al (2010) finds that resources, taxes and infrastructure are the key determinants of FDI in the primary sector. According to Kolstad and Wiig (2013), extractive industry investors prefer host countries to have substantial corruption, as it permits them to capture more of the resource rents. Multiple equilibria corruption theories says that large changes in corruption may indicate that a host country is headed for a different corruption equilibrium, which a corporation would incur large costs in learning how to navigate. A large increase in corruption may signal to investors that a government is less able to commit to not exploiting their bargaining position after investments are made according to Andvig and Moene (1990).

3.1.4 Risks in the taxation system

There are still mixed evidence to whether corporate taxes are among the most important indicators of foreign direct investments. Hunady and Orviska (2014) suggest a negative but statistically insignificant impact of effective and statutory corporate tax rates on FDI. There is also an understanding between businesspeople to give gifts when encountering tax administration according to the report. In another part of the report, there are several companies stating that they have negotiated their own taxation level, through personal contacts or bribing officials. According to the report, Nigeria also struggles with a significant time delay in number of hours spent on paying taxes; nearly three times higher than the regional average. Ajaz and Ahmad (2010) results show that corruption has an adverse effect on tax collection, while good governance contributes to better performance in tax collection. It is further observed that institutional variables have a significant effect on tax revenues.

3.1.5 Political risks

The National Judicial Council on federal level collects and then divides the judicial budget. As a consequence, the judicial system is more isolated from the manipulating executives using budget control (Gboyega et.al, 2007). These positive signals must be considered in the light of obstacles and weak institutions.

The revenue system is highly centralized. Ross (2001) argue that in a resource rich and dependent country revenue control could become the core source of political power- a challenge Nigeria has in common with several other petroleum-rich developing countries. This sort of centralization of power of the oil regulation, lead to different sets of risks for a company to consider when entering the market, especially for political corruption. Leaders could delay licences of drilling, demand higher taxes on oil revenues or use higher customs. All of these factors enable the society to demand bribes from the company to make the situation easier on themselves.

As political power increasingly became dependent on allocations of petroleum revenues and decisions in petroleum regulation, the social contract between politicians and the electorate became less critical for political control. As a consequence, the electorate´s perception of political accountability faded. Tamir (2019) find that only 39% of Nigerians are satisfied with the way democracy is working in their country, while 60% say they are not satisfied. Even though these are bad numbers, it is an improvement from 2017, under Goodluck Jonathan, when 72 % were dissatisfied. A majority of the society believe that no matter election outcome, the situation will not change and still describe a bad economy despite an improvement since the recession in 2016 (Tamir, 2019). Mshelia and Anchor (2019) identify that firms are prepared to invest in Nigeria, despite of high political risk, due to its economic and financial attractiveness.

3.1.6 NNPC and conflicts of interest

Gillies et.al (2015) find that management of NNPC's oil sales has worsened in recent years—and particularly since 2010. The largest problems stem from the practices the corporation has introduced to work around its deeper structural problems. They argue that NNPC's approach to oil sales suffers from high corruption risks and fails to maximize returns for the nation.

Gillies et.al also reveal that NNPC began unilaterally spending billions of dollars in crude oil revenues each year, rather than transferring them to the treasury, because NNPC's actual budget process fails to cover operating expenses. Mismanagement of NNPC oil sales also raises commercial, reputational and legal risk for actors worldwide: the sales involve some of the world's largest commodity trading houses, are financed by top banks, and result in the delivery of crude to countries across the globe.

The strategy of foreign oil companies, and of a domestic government does not always coincide. Long-term perspectives on the development of domestic institutions, depends on local content, and moderate rates of oil development may be critically important to reduce corruption risks and ensure welfare-enhancing production. Al-Kasim et.al (2008) however, argue that this view contradicts the profit-optimizing for many oil companies. The reason is that quick exploitation and openness towards foreign operators is more consistent with their interests. Slower exploitation rates on the other hand, tends to be negative to the development of oil prices. Thereby they are seldom in the interests of oil importers.

3.1.7 Licenses, risk in awarding and operating them

In the oil sector, licenses usually entail the right to conduct exploration, development, production and transportation operations over a defined area for specified periods, conditions and requirements outlined in legislation and/or the specific contract. Among the aspects of licence agreements particularly exposed to corruption are the selected areas of: exploitation, the cost recovery basis, the licensees' share of the profits, the length of operation, rate of production, environmental concerns, end phase commitments, and reporting and control commitments according to Al-Kasim et.al (2008). Al-Kasim et.al also argue that when illegal acts in awarding licenses occurs, it is usually either as; a *direct but secret violation* of procedures by, i.e. providing confidential information to one of the bidders about bids or selection criteria in exchange for bribes; or it may occur as a *misuse of rules that allow for legitimate deviations* from set procedures. This may involve, for example, awarding contracts on the basis of direct negotiations with one of the bidders, by falsely referring to extraordinary circumstances.

When it comes to operation of the license, bureaucracies are responsible for monitoring and enforcement of the oil production's basic regulation and contracts. In that case, bribery can happen by attempting to hurt effort of monitoring, or avoidance of sanctioning in the case of prosecution. According to Al-Kasim et.al (2008), the main corruption risks associated with the operating phase of oil production, however, are connected to the approval and monitoring of field development plans. Hiring third parties have been the traditional approach to handle the risks mentioned.

3.1.8 Operational risks

There is a lack of significant estimates regarding grand corruption in the oil sector. This is a consequence of highly confidential contracts, not open to public investigation. This is still the case, despite various pro- transparency initiatives, such as the Extractive Industries Transparency Initiative (EITI). In addition Al-Kasim et.al (2008) argue that contracts are quite financially and technically specific, which requires a deeper understanding to identify irregularities. Sometimes they even are embedded within larger geopolitical dynamics that involve a diplomatic *quid pro quo*, where fair competition for operation is not necessarily expected.

In 2015 Shell had to take responsibility for 2008 oil spills, leading to thousands of barrels spilled in creeks in the area of Bodo. This resulted in settlement agreements where Shell paid 55 million pounds to the villages for all the damage (Bousso, 2018). Reports reveals that from 2009 to 2011, Nigeria lost about 10,9 billion dollars in potential oil revenues as a consequence of oil thefts. The development of Nigerian oil production the last few years, show movement from onshore drilling to offshore. The development of Total SA´s production, storing and offloading vessel, Egina, is the first offshore field to start their production since 2012. As a consequence of the recent elections in Nigeria, the term from the petroleum fiscal bill, will continue to incentivize offshore production, which can be both positive and negative for the country itself, according to Bala-Gbogbo (2018).

3.1.9 Fiscal risks

Gboyega et.al (2007), argue that the function of a comprehensive reform in the oil sector proposed by the state, probably depend on following mechanisms; how accessing the oil revenues may affecting politics and core democratic functions; how political elites have gained access to oil wealth through politics; how other groups have gained access to the oil wealth; how reactions from those without access to oil wealth, have been held largely ineffective. Even though the fiscal regime of Nigeria, is favoured compared to other oil-producing countries, they struggle with overlaps, contradictions, inconsistencies and lack of coordination between the greatest revenue collecting institutions according to Gboyega et.al (2007).

Capital budget implementation performance went from 88% to 44% from 2005 to 2008. Reasons for the decrease in performance includes lack of familiarity and knowledge of preserved law and regulation; delays from ministers and regulators during the procurement process; delays in payment processes; delays, lack of approvals and other challenges regarding documentation papers; and delays in processing memos to council, according to Obadan (2010). Low efficiency and insufficient capacity in bureaucracy is major cause of the financial risks in Nigeria, as they have poor economic performances and cannot manage to maximize the potential benefits in the oil sector.

Trade of lighter crude to Europe have normally been supplied by Norway and the UK, due to a more competitive proximity. In times when these players have done maintenance or other delaying work, Nigeria experience a boom in European demand. Future exports have also proven to depend on the country´s corruption level according to Sotunde (2016). Charoensukmongkol and Sexton (2011), conducted a study on corruption´s influence on trade in Latin America and the Caribbean; they found that local corruption impose a negative effect on various areas of economic activity. Especially it proves to be a critical factor influencing export in the region. Goel and Korhonen (2009) also found the correlation where fuel exports depend on the corruption level, for most-corrupt countries. As fuel prices depend on oil price, this indicates a two-way correlation between the two factors, even though the findings are not significant.

3.5 Measures taken by the civil society

The civil society in Nigeria works actively through several strategies. They influence the prioritization of issues on the public agenda, by i.e. to keep transparency and accountability issues related to the petroleum industry on legislator's agenda. Another approach applied, is to consult government officials on initiatives that will benefit citizens. This is done by the Right2Know partners with federal agencies to install freedom of information portals on government websites to ease the process for public information requests and increase transparency. BudgIT uses technology to educate citizens on matters of public spending and empower them to use government budget data to demand improved service delivery, and thereby identify fiscal irregularities and the mismanagement of funds. The African Centre for Media and Information Literacy launched a project allowing people to anonymously report corruption. A last example is to be using the law to advance issues of human rights and equality or raise issues of broad concern. The Serap does this by filing lawsuit against Nigeria's Minister of Power, Works, and Housing over privatization of electric power company Itodo (2018).

3.6 Summary of literature

Literature find a sufficient amount of information to predict different risks in a business climate. This aligns with what Hjelmeng and Søreide (2016) concludes. We hypothesize that it thereby is possible for companies to identify risks before entry and during operations, as well as evaluating employee risk attitude to more specifically predict who are more exposed to involvement than others

There is also evidence of preventive measures in the literature, that can apply to identified risks and we will emphasize these more in the analysis. When it comes to preventive measures for indirect involvement in illicit activities by external actors, there are little research conducted and this seems like a more challenging area. As a result of success fees applied in contracts, we therefore believe that it is not possible to mitigate risks of external involvements to a sufficient degree. At last we emphasize response plans of companies. Literature describe especially the importance of self-reporting and public disclosure as tools for how a response plan can be performed and company policies describing employees' responsibility. We hypothesize that there exist clear response plans to both mitigate internal and external illicit activities.

4. Analysis

4.1 Introduction

In this chapter, we focus on processing and analysing the data sample from our study. In the first section follows a description of our case, which we already have validated for. Then follows a presentation of applied cross-country data, processed and formulated based on our research issues, before we include data from our interviews, in chapter 5.

4.1.1 Description of case

Our study analyse the assessment of risk for companies in the oil sector in Nigeria. The sampled data is evaluated in the light of present best practice as presented in the previous chapter. The analysis includes cross-country data from other countries in the Sub-Saharan region, to evaluate how the situation in Nigeria is compared to others.

4.2 Trace bribery risk matrix 2018

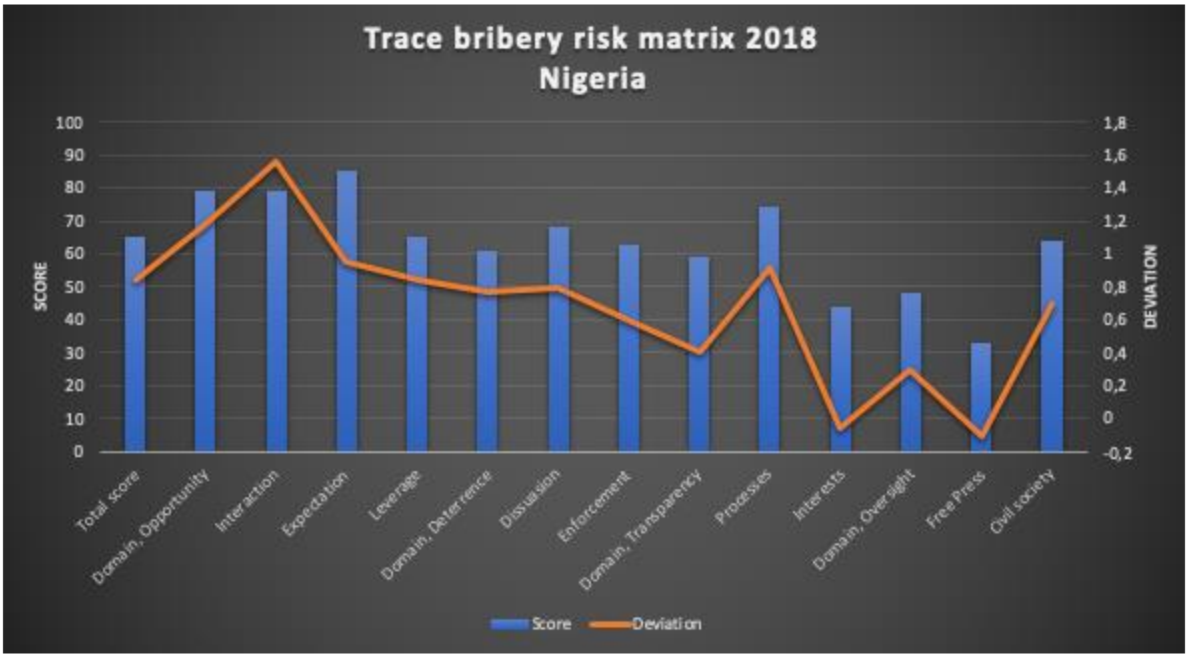

Figure 4: Trace 2018 bribery risk matrix, Nigeria[17]

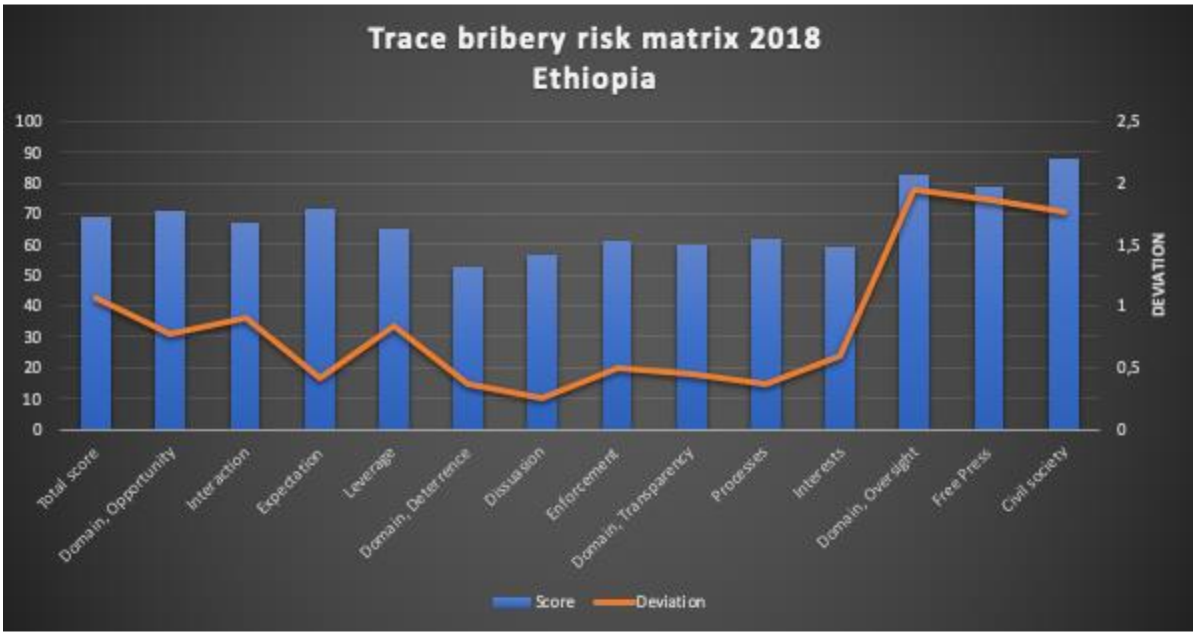

Figure 5: Trace 2018 bribery risk matrix, Ethiopia[18]

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[17] Trace 2018 Bribery risk matrix, Nigeria. World rank 161/200, continental rank 34/54

First, we compare the Nigerian and Ethiopian matrix. When it comes to the domain of opportunity with the government, Ethiopia has lower scores in total and in each subdomain. Businesses interact with the government less frequently, which means less time spent in having licenses approved, and fewer interactions from results of the regulations. Second, businesses do not expect there is a need to pay bribes as often to avoid time delays or to get approvals. We will look more into this when we look at a business survey in Nigeria in a later section. The domain of deterring bribery, through social attitudes and enforcements, also seem to work better in Ethiopia, for both subdomains. Ethiopia manage thereby to illuminate that they discourage bribery and what consequences that would apply due to a misconduct, more effectively than Nigeria. Still, both countries have positive deviations, which means that there is a higher risk of bribery involved than on the global average.

Ethiopia has less risk involved when it comes to the domain of transparency of government budgets, but the quality and transparency of the underlying financial interests are worse. As we will see later, Nigeria has improved regulations regarding transparency of budgets. However, the domain of transparency, may not capture how consistent the compliance of the regulations is. The largest difference between the two countries lies in the domain of oversight. While there is on average a lower risk in Nigeria considering the critical role of media, there is more risk in Ethiopia. When it comes to the subdomain of the civil society's' capacity of engagement, both are more exposed to risk according to deviation, but Nigeria has an extensively lower exposure.

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[18] TRACE 2018 Bribery Risk Matrix, Ethiopia. World rank 174/200, continental rank 39/54

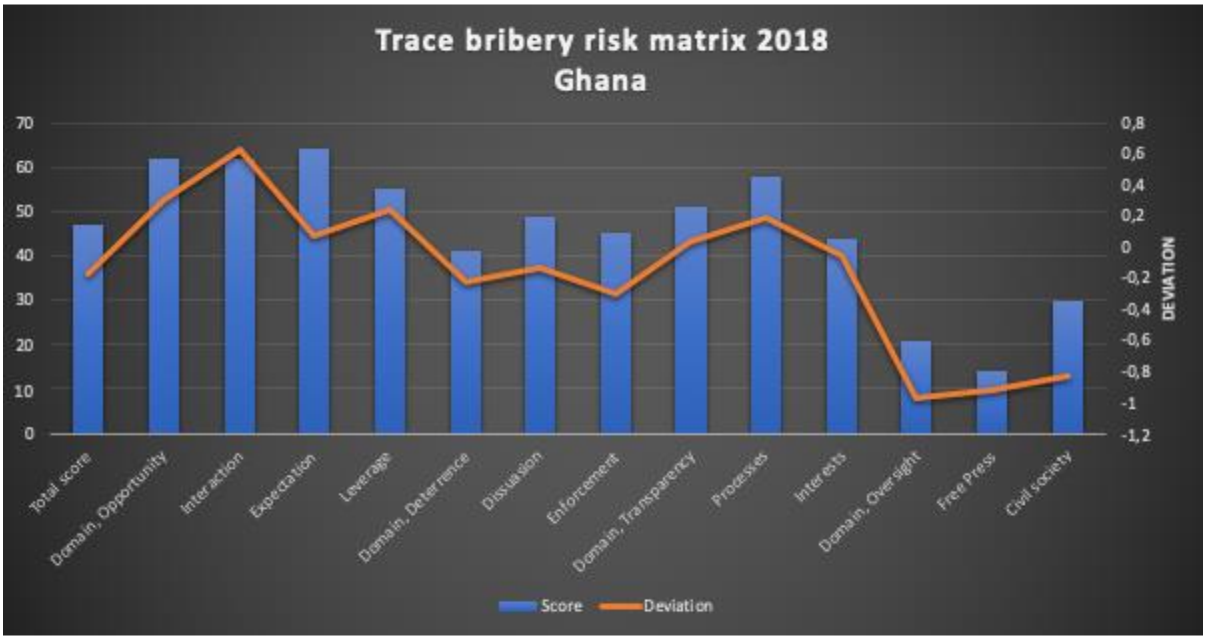

Figure 6: Trace 2018 bribery risk matrix, Ghana[19]

Nigeria scores worse than Ghana. The domain of opportunity is more exposed to risk in both Ghana and Nigeria, with positive deviations, but with an extensive difference in size. This applies for every subdomain. Ghana manage to have a less exposure to risk, when it comes to the domain of deterrence, while Nigeria are more exposed, as seen in a respectively negative and positive deviation. It seems like both address the subdomain conflicts of interest for civil servants, in an equally good way, leading to negative deviations and less exposure to risk in that subdomain. However, Ghana has a lower total score of transparency due to more perceived availability of government budgets. The largest difference between the two countries lies in the domain of oversight. Both are less exposed to risk in the subdomain of free press, but only Ghana have a negative deviation for the total domain.

Nigeria have an extent of press freedom, better than the global on average. This is a channel companies can focus on addressing in their compliance work, while government interaction should be avoided.

[19] TRACE 2018 Bribery Risk Matrix, Ghana. World rank 72/200, continental rank 7/54

4.3 Open budget index

The Open Budget Index is the world's only independent, comparative measure of central government budget transparency. The Index assigns countries covered by the Open Budget Survey a transparency score on a 100-point scale using a subset of questions that assess the amount and timeliness of budget information. Governments make this information publicly available through eight key budget documents in accordance with international good practice standards. A country score above 60 on the Open Budget Index is considered as providing sufficient budget information to enable the public to engage in budget discussions in an informed manner. (International budget partnership, 2017)

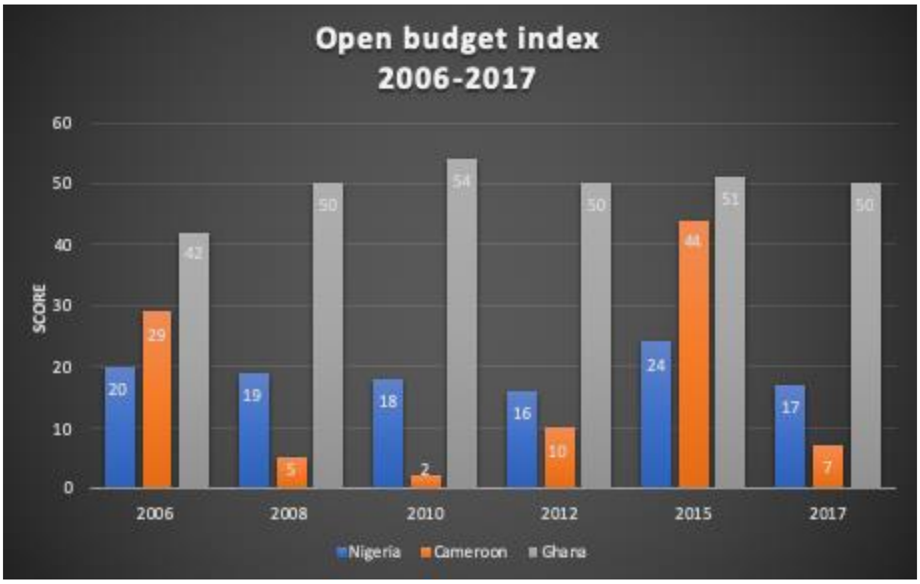

Figure 7: Comparison of budget transparency in Nigeria, Cameroon and Ghana

Figure 7 compare the OBI score for Nigeria, Cameroon and Ghana. Cameroon is provided as a comparable country in the region, as Ethiopia is not included in the survey. It is also worth noticing that while Nigeria and Ghana have very low variations in the index during the timeline, Cameroon 's scores are relatively volatile. Ghana score high over time during the period, while Nigeria have average low scores over time.

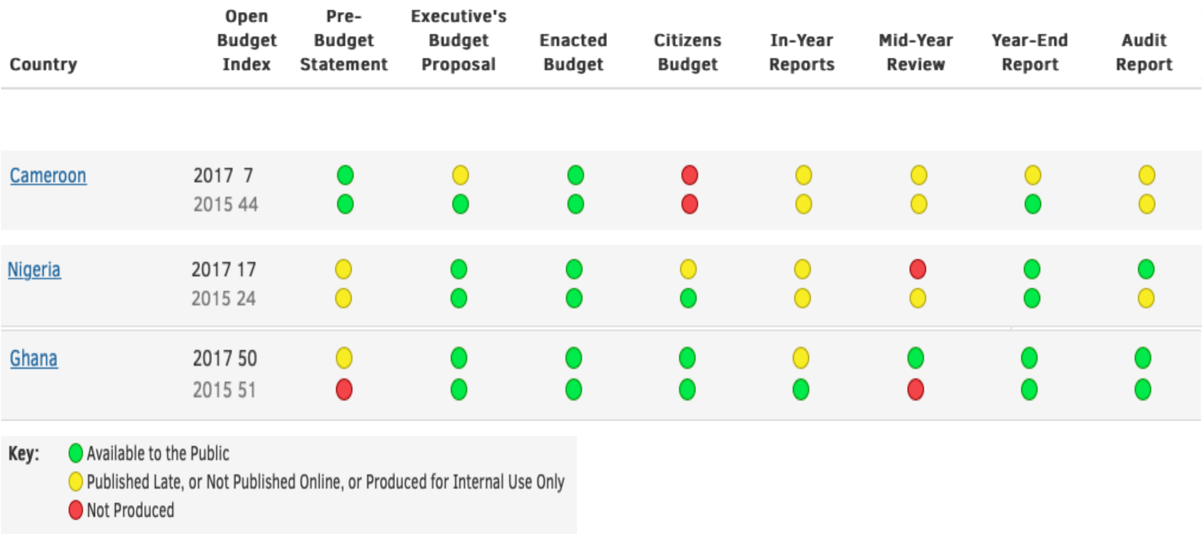

Figure 8: Public availability of documents in Cameroon, Nigeria and Ghana[20]

Figure 8 compare the three countries in subdomains of public availability of budget documents, in 2015 and 2017 and explains finding from Figure 7. The index shows that Nigeria provides pre-budget statements, citizens budgets and in-year reports too late, not online or only for internal use. They do not provide mid-year reviews. Compared to Cameroon, Nigeria seem to perform better as a result of their budget proposal, citizens budget, year-end reports and audit reports. The OPI index showed that Cameroon have a volatile score, the decrease from 2015 and 2017 is confirmed by figure 8; where the executives budget proposals and year-end reports went from publicly available to limited publishing. As Nigeria experienced negative changes in both citizen budget and mid-year review, it seems like improving audit reports have been weighted in total score. Cameroon provide pre-budget statements in a more proper manoeuvre than both Ghana and Nigeria. Ghana provides in 2017 all relevant documents, and only pre-budget statements and in-year reports have lacks.

Even though government have committed to improve transparency in several fiscal areas, companies operating in Nigeria need to be aware of the importance of recording and disclose in-year updates with relevant transactions especially including governmental exploration contracts. By doing this they increase transparency that lacks from the non-existing governmental mid-year reviews.

[20] Data from: (International Budget partnership, 2017)

4.4 Enterprise surveys

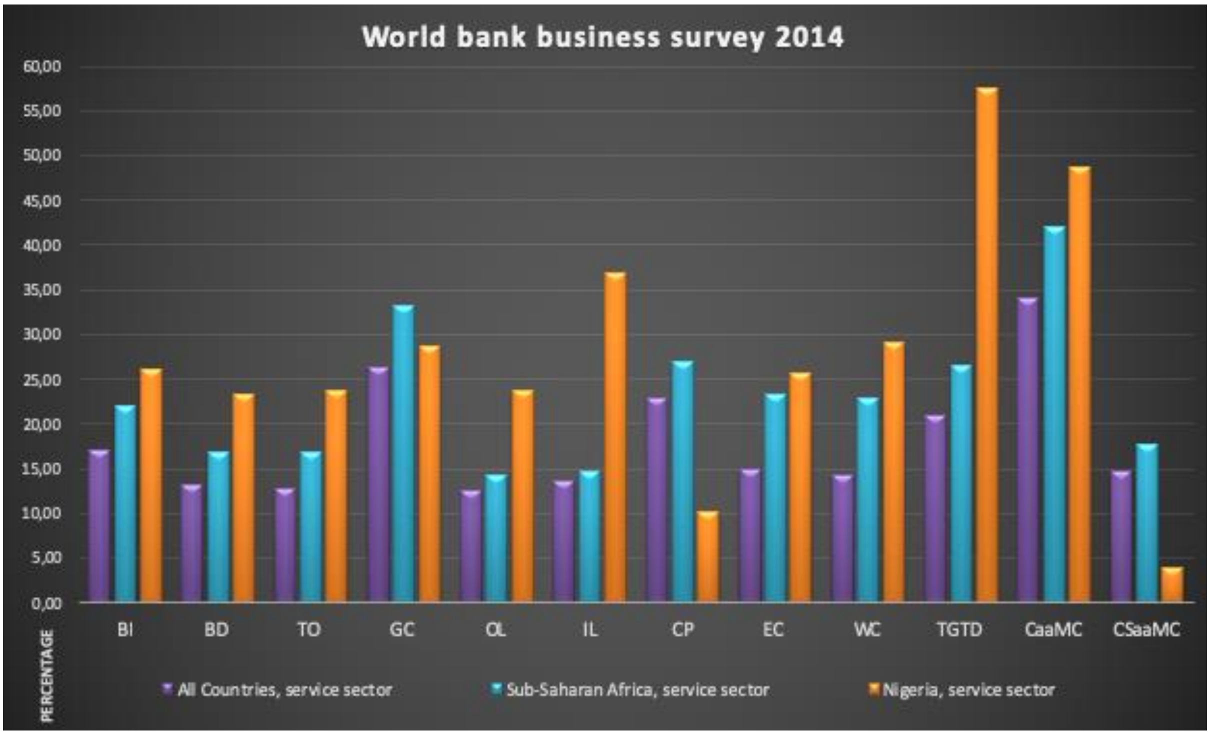

Figure 9: World bank business survey 2014[21]

The enterprise survey in figure 9 show that the companies operating in the Nigerian service sector perceive a higher risk for exposure to bribery, than regional and global averages. Business managers in Nigeria perceive themselves as less exposed to risks than the global average when it comes to giving gifts for construction permits and when it comes to the court system as a major constraint. In addition, they are also less exposed than the regional average when acquiring government contracts. Firms perceive that the worst problems in Nigeria, is involvements to get import licenses and “to get things done”. One out of two businesses in

[21] Data from: (The World Bank, 2015). Explanation: Bribery incidence (percent of firms experiencing at least one bribe payment request): BI, Bribery depth (percent of public transactions where a gift or informal payment was requested): BD, Percent of firms expected to give gifts in meetings with tax officials: TO, Percent of firms expected to give gifts to secure government contract: GC, Percent of firms expected to give gifts to get an operating license: OL, Percent of firms expected to give gifts to get an import license: IL, Percent of firms expected to give gifts to get a construction permit: CP, Percent of firms expected to give gifts to get an electrical connection: EC, Percent of firms expected to give gifts to get a water connection: WC, Percent of firms expected to give gifts to public officials "to get things done": TGTD, Percent of firms identifying corruption as a major constraint: CaaMC, Percent of firms identifying the courts system as a major constraint: CSaaMC

this index consider corruption a major constraint. In general corruption is considered a problem in Nigeria in a larger degree than both regionally and globally.

4.4.1 Citing major obstacles in the investment climate

In this section we evaluate what firms report as the most significant challenges in the Nigerian business climate.

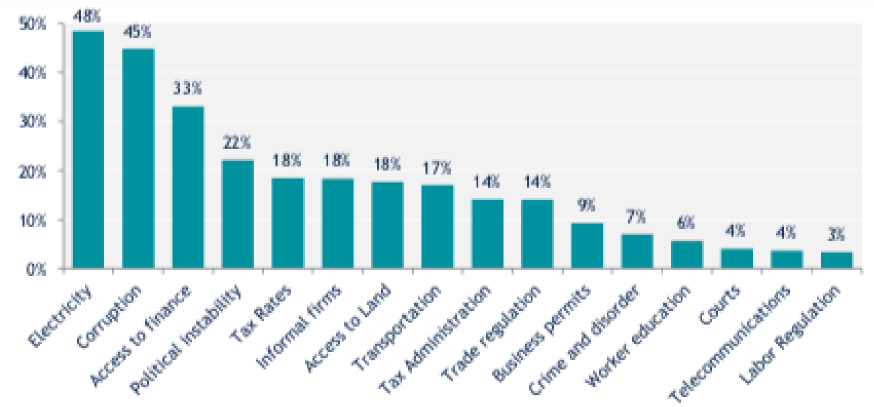

Figure 10: Enterprise survey citing major obstacles in the Nigerian business climate[22]

Figure 10 shows that approximately 45 percent of Nigerian firms report corruption as their most serious obstacle. Corruption appears to be a problem across most of the country and is almost comparable to the electricity grid which have been a major challenge for decades.

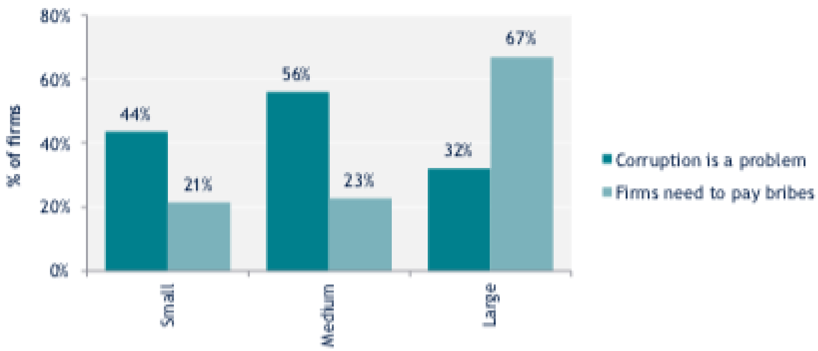

Figure 11: Enterprise survey, perception of corruption based on company size[23]

[22] (World Bank, 2016)

[23] (World Bank, 2016)

Although large firms are less concerned with corruption (Figure 11), this does not appear to be because they are less likely to pay bribes. More than two-thirds of the same managers reported that bribes are needed to get things done, compared to only 21 percent of managers of small firms. This appears, in part, to be because large firms are more likely than small firms to interact with regulators.

Only one out of three larger companies does not consider corruption as large a problem as the smaller ones. The explanation of this could be that the large companies look at corruption as mostly petty corruption and as a part of the operations. This coincides with the fact that the majority of the large companies, see the need to pay bribes. Which is in line with the previous business survey. About one out two small and medium companies consider corruption a problem, but surprisingly only about one out five find it necessary to pay bribes. A reason for this can be that these companies are locals. They realize that corruption is a problem, but they may have the local knowledge to avoid paying expected bribes. Thus, it seems like a large part of the companies at least according to the survey, do not neglect corruption as an obstacle. Previous studies have found similar results for other countries.

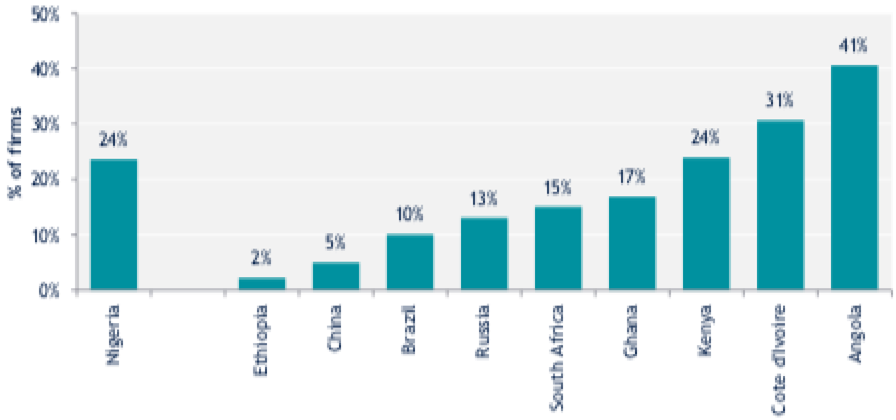

Figure 12: Perception of corruption, set of countries[24]

With the latter figure in mind, figure 12 compares the same factors for a set of countries. Figure 12 indicates the same findings as we addressed above; about 24 percent of managers said that bribes are needed to get things done in Nigeria, compared to only about 5 percent of

[24] (World Bank, 2016)

Chinese managers, 10 percent of Brazilian managers, and 15 percent of managers in South Africa. In practice, this is likely to underestimation of the extent of corruption in Nigeria and in most of the comparator countries. Although the questions on corruption are asked indirectly (industry-level questions instead of firm-level), this appears to be only partially successful. Studies have found that managers in Nigeria significantly underreport corruption even when questions are asked indirectly. This is, however, likely to affect the comparator countries as well. Nigeria has a comparable share of firms understanding the impact of corruption, as Kenya, while the Ivory Coast and Angola scores higher. Compared to Ghana and Ethiopia, managers in Nigeria perceive corruption as a larger problem.

4.5 Index of public integrity

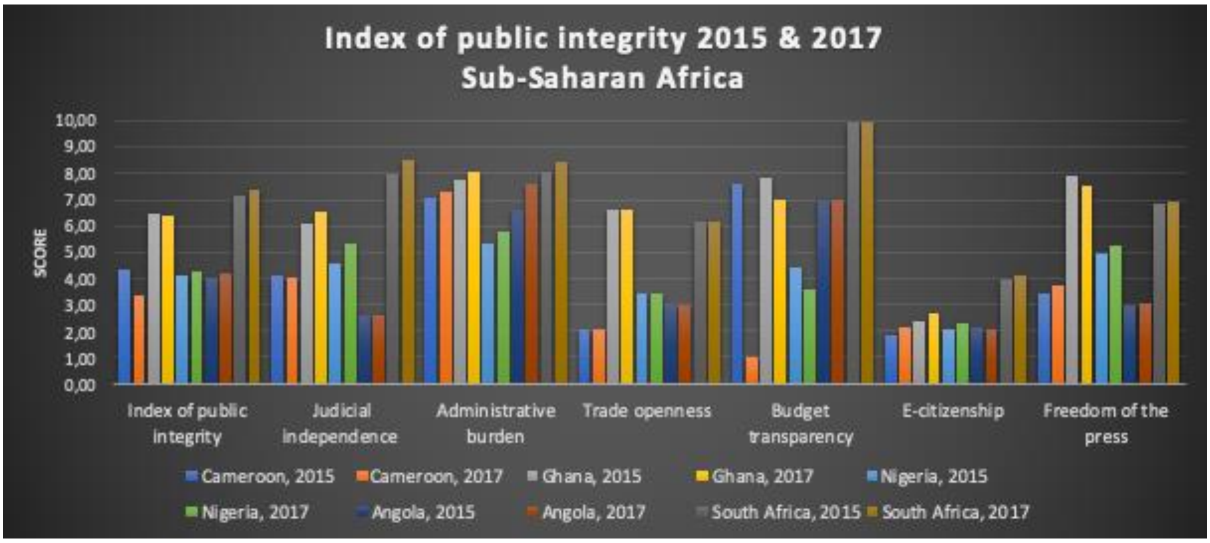

Figure 13: Index of public integrity 2015 & 2017, Sub-Saharan Africa[25]

Figure 13 contains the scores of the public integrity index of countries comparable to Nigeria, based on region and income class, for 2015 and 2017. In 2015, it was only Angola that scored less than Nigeria and in 2017 only Angola and Cameroon. Ghana score higher than Nigeria in all subdomains both in in 2015 and 2017. However, Nigeria improved their total score, and have increased the scores of almost every subdomain, except in budget transparency.

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[25] Data from: (European Research Centre for Anti-corruption and State-building, 2017)

Transparency in budget, have already been mentioned as a significant obstacle in Nigeria, through the OBI index. There has been a small improvement in Nigerian e-citizenship, but as you can see the opportunities to participate in online discussions for the society are generally quite low. It is reasonable to believe that this is mainly a consequence of the challenges they have with developing a well-functioning electricity grid. The index strongly correlates with control of corruption performed by the WGI, and corruption perception index by TI, both from 2014 (see A.3).

4.6 Resource governance indicators

In this section, we are exploring country´s resource governance indicators and thereby move especially into the extractive industry.

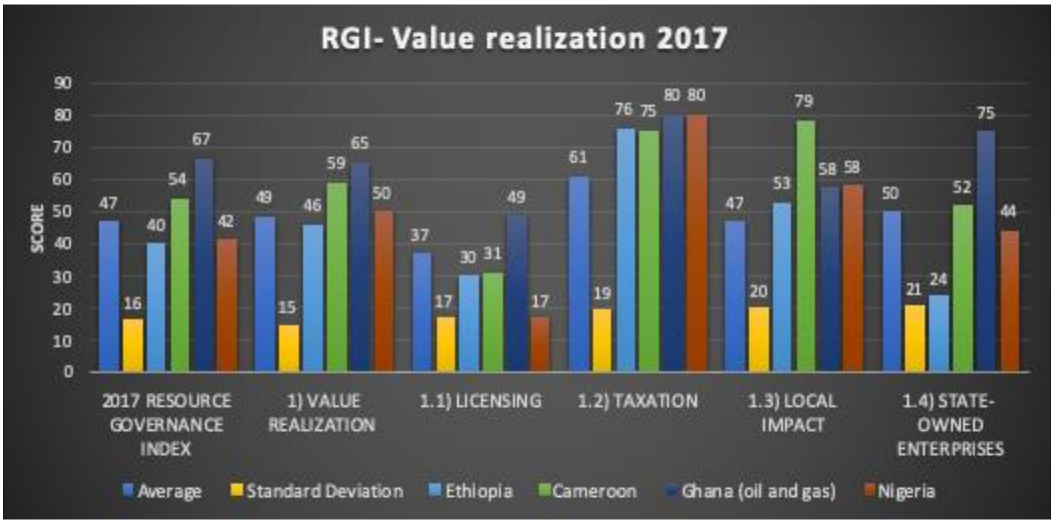

Figure 14: Resource governance indicators – value realization 2017[26]

In the value realization component, it is licensing as a subcomponent, which is the weakest link in Nigeria (Figure 14). This reflects a low level of transparency in main areas of decision making. These are areas as qualification of companies, disclosure of terms, and rule processing. The government do not disclose their financial interests in the sector and do not reveal identities of beneficial owners of companies performing extraction, in a sufficient manner. Figure 14 reveals that score of the subcomponent in Nigeria is outperformed by other countries and have a major impact of the components total score. Still, Nigeria scores

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[26] Data from: (Natural Resource Governance Institute, 2017)

high in the subcomponent of taxation. This underlines what was discussed in the section of risks in the taxation system, where we argued that there are biases in the empirical evidence of performance in the taxation system. While Nigeria have perfect rule settings for taxation and deliver satisfying up to date disclosures, the reason for the controversial findings can be explained through the underlying data; The government is not required to disclose payment type or perform neither auditing or external auditing of extractive companies nor required to make payments directly to the National Treasure or any national resource account. (Natural resource governance institute, 2017). Thereby there are quite substantial differences in what the governments disclose of information and evidence from findings among companies and civil society, show a lack of consistency between what the government say and do.

When it comes to the NNPC, as a state-owned enterprise, they have strengthened their reporting practices especially concerning financial data. Still, they interpret rules of government transactions in a quite subjective manner and practice a discrete approach in publishing information about activities, especially concerning sales of government shares. They do not disclose annual financial reports, despite top officials made a commitment for it happening. Concerning less efficient activities for the fund, as earnings by subsidiaries, shares little information and officials exercise discretion around sales of government shares.

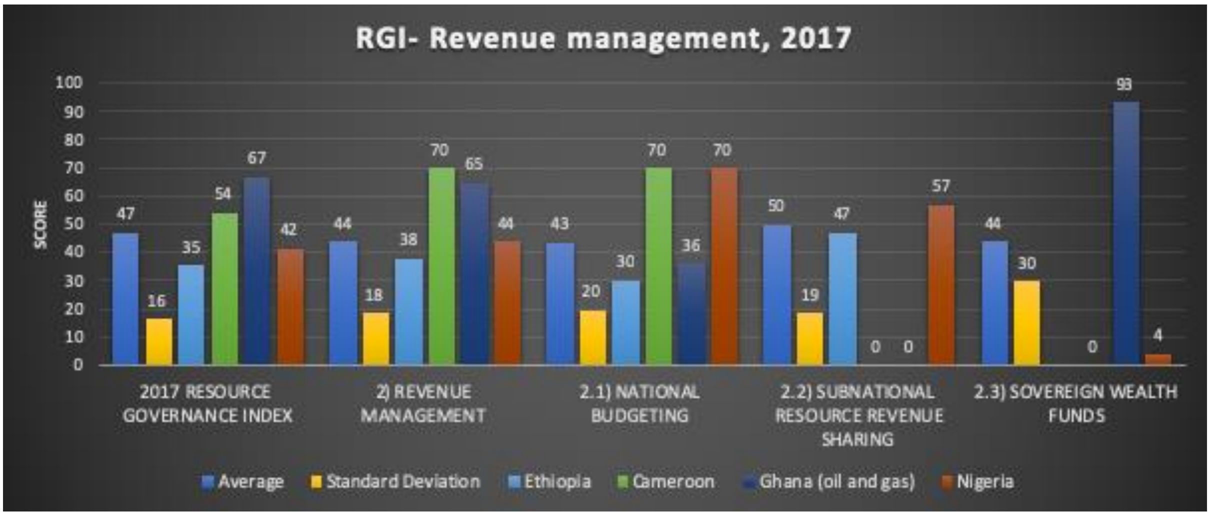

Figure 15: Resource governance indicators – revenue management 2017 [27]

[27] Data from:(Natural Resource Governance Institute, 2017)

Figure 15 reveals that on a general basis, it remains challenging to track payments in the sector. While there is a lack of data for a complete subcomponent comparison between the countries, the explanation of the components is quite straight forward. As mentioned above, the government is not obligated to make payments to national resource accounts and the data shows that revenue sharing is not performed in a sufficient manner. EITI data from 2014, reveals that just over half of public revenues goes back to the federal government and the rest is distributed to the state and local governments. In the latter case, there is a quite clear lack of accessibility to information of revenue flows to lower levels of government. This contributes to the gap between the framework and actual implementation of revenue management (Natural resource governance institute, 2017).

The sovereign wealth fund, Nigeria´s Excess Crude account, is the most poorly governed fund alongside one of the wealth funds in Qatar. It discloses almost none of the rules regarding fund transactions or investments. Nigeria have other wealth funds, more transparent than others. As the largest fund by asset balance, the ECA constitutes a vast governance concern at the end of the oil value chain.

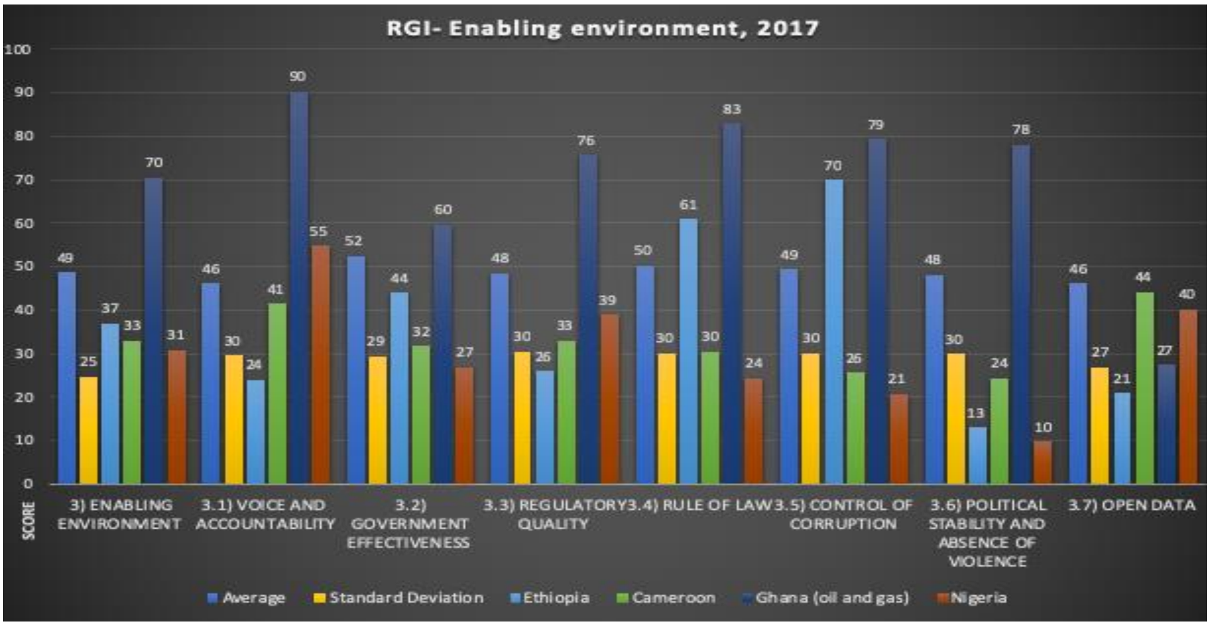

Figure 16: Resource governance indicators – enabling environment 2017[28] (not including total score RGI)

[28] Data from: (Natural Resource Governance Institute, 2017)

Nigeria do not have well-functioning practices that enable effectiveness of resource policies and governance. Especially, there is a clear lack of stability in the country. The society are aware that the government is ineffective, rule of law is not applied in a sufficient manner and control of corruption is not in place. Government effectiveness indicate that quality and implementation of services and policies are not well established in Nigeria, while the same measures for private sector development is higher. Still, the data seems to be controversial.

Unfortunately, the rule of law, implies that the society's perception of equality is that the country's rulers are above the law. The perception of control of corruption, indicate that there is a belief that public power is to a large degree executed for private gain. Together with Ethiopia, Nigeria has low perceptions in political stability and absence of violence. Nigeria scores lower than all other included countries in the region in sub-component 3.3, 3.4, 3.5. Those are the components leading to them having a lower score than the other countries in enabling environment in total. Open data indicates to be almost satisfying, which do not correlate to earlier findings. This could be because data required to be open by law, are done accordingly. Still, there are a lack of regulations requiring the government to reveal the data discussed in the sections above.

5. Empirical findings

This section present patterns found considering both the desk study and field work, performed to evaluate our hypotheses. Chapter 5.1-5.3 presents patterns for each research issue, while chapter 5.4 considers findings in the field work that were not expected based on the desk study.

5.1.1 Predicting risk in a business climate

The Trace Matrix indicates that even though the press in Nigeria stand quite freely, there is a lack of capacity and ability for the civil society to contribute with controlling and monitoring government and corruption in general. Nigeria are more exposed to risks in the subdomain of transparency of governmental regulatory functions than both Ethiopia and Ghana. This is merely because there are few regulations to transparency in government budgets and revenue management, in addition to the ability of public monitoring and controlling due to low quality in the electricity grid and thereby the e-citizenship, according to the RGI indexes.

Interaction with government are high-risk involvements and is additionally difficult to avoid and the IPI indicates that the risk is significant regarding inefficient processes and procedures.

The OBI indicates that Nigeria provide few opportunities for public engagement in budget process, limited oversight of legislatures' and supreme audits' budget and generally reprehensible budget information. The IPI subdomain; e-citizenship, shows that Nigerian citizens are to a low degree able to participate in online discussions, considering their internet access and broadband subscriptions. This also concerns the importance of free press, addressed by the TRACE Matrix, if the society do not have the possibility to follow media. This can especially make it tempting, for third parties to benefit from undisclosed transactions.

The OBI show that the only subdomain that do not seem to improve from 2015 to 2017 are publications of the executives' budget proposals. This is also confirmed by the RGI showing that there are few regulations considering the largest Nigerian wealth fund and demands to insight in revenue management of petroleum revenues. The lack of public documents regarding governmental transactions can make it difficult to gain a deeper insight of i.e. which officials representing red flags, when identifying external risks.

Considering the ability companies have to predict the risk of involvements in illegal acts in Nigeria, the indexes indicate that there is a considerable larger risk involved when considering import licences, government transactions and during inefficient procedures and processes. The indexes address the same findings as earlier literature when it comes to taxation; there are risks involving taxation, but the actual effect of corruption for companies are not clear. The indexes give companies opportunities to regulate risk assessments and address risks to compliance programs. It seems however significant that companies must strengthen how they address the zero tolerance of corruption; The World Bank business survey shows that a small part of the larger company managers consider corruption a problem, but they are still aware of the necessity to pay bribes. There could be several reasons for this, among else threats leading to the need of paying bribes. Provided that petty corruption seems to be accepted, a company can predict this segment as more exposed in Nigeria.

5.1.1 Findings from interviews

The interviews confirmed that they understood the underlying reasons for the challenges in Nigeria; there is a common opinion about a culture in Nigeria for grabbing from the rich, as resource rents belonging to the people, are being lured from them. The opinion among interview participants (from now: IP) is that governments have lacked funding to pay their shares of joint ventures with oil companies. They address that after democracy returned to Nigeria in 1999, the society have raised their demands to the government to expand governmental programs. Thus, the government needed to look for strategies to expand their revenue, which among else led to changes in contracts with oil companies, charging more for extraction. This led to reduction in profits and thus the large companies will have to move further away from marginal fields. The oil fields mainly influence the close by communities, but when government divides the rents from these fields, they earn most of the rents and divide the rest equally on all communities. IP’s claim this situation led to demanding communities, and a partial government with incentives to look away from a misconduct, if investigation could affect their revenues. This strategy for rent-seeking in new places lead to weak enforcement. RGI data partly confirms these interview statements.

IP’s also address that while insight for companies and the civil society is present, there is both a lack of requirements for publishing significant transaction documents and/or widely practiced interpretations of the necessity of what statements one is obligated to publish in the government. An associated challenge that is underlined, is online interaction. In Norway, we mostly interact with government online. As this is not possible in Nigeria, processes are time-consuming and create backlogs. Together with outdated judicial laws, this creates an inefficient system. To sum up, weak enforcement and inefficiency is seen as the underlying reasons for the corruption level.

The due diligence processes when entering a new country, are described by IP’s as quite comprehensive in the large companies. Specially to evaluate possible third parties, they have computer systems that loads all notifications and red flags when searching for a company. IP’s address that these systems will be well functioning in developed countries, but for developing countries they can lack sufficient data to be reliable at this point. Still computer system- procedures and demands are described as “strong” in developing regions as well. One interview participant also acknowledged that red flags will appear if third parties:

> *have a connection to dignitaries or if they are paid success fees that would lead to personal gain.*

-As we argued earlier, as a potential risk. In the same context a participant underlined that in the oil sector, companies often go into joint ventures. In these ventures the participant addressed that risks are higher when their own companies are not the operator, and they need to be sure that procedures and policies in the joint ventures are appropriate. Even though they do not address difficulties when cooperating with governments directly, they generally want to be in control during operations.

According to interviews, companies also perform integrity due diligence which are specific evaluations of anti-corruption procedures; they apply reports as among else the CPI, where they work with high, medium and low risk (above 70, between 70 and 50 and below 50). This procedure is done by both internal controllers and external agents.

When it comes to the country due diligence, IP's describe the process as more "*sophisticated*"; The large companies engage employees to deep dive into finances, regulatory frameworks to illuminate weaknesses and strengths. They also hire agents to travel to Nigeria and perform interviews with relevant personalities in the business climate.
The Horton case is an example IP's relate to bad due diligence of countries; as the scope of performed assignments and compensation did not coincide. IP's state that they apply key performance indicators as an estimation tool for HSE evaluations, which also are applied to estimate risks of illegal involvements.

IP's admits that there are risks regarding their social projects in Nigeria, mainly because of a significant amount of local companies involved. Even though, CSR will be a continuous source to risk, as they are prone to manipulate i.e. costs in building projects to receive extended donations, it seems as they have tools and internal audits in place to secure consistency in contracts and procurement departments to monitor transactions. They also seem to be aware of risks involved with social projects but choose to focus on the importance their work has for their societies and that it is the right thing to do.

Non-entry or withdraw operation, does not seem to be a possible corporate strategy according to IP's. Firstly, the business opportunity is too large to avoid. In addition, they take their own obligation serious and point out their responsibility to be present in difficult countries and do what they can to improve the situation. During the interviews we also discover that companies have managed to transfer the sustainability focus on environment to their compliance work; one participant describe that the largest change that have happened in this field the last 10-20 years, is that the society do not only have an opinion after illegal activities are discovered. Today the society will also turn against the company if they are not seen as socially beneficial by applying all possible measures and procedures to prevent social damage.

These findings show that there are tools present to analyse in which parts of operations the risk of involvement in illicit activities, seem to be high or low, especially before entry, but also during operational activities. What is more difficult to predict is specifically when, where and with whom these risk elements would occur. Especially for MNC's with a significant number of affiliates and employees, this is information would be valuable.

However, it is problematic to achieve. First of all, it is a difficult task to predict which employees have different risk attitudes and make them more exposed to illicit activities. It would require companies to map risk attitudes both of employees and of external parties. During the interviews we did not find anything implying such measures are in place.

5.2 Prevent involvement in business climate risks

The indexes provide relevant factors to specify compliance training according to topics. By applying relevant subdomains, the indexes can also be provided as guides for employees on relevant concerns and as strategy indicators. The indexes reveal that screening and monitoring of third parties and possible red flags must mainly be performed by companies themselves, as the public lack both the possibility and capacity to be in any significant assistance.

5.2.1 Findings from interviews

As a result, of the indicated problem of petty corruption, companies address zero tolerance through both a stronger tone from the management and training according to the IP's. Zero tolerance is as mentioned a difficult policy to follow through. The IP's address that companies test, control and review their compliance program frequently to deter both employees and third parties from any misconduct. Deterrence is done differently in Norway than in Nigeria. In Norway, they focus on the moral and how corruption have bad consequences for both share- and stakeholders and consensus in rules, according to IP's: minor misconducts have minor consequences, while substantial misconducts have substantial consequences. In Nigeria on the other hand, they apply to the disciplinary consequences for the person involved, i.e. Losing their jobs, and the impact on their families. Misconducts in general have substantial consequences. The theoretical idea behind the strategy, can be described by the Mazlow hierarchy of need; in Nigeria the society are motivated by the need of income and a job to secure the householding. In Norway employees are motivated by company performance and reputation, as basic needs are usually covered. Thereby as the Nigerian population's main motivation comes from basic needs, Norwegians are more motivated by philanthropic needs as ethical behaviour and corporate performance. Participants points out that they want consistent measures for all employees in the companies, but as deterrence strategies, the consequences must be illuminated differently for different corruption levels, which partly coincide with literature.

Regarding incentives for good compliance work, IP's are biased. They argue that awarding, lead to fewer failures. However, it also leads people to be more prone to cover up eventual misconducts. The focus is on a balance. Examples of incentivizing tools is an annual rating system of your effort and reporting incorporated in awarding systems. Another is performance evaluation before possible discussions of salary and promotions, where compliance is a significant part of evaluation. This can be effective in some locations. One participant however, actually expressed that; "*the incentive is employment."* -Thereby expressing that it is wrong to incentivise, as compliance is an expectation, which contradicts some findings from the literature.

Training is mainly done through short, concrete e-course modules. This is common and used among most companies in general. It is an effective tool to learn theoretical framework on how to fight corruption. Still e-courses are criticised of not properly training employers as i.e. Case training can do. IP's also specified the importance of applying training that are tailored for the challenges employees will face. Additionally, a participant addressed:

> *There are sometimes people taking or doing favours from or to other people, without realizing that by doing that they are attaching themselves, and sometimes favours are asked back. That is what I learned from my Nigeria time; every favour which was given to you, whether in private life or in job, there is a high risk that on some point, they will ask something back. Then you are immediately vulnerable to taking wrong decisions. What I learned from that was being extremely cautious with favours of any nature.*

Therefore, all employees independent of position, are given training before entry in what risks applying for Nigeria and how they should recognize it. An additional addressed by IP's is "face to face courses", where the companies' legal counsels, train managers that will be responsible for operations where risks of misconducts are significant. Indexes give important information to how training can be customized for risk-seeking employees and relationship managers, with higher exposure to non-compliance because of more contact with the business climate; especially focused to understand what activities that are illicit and when risks of activities are too high to involve the company. IP's also emphasize that this involves knowing where regulators have improved and where they apply stronger resources to uncover misconducts; training employees in what areas that should be significantly documented so no mistakes in operations can be interpreted as illegalities. Thus, it seems as companies apply indexes also for preventive measures.

According to the IP's the management's strategy when it comes to third parties is driving the moral of compliance work through contracts. These contracts also include terms for the third party-suppliers; they apply strict demands for suppliers and all contractors to familiarize with relevant laws and stay updated on any changes. One participant also address that terms enable them to have third party employees removed from operations if red flags are uncovered. Cultural meetings are also applied to communicate to contractors and third parties from other countries, what sort of regulations and attitudes applying when working with their company.

IP's explains that under CSR projects some companies have understood that Nigerian communities need to see that benefits of resource rents also benefits them to avoid that they exploit these projects for briberies. They do this by having projects that benefit the younger generation, as building schools and employing younger staff while giving them opportunities for education. In addition, some companies try to make agreements with local communities, that are affected by their operations, agreeing on an amount of own profits shared directly with the community.

When asked about whether significant market size affect their preventive measures, participants perceive their company as more exposed to illegal activities. Both because of a significantly higher number of transactions and higher exposure to delayed time frames among else. This coincide with the IPI survey indicating the risks of paying a bribe "to get things done". As misconducts are more difficult to discover in large companies, more resources are used to prevent any misconducts from happening. One of the IP's address that MNC's are more exposed as they do not have the flexibility to scale down, adapting for marginal fields. Thus, they are more dependent on gaining fields large enough to secure the expected profitability, to not cause consequences for the company's other affiliates. As the enterprise surveys also find that larger companies expect bribes and do not consider corruption a problem in such a degree as smaller companies. This could also lead to a higher exposure for petty corruption. Still they address that they are more robust and have stronger systems to follow procedures and protocols, that smaller companies "*only have on paper*" according to IP's. In addition, a participant believe that smaller companies will focus their budget on response to misconducts, instead of preventive measures; because if no misconduct occur, the resources can be utilized elsewhere. As there is a growth of local oil companies in Nigeria, a future challenge will be to secure that also local companies focus more of their resources to preventive measures.

Interviews revealed that there may be a stronger consensus between the MNC's in Norway for a joint collective action against illicit activities, as a moral obligation to a demanding society, as mentioned in the latter chapter. IP's also believe that this moral obligation is a result of a welfare system where the society knows that the country's resource rents will benefit them as well, which do not exist in Nigeria. This makes collective action more difficult in Nigeria.

Even though IP's address several technical preventive measures, it is still difficult to prevent any involvement in illicit activities that are results of weak internal corporate cultures. As we argued earlier there are some findings that suggest companies have an understanding of focusing resources on employees that are risk averse (suggested from literature). Still, there are no findings suggesting that companies have any measures to evaluate or affect risk attitude. The question of preventing non-compliance through organizational culture remain unanswered.

5.3 Response plan to misconducts

5.3.1 Findings from interviews

Disciplinary measures are as mentioned developed in different ways for different cultures, and in Nigeria deterrence is focused on communicating substantial consequences for all misconducts. As a tool for response to misconducts, it can lead to less transparency and willingness to share and report. At the same time, they admit that the protocol is clear;

> *Depending on where that misconduct is, if it is within the organization, it is a clear case of abuse of our corporate policy, it is an instant dismissal, but if it is an external party, we do not have that means, all we can do then is to stop any interaction with*

> *that party. Of course, first we cannot work on rumours, we have to operate on fact. If that fact tells us there has been a breach of conduct, then we will stop any dealings with that company.*

This shows that there are strict disciplinary measures for internal non-compliance with dismissal and possible police reporting. IP's address that this have happened before.

Multiple regulatory frameworks lead to a need of more transparency, which have been addressed as a challenge by indexes. Participants also address the importance of transparency;

> *I do know that transparency is certainly very important for any company, so it would be very stupid to keep information to yourself. It will probably be better to disclose it: this is our company and we are doing this project and use personal people to help us realize that. Be total transparent about it. Because if you are not, these days, there is quite likely a reason for you not being transparent.*

Thereby they confirm the importance of proactively publishing information, to avoid any unnecessary suspicions.

Market size is also considered to be biased when it comes to how they respond to non-compliance; As an MNC, reporting is more crucial as a tool to inform share- and stakeholders, than in smaller companies. IP's however mean that when smaller companies prioritize resources, they focus on response plans to misconducts before preventive measures. They believe that smaller companies by allocating resources to response plans, these are resources potentially saved if misconducts do not occur.

Response plans seem to be quite clear as a consequence of zero-tolerance policies and they seem to be aware that zero-tolerance should not be interpreted literally as it is argued to be an unrealistic approach. Internally, contracts with strict terms are an efficient measure and IP's recognize that they mostly have the intended effect. Difficulties occur as a result of organizational culture, and mainly how management handle situations. Optimally management should be evaluated on how disciplinary measures enables employees to realize how to solve interpersonal- and intrapersonal-occurring situations without applying any illicit activities. Internally IP's address that this is managed quite well. What is more surprising are findings occurring when discussing external involvements, which we will argue at the end of the next section.

5.4 Data patterns not expected from literature

A measure to identify risk, addressed by IP's is an annual letter from each of the company's land offices, describing current situations and what red flags and deviations that have occurred. This seems like a significant way to address what focus the management should have moving forward. Even though legal counsels and all managers are involved to evaluate their own departments, there is still a risk in trusting these reports blindly and not considering that there could be deviations that have not been discovered.

Interviews describe it as inevitable for companies to not hiring intermediary agents in processes with new countries. As revealed earlier, several known companies have announced their reduction of using intermediaries or forbid use to certain functions, which can be solved by increasing number of employers in own ranks. Specifically, designed contracts seem to be posing as a quite sufficient preventive tool against third parties. When it comes to the effect of provision in contracts as a tool, IP's are biased, seeing both positive and negative consequences. They recognized that it could be a useful tool to secure consistency in contracts. However, none of our participants seem to recognize provision as a tool to be applied as we expected, and actually instead addressed the risks involved with it as a tool.

Surprisingly, perspectives of incentivizing compliance are biased. When IP's however chose to address it, they explain that it is a significant part of awarding systems, as promotions and bonuses but also rating systems based on reporting.

The participants address the importance of not only deciding for legally right actions, but also ethically right actions. A participant also address that judicial evaluations is not only about considering present law, but consider that ethical norms today, can be implemented in law in the future. Thus, they support our approach of not applying the term illegal activities too often in this paper, but instead illicit activities.

IP's did not address that public disclosure for their own compliance cases is of importance, independent of whether the cases are positive or negative. An example from a participant were that if red flags leads to the decision of not entering a region or offering a contract, this red flag should be addressed so other companies can conclude with the same decision. However, the participants admit that there are strong reasons to not disclose this publicly, to avoid stepping on anyone's toes. In fact, companies seem to be less willing to report on red flags discovered, if they believe that consequences of disclosure are more substantial than keeping them covered. This also applies for information that can be of competitive value. By improving transparency, publishing corporate cases could possibly be damaging to the firm on the short-term but benefit both the business climate and the firm on long-term. As discussed earlier the society demands that sufficient effort is placed by companies to benefit the society at whole and not only their own operations. This is an element that could be implemented in law in the future. A we mentioned, an IP addressed the importance of thinking of future judicial development. We however want to point out that for companies to disclose this sort of information will require a collective action in the sector, where companies can disclose information collectively.

6. Discussion

6.1 Summary of findings

We presented five alternative hypotheses regarding how companies operating in the Nigerian business climate, perform risk management. (1) Companies do properly estimate risk for non-compliance through risk measures and thereby do not identify the most significant risks in Nigeria. (2) Compliance programs are not sufficient to make preventive measures against internal involvements in non-compliance; (3) but they are sufficient against external involvements in non-compliance. (4) Response plans do not have consistent incentives for ethical behaviour and disciplinary measures for non-compliance in neither internal activities; (5) nor external activities. We do not find empirical support for alternative hypotheses (1), (2) and (4), while we do find support for (3) and (5).

Indexes indicate the different sorts of risks in Nigeria and IP's quite consistently address the risks they confront as most crucial: Lack of regulations to publish significant fiscal documents; a public opinion about a distrustful government; an insufficient electricity grid and thus a defective internet access; private sector's lack to trust the society. Interviews revealed that indexes are being evaluated before entry and regularly under operations. It is however difficult to predict precisely with whom risks can occur, as we do not find any measures to identify employee or third party risk attitudes. However, based on findings companies enables to identify risks for non-compliance, and thereby we must accept that sufficient measures are in place. Thus, we do not find sufficient support for the alternative hypothesis 1 H1, and we therefore must reject it.

We find from participants that companies prevent internal non-compliance through ethical committees on top level, illuminate tone-at-the-top of compliance work and strengthening compliance systems through independent compliance workers and providing campaigns of their code of conduct to promote compliant behaviour. Participants address that resources of large companies seem to be significant to establish robust preventive systems. They have a strong focus on equal disciplinary measures for the entire MNC but are still aware that different cultures require different strategies for deterrence. Ip's address the importance of customized training for employees with different risk attitudes, but as mentioned we do not find any measures for how they evaluate risk attitude. However, in terms of preventive measures, they do address the importance of customized training according to risk exposure and thus we find measures that are applied sufficiently to prevent internal involvement in non-compliance. As a result of these findings, we do not find sufficient support for the alternative hypothesis 2 H1 and it therefore must be rejected.

Considering prevention of indirect non-compliance through external involvement, we find that few MNC's considers it possible to eliminate third parties from operations. However, they address that in joint ventures and CSR, they want to be the operators, as they believe this mitigates risk. Detailed contractor agreements with clauses describing behavioural expectations and consequences of non-compliance are applied, according to IP's. These agreements exclude the company partly from legal responsibility. We did believe that success fees were a tool frequently applied by companies to secure consistency in third party contracts; but we addressed that provision as a tool, possibly could incentivize non-compliance and therefore should be avoided. Surprisingly and decisive for our conclusion, we found that IP's addressed the dangers with provision as a tool and tried to avoid applying it in contracts. As we did not find any signs that provision is applied as a tool, we find support for our alternative hypothesis 3 H1 and thereby we cannot reject it.

Response plans of companies are quite extensive with robust systems to risk mitigate, monitor and report as soon as possible. Responding to non-compliance risk is addressed through advanced technological monitoring systems, reporting systems and consistent disciplinary measures on internal involvements. Response plans include incentives for ethical behaviour and disciplinary measures for non-compliance for internal activities. IP's also address that employees suspected or caught for illicit activities, will be under monitoring for a limited amount of time. Thus, we do not find sufficient support for the alternative hypothesis 4 H1, and it therefore is rejected.

Monitoring on external involvements are applied frequently. Companies have good systems for reporting cases that are under imposed disclosure. However, when it comes to non-imposed disclosure, it is not common to disclose red flags to the business climate if disclosure, either lead to reputational damage or can be of competitive value for the company.

A participant described the situation when asked about transparency considering competitive value:

> *If it is truly of competitive value, and you disadvantage yourself by revealing it to other companies, then you should have a conversation with your branch colleagues. Can we disclose this together, to remove the competitive element? If the answer is no, then we have to use our judgement, to evaluate how destroying it is. Sometimes, if it puts you out of business, by being very transparent, I cannot think of a reason why it does, but if it is, then you must be more careful.*

It is neither illegal nor illicit to not disclose this sort of confidential information and it requires collective action. Still, this sort of disclosure would incentivise compliance for third parties and strengthen compliance programs for companies in the sector. We thereby find support for our alternative hypothesis 5 H1 and thus cannot reject it.

MNC's choose to operate in Nigeria, because they contribute with economic activity and social projects, they have a social responsibility and because they are actually obligated to do so, based on parliament white papers. Findings show that MNC's will be more exposed to non-compliance than smaller companies, but that they have extensive advantages for risk mitigation. Still some risks can only be mitigated to a certain degree; unfortunately, the most sufficient problems in Nigeria are severely deep rooted, which a corporate compliance program alone, cannot solve. As one participant put it; "You can mop the floor with the tap open, but the floor is still wet." Especially highlighted are governmental interaction and inefficient procedures, difficult to mitigate and need to be avoided as far as possible. Collective action is also a measure addressed by both IP's and empirical recommendations. In the next section, we have applied recommendations for strategies to develop both compliance strategies and strengthening the business climate, which possibly can be a push in the right direction.

6.2 Recommendations

- A participant expressed that communities need a sufficient reason to contribute to monitor projects and report on them, to assist companies. There are several ways to approach this; companies can give a share of resource rents obtained explicitly to the local community; or by employing the youth in the local community with jobs and scholarships. This solve two direct problems; firstly, it shows the community that the future generation also have a stake in the project; secondly you employ a generation that look at non-compliance as a societal problem and not a source of income. In addition, the society will lack any reason for bunkering and actually help companies avoiding this problem.

- Companies should set focus on directing their CSR projects to support the public sector in developing the electrical infrastructure in the country and make online systems more accessible. The spread of the internet, and associated technical solutions, has the potential to vastly facilitate increased transparency and accountability in public procurement, while also making it more cost-efficient. Disseminating information on both contracts and bids online through web portals also makes monitoring and oversight by civil society or the general public much easier.

- We recommend that to be able to disclose information on third parties, without exposing companies for bad market reputation and risks regarding competitive value, company market players should structure corporate branch boards. These boards could include chosen representatives from relevant companies in the oil sector, together with compliance experts from Transparency Nigeria and governmental representatives. On these boards discussions on what information to disclose can be debated and then disclosed collectively without anyone losing competitive value.

6.3 Limitations

Arguably, the most important limitation of our analysis is that the number of interviews is not sufficient to draw any conclusions of whether our findings applies for most companies in the Nigerian oil sector. Another possible source of uncertainty is that the field of risk assessment is in constant change. The companies the IP's represent, may not be representative for the business climate and IP's experiences may be outdated.

Skjong and Øverland (2018), points to a limitation of their research that also applies to ours: there may be many corrupt companies not being caught. There may be systematic differences between firms that are caught and those that are not. There is always a risk of noise in sampled data due to human error. We may have made wrong evaluations based on our findings from indexes and statements, despite our best efforts. We have also mentioned that two significant terms in our paper (zero-tolerance and third parties)., may be understood in different ways.

Finally, there are as mentioned considerable cross-country differences in business culture and how corruption cases traditionally have been treated in the legislations in different parts of the world. The results cannot necessarily be generalized to other contexts and jurisdictions.

6.4 Future research

The scope of the thesis entails that not all aspects relating to risk assessments of corporate corruption can be covered. Expanding the study to other jurisdictions than Nigeria, where enforcement intensity has increased significantly in recent years. In the future, as the number of cases goes up and more data becomes available, one could also revisit the topic and possibly adjust for time effects.

A quantitative approach of what effects market structure and competition or firms in different industries may have on company performance would also be interesting to evaluate. At last, we see a potential to gain more data to be used in assessment of guiltiness, if our qualitative approach could have been applied to different employers from the same companies; compliance managers, legal counsels, senior managers and on-the-floor staff. This could give valuable knowledge in whether lack of competence or pure negligence are leading to misconducts.

At last we believe that applying our approach and focusing explicitly on third parties, could disclose elements significant for both companies and for further studies on liability. As mentioned, we believe that collective disclosure of information is important; cryptocurrency is a tool that can anonymize information and can be applied to a closed network, like a branch board. A future possibility could be to research whether or not this is a tool that can be applied to increase transparency.

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Appendix

A.1 Bibliography

Names	Kopi	Link
Rolls-Royce	"As part of its resolution with the SFO, Rolls-Royce entered into a DPA and admitted to paying additional bribes or failing to prevent bribery payments in connection with Rolls-Royce's business operations in China, India, Indonesia, Malaysia, Nigeria, Russia and Thailand between in or around 1989 and in or around 2013, and Rolls-Royce agreed to pay a total fine of £497,252,645 ($604,808,392)." Nigeria kun nevnt en gang. Bot som følge av korrupsjon en rekke steder.	https://www.justice.gov/usao-sdoh/pr/rolls-royce-plc-agrees-pay-170-million-criminal-penalty-resolve-foreign-corrupt
Kellog Brown & Root (KBR)	- $402M fine and to retain an independent compliance monitor for a three-year period to review the design and implementation of its compliance program. - decade-long scheme to bribe Nigerian government officials to obtain engineering, procurement and construction (EPC) contracts - The EPC contracts to build liquefied natural gas (LNG) facilities on Bonny Island, Nigeria, were valued at more than $6 billion. - plea agreement. pay $402m criminal fine - awarded contracts by NLNG, where the government-owned NNPC was the largest shareholder (49%) - conspiring with its joint-venture partners and others to violate the FCPA by authorizing, promising and paying bribes to a range of Nigerian government officials, including officials of the executive branch of the Nigerian government, NNPC officials, and NLNG officials, to obtain the EPC contracts - also pleaded guilty to four counts of violating the FCPA related to the joint venture's payment of tens of millions	https://www.justice.gov/opa/pr/kellogg-brown-root-llc-pleads-guilty-foreign-bribery-charges-and-agrees-pay-402-million https://www.justice.gov/opa/pr/two-uk-citizens-charged-united-states-bribing-nigerian-government-officials-obtain-lucrative https://www.justice.gov/opa/pr/former-chairman-and-ceo-kellogg-brown-root-inc-sentenced-30-months-prison-foreign-bribery-and

	of dollars in "consulting fees" to two agents for use in bribing Nigerian government officials. - former KBR CEO Albert Stanley and others met with three successive former holders of a top-level office in the executive branch of the Nigerian government to ask the office holder to designate a representative with whom the joint venture should negotiate bribes to Nigerian government officials. Hired two agents which payed the bribes ($182M). - Plea agreement: KBR agreed to retain an independent compliance monitor for a three-year period to review the design and implementation of KBR's compliance program and to make reports to KBR and the DoJ. KBR also agreed to cooperate with the Department in its ongoing investigations. - Albert Stanley pleaded guilty in a related criminal case and sentenced to 30 months in prison. - Two of Stanley's co-conspirators also were sentenced. Jeffrey Tesler, 63, a United Kingdom citizen and licensed solicitor, was sentenced to 21 months in prison, followed by two years of supervised release. Tesler also was ordered to pay a $25,000 fine and previously was ordered to forfeit $148,964,568. Wojciech J. Chodan, 74, a United Kingdom citizen and former salesman at KBR's U.K. subsidiary, was sentenced to one year of probation and ordered to pay a $20,000 fine. Chodan previously was ordered to forfeit $726,885.	https://www.justice.gov/sites/default/files/criminal-fraud/legacy/2011/02/16/tesler-indict.pdf
JGC	- $218,8m criminal penalty and to retain an independent compliance consultant for two years - deferred prosecution agreement - two-count information charges JGC with one count of conspiracy and one count of aiding and abetting violations of the FCPA - GC authorized the joint venture to hire two agents - Jeffrey Tesler and a Japanese trading company - to pay bribes to a range of Nigerian government officials, to assist JGC and the joint venture in obtaining the EPC contracts. The joint venture hired Tesler as a consultant to pay bribes to high-level Nigerian government	https://www.justice.gov/opa/pr/jgc-corporation-resolves-foreign-corrupt-practices-act-investigation-and-agrees-pay-2188

	officials, including top-level executive branch officials, and hired the Japanese trading company to pay bribes to lower-level Nigerian government officials - TSKJ paid $132m to a Gibraltar corporation controlled by Tesler and $50m to the Japanese trading company to be used, in part, for bribes to Nigerian government officials - under the terms of the deferred prosecution agreement, the department agreed to defer prosecution of JGC for two years. retain an independent compliance consultant for two years. -	
Technip	- $240m criminal penalty and to retain an independent compliance monitor for two years - Same as JGC and KGR	https://www.justice.gov/opa/pr/technip-sa-resolves-foreign-corrupt-practices-act-investigation-and-agrees-pay-240-million
Snamprogetti	- $240M criminal penalty -	https://www.justice.gov/opa/pr/snamprogetti-netherlands-bv-resolves-foreign-corrupt-practices-act-investigation-and-agrees
Marubeni	- $54,6M criminal penalty - Marubeni was hires as an agent by the four TSKJ jv to obtain and retain EOC contracts to build LNG facilities on Bonny Island - At crucial junctures preceding the award of EPC contracts, a number of co-conspirators, including on two occasions an employee of Marubeni, met with successive holders of a top-level office in the executive branch of the Nigerian government to ask the office holders to designate a representative with whom TSKJ should negotiate bribes to Nigerian government officials -	https://www.justice.gov/opa/pr/marubeni-corporation-resolves-foreign-corrupt-practices-act-investigation-and-agrees-pay-546

A.2 Economic theory

Invested amount: h

Benefit: K > 0

Legal approach: E(H)

Illegal approach: E(B)

Current corruption level: *(C*)*

Perceived corruption level: *(C)*

Risk here as reduced utility: *(Y)*

Risk averse: Y_p

Risk neutral: Y_n

Risk attracted: Y_o

Probability to succeed with an honest business approach: 1-c

Probability of a firm succeeding with a legal business approach: p

Invested amount: h

Outcome if success: K-h-b

Penalty: Ø > 0

Probability of getting caught, be prosecuted for the crime and incure a penalty: $(1\text{-c})^U$

$p_i, i \in b \vee h$

(1) $E(B) = cp_b\,(K-h-b) - cp_b\,(1-c)^U \emptyset - (1-c)h - c(1-p_b)h = cp_b[K-b-(1-c)^U \emptyset] - h$

(2) $E(H) = (1-c)[p_h(K-h) + (1-p_h)(-h)] - ch = K(1-c)p_h - h$

(3) $Y(C) = cp_b(1-(1-c)^U)(K-b) + cp_b(1-c)^U(K-b-\emptyset) + c(1-c)(-h) + (1-c)(-h)$

(4) $Y_n(C) = cp_b(1-(1-c)^U)(K-b) + cp_b(1-c)^U(K-b-\emptyset) + c(1-c)(-h) + (1-c)(-h)$

(5) $Y_o\,(C) = cp_b(1-(1-c)^U)(K-b)^2 + cp_b(1-c)^U(K-b-\emptyset)^2 + c(1-c)(-h)^2 + (1-c)(-h)^2$

(6) $Y_p(C) = cp_b(1-(1-c)^U)(K-b)^{1/2} + cp_b(1-c)^U(K-b-\emptyset)^{1/2} + c(1-c)(-h)^{1/2} + (1-c)(-h)^{1/2}$

A.3 Interview guide

	Guide with questions	Keywords and possible follow-up questions
Phase 1: Introduction	**Small talk** -Can you please state your name and your current employer and position? - What background did you have before you entered your current position? **Information (5-10 min)** • Theme of the study, background and purpose • Explain the use of interview, confidence of silence and anonymity • Any question or unclarities from the respondent • Inform about recording and consent of recording • Start recording	
Phase 2: Experiences	**Transition issues: (10 min)** **Exploratory questions** • Experience: Understand how companies predict risk 1. What experiences do you have with	• Check list and follow-up questions: -Educational background/resume

this topic?
-->It is expedient to, form the interviews based on the respondents experiences.

2. What challenges would you define as most relevant for your company in Nigeria today?
-->Instead of suggesting any risk factors, we let him lay down the premises of the interview
-->Risk assessment process, mergers and acquisitions: important evaluation for the DOJ in how the company identify the risks

3. How does your company address the identified risk to the compliance program to the employees and to the business climate?
-->The second part of the DOJ´s evaluation

4. How does the management address the importance of the compliance program?
-->Tone at the top, autonomy and resources

5. How do you evaluate issues and weaknesses to keep the high quality of your program?

-Risk factors: bunkering, control of ships

1. Is there any of your experiences, you believe would affect your decisions in your position?
-->The decision making process is also affected by individual assessment of risk, in addition to the company's´ risk strategy,

2. What characterizes the experience you have with how your companies process risk assessment?
-->Relevant to understand if there is any gap between the company´s presumed risk strategy and perceived strategy

3. Is the compliance function in due diligence and integration processes illuminated to the outside?

6. In exposed business climates, would you say that it is more or less

	-->continuous improvement 6. In what ways, if any, does the size of your company´s (market share) affect your compliance work? -->Former literature believe that the presumed market position is relevant for the company´s risk strategies	probable that bribes will be demanded from officials/ or in other contexts, for example by customs

Phase 3: Focus	Key questions: (30 min) Explanatory questions	
	• Key questions: Understand how companies prevent risk and how they process 1. Have your company´s Nigerian department experienced any unfortunate incidents, that were needed to act upon? Base rest of the questions on possible incident?	• Check list and follow-up questions 1; what happened, own reflection, what did you learn if not; have you discovered or prevented any misconducts -->Companies that are obliged to follow Sapin II recommendation of effectiveness and possible improvement of anti-corruption work and give warnings/sanction
	2. How do you incentivize compliance and ethical behaviour and discipline compliance failures? -->Disciplinary procedures	2; how is this addressed to employees and to the outside world?
	3. How do your company prepare for entry into a challenging business climate, to prevent any involvement in illegal situations? -->Relevant to understand the perceived precautions -->training, compliance policies and procedures	3; -intermediaries -Successor liability through acquisitions or license agreements -depend on whether institutions are strong or weak
	4. How do your company	Can you describe what sort

	prevent indirect involvement in illegal acts, from third parties or social projects? -->risk-based and integrated processes, management of relationships, monitoring third parties -->Complement with what is evaluated as the most relevant risk factors by other companies.	of efforts that made the firm prepared for the challenges that arose, once present in Nigeria? -->Complement with answers from question 1 4; are third parties trained in the company´s compliance expectations?
	5. How is the consistency between the agreed terms and performed work with compensation, with third-parties, secured in your business? -->appropriate controls	5; -Trust -Provision -Findings show that this can lead to more corruption-prone third-parties -->how does this affect the attitude of the agents inn your opinion? -are they public about who they hire -->how public? available documents or announced?
	6. When misconduct in a third party is discovered, how do you address any red flags you had and evaluate disciplinary punishments	6; -Important best practice in reporting
	7. What guidelines do your company have for disciplinary punishment of third-parties, after discovering a misconduct?	7; revealing names? -disciplinary punishments -reporting

		-debarment -further monitoring
	8. Where does the regulatory framework lack guidelines and knowledge in how to handle corruption in the Nigerian business climate?	8; -technology
	9. What have been the most significant changes in your view, (since your company) entered Nigeria? Alternatively changes during the last 10-20 years -->Not for all participants	
	10. How do your C-suite leaders guide the rest of the company in the work of compliance?	

Phase 4: Retrospective	5. Summary (ca. 10-15 min)
	• Summarize findings/ main answers -Experience of this interview? • Common understanding/interpretation • Opportunity for respondent to add comments • Other things; round up and ending interview

A.4 Correlations between Index of Public Integrity (IPI) and other corruption indicators

	WGI Control of Corruption 2014	ICRG Corruption 2014	TI Corruption Perception Index 2014	WEF Diversion of Public Funds 2014
Correlation Coefficients	0.864	0.825	0.878	0.673
Countries	105	94	105	101

For every indicator, high values imply less corruption. Therefore, IPI is expected to be positively correlated with each of them. Correlations are significant at $p<0.001$.

(European Research Centre for Anti-Corruption and State-Building, 2017)

A.5 Interview responses

-I do see that a group of Nigerians, are deeply unhappy with living in this situation. Especially the youth. Because I actively watch the news and are interested in the country. I do see people of your generation do not accept that type of behaviour and try to change it. I see a positive way of change in that respect. In addition, that people want to put energy in building up the business and country rather than extracting money wherever they can. That is a development, which is slow, but certainly coming. I have my hope for the coming generations that this will continue in a positive way.
-Legal frameworks have become much stricter. In addition, the American system is not the only foreign framework that you must comply to. Also, the British and Dutch system have become quite comprehensive.
-After 1999, the democracy has led to stricter societal demands for the government. Thus, the government have a higher need of governmental revenues. Therefore, they have started to look for resource rents where they earlier have not looked. One of the strategies is based on grabbing a higher share of oil companies' resource rents.
-I believe that the largest change has been that companies cannot longer take the easy road, even with good systems. If the societal opinion turns against the oil sector, we die. We need to be seen as a community support. We need to do our best to avoid that non-compliance do not occur, not only for ourselves but for other market players as well.

Table 3: Answers from interviews: interview participants addressing the most significant changes in their opinion the last twenty years

-The lack of a sufficient electricity grid

-Socially accepted culture for corruption as an alternative source of income

-Rent-seeking government

-Outdated laws

-Gap between law and enforcement

-Inefficient systems

-Exposed onshore transport systems

-Missing competition opportunities

Table 4: Answers from interviews: different risk as main concern in the Nigerian business climate

Examples of preventive measures, suggested by the interview participants:

-Scholarships to community people

-Employment for competent local people

-Revenue share to community

-Incentivized compliance, through performance evaluations

-Deterrence strategies specified for different cultures

-Tone at the top; compliance campaigns

-Whistle blowing helplines

-Ethical committees

Table 5: Answers from interviews: example of preventive measures