

Corruption in the UK Construction Industry

Survey 2006



Corruption within the UK construction industry is an issue that is the subject of perception and rumour rather than of facts. Apart from periodic instances of exposure and action, it is a subject discussed as conjecture rather than knowledge. This survey has attempted to look at the issue from the point of view of those who work within the industry in order to gain a better perspective on the issues they face.

The high response rate for this survey suggests that this is an issue of great concern to those working in the industry. It would seem from the results that while corruption is present to some degree in many areas of the construction industry, there is some disagreement of where networking and the development of harmonious working relationships stop, and corruption starts. It is clear that those who responded are aware of the issues, but there are clear indications of degrees of tolerance to some practices that some would regard as corrupt. The results also showed that the vast majority of respondents feel strongly that more should be done to address this issue.

Following from the results of this survey, the CIOB strongly recommends that clear definitions of corruption and corrupt practices are drawn up and effectively communicated to the industry. Further research is also required to identify the practices and working environment that allows corrupt practices to flourish.

This survey examined respondent's views on corruption within the UK construction industry. It consisted of 1,404 respondents who work in a variety of sectors within the industry. The survey looked at respondent's perceptions of corruption as well as their personal experiences of it.

It found that there was a great deal of variation in the way that respondents perceived corruption as well as in how widespread they thought it was. Many respondents had had direct experience of corruption, for example, 41% had been offered a bribe on at least one occasion. It seems from the results that there is a degree of corruption present in many areas of the UK construction industry and that more needs to be done by both the industry and the government to combat this.

Corruption within the construction industry is a complex and sensitive issue. It is generally assumed that it occurs but the form and scale of corruption is by its nature difficult to establish.

Transparency International drew attention to the impact of corruption in construction in the 2005 Global Corruption Report. It estimates that the cost of corruption in the UK could be around £3.75 billion per annum. They have also drawn up an anti-corruption code for individuals in the construction and engineering industry.

Prior to this survey, the CIOB conducted an online poll in which 335 construction professionals were asked on what scale corruption exists in the UK construction industry; 41% thought it was 'widespread', 37% believed it was 'occasional', 18% voted that it was 'rare' while 4% of respondents felt it was non-existent.

Purpose of study

The survey aimed to gather respondent's views on corruption within the UK construction industry. It looked at the types of corrupt practice most commonly found as well as examining attitudes towards corruption by asking respondents to rate how corrupt they deemed a variety of practices to be. The study also looked at the areas in which respondents felt that corrupt practice was most likely to occur.

Methodology

The survey was conducted using a web-based questionnaire which respondents could access through the CIOB website (www.ciob.org). The survey was open to anyone within the UK, regardless of whether they were a member or not.

Respondents were first asked general demographic questions including age, employment status, area of work and level of responsibility in order to ensure that the sample was representative of the broader population.

The majority of the questions were closed and forced choice, requiring respondents to choose an answer from the available options. There was, however, a space at the end of the survey for respondents to add further information or to give specific examples of corruption they had encountered.

A potential difficulty in conducting this survey was in defining corruption and what is meant by certain practices. For this reason, we added definitions where appropriate to the questions. These definitions were taken from Transparency International and can be found in Appendix 1. Although practices were defined, the term 'corruption' itself was not defined as the CIOB was interested in discovering respondent's personal perceptions of what constitutes corruption.

4 THE SAMPLE

The sample consisted of 1,404 respondents, most of whom were male (95%). The majority (78%) of respondents were aged between 26 and 55. In terms of geography, respondents were spread throughout the UK although there were a slightly higher proportion of respondents from the South East (21%), this is broadly representative of the population as a whole.

The majority of respondents (42%) worked in large companies with more than 500 respondents although a variety of organisation sizes were represented (see Chart 1)

How many people does your company employ?

Less than 50	(316)
51-100	(126)
101-200	(149)
201-500	(206)
More than 500	(607)

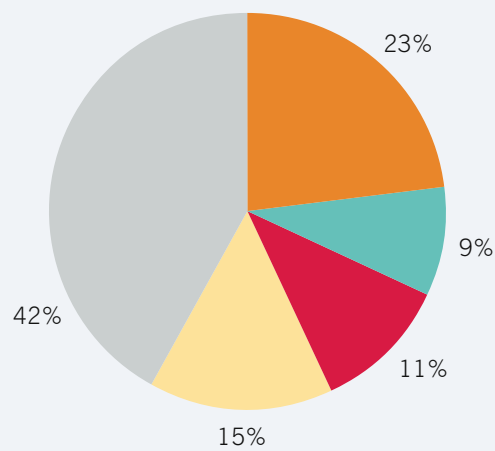


Chart 1

Respondents predominantly worked within construction at middle or senior management level (see Charts 2&3).

Which sector are you most closely involved with?

Construction	(800)
Engineering	(37)
Surveying	(177)
Architecture and Design	(89)
Facilities Management	(91)
Legal	(7)
Education	(31)
Consultancy	(114)
Other	(58)

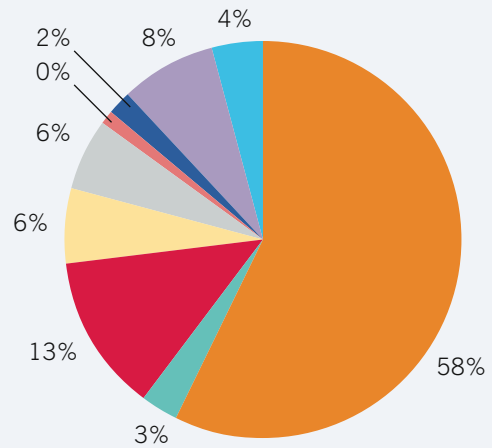


Chart 2

Which best describes your employment level?

Company director/Senior management	(556)
Middle management/junior management	(570)
Supervisor	(32)
Other professional	(216)
Clerical/administrative	(4)
Skilled manual	(8)
Unskilled manual	(0)
Other	(18)

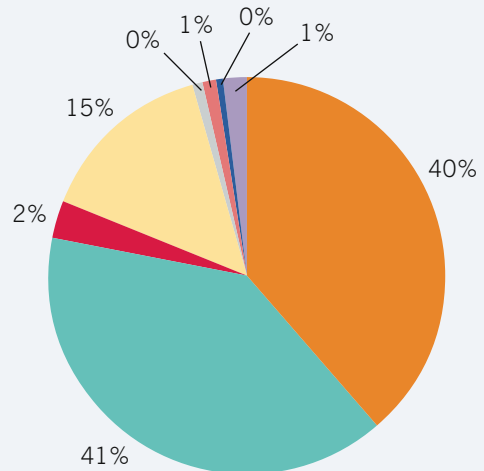


Chart 3

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FINDINGS

How common do you think corruption is within the UK construction industry?

The sample was split fairly evenly between those who felt that corruption was either extremely or fairly common and those who felt that it was not very or not at all common.

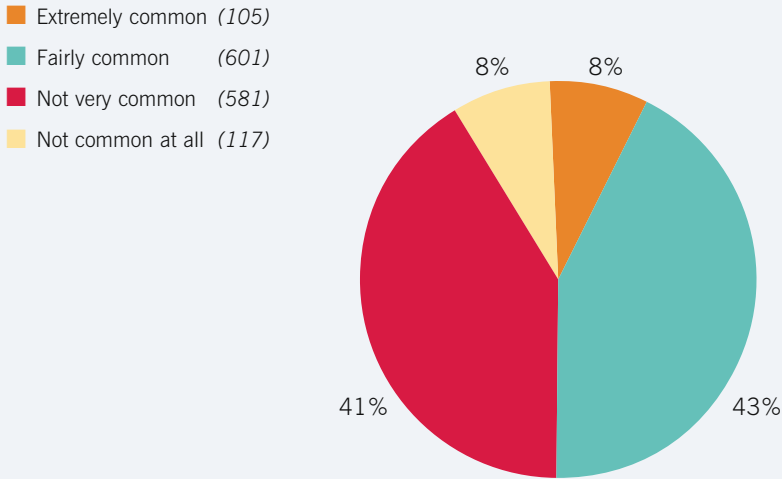


Chart 4

How corrupt do you consider the following to be?

Cover pricing

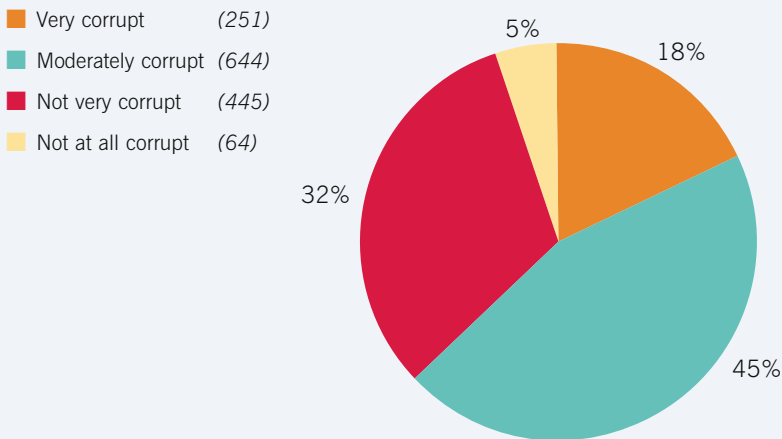


Chart 5

**Bribery to obtain
planning permission**

- Very corrupt (779)
- Moderately corrupt (242)
- Not very corrupt (285)
- Not at all corrupt (98)

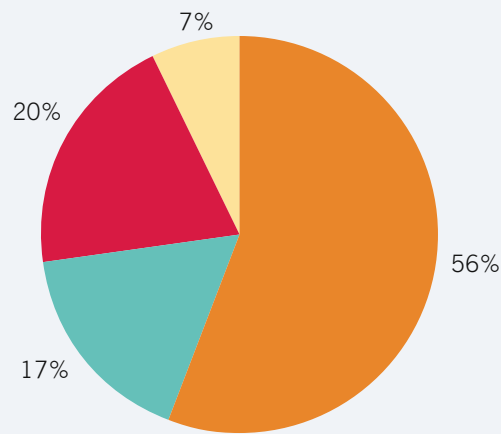


Chart 6

**Employment of
illegal workers**

- Very corrupt (733)
- Moderately corrupt (454)
- Not very corrupt (186)
- Not at all corrupt (31)

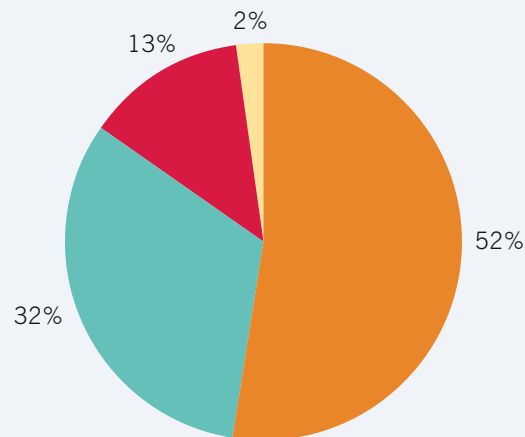


Chart 7

Concealment of bribes

- Very corrupt (805)
- Moderately corrupt (312)
- Not very corrupt (233)
- Not at all corrupt (54)

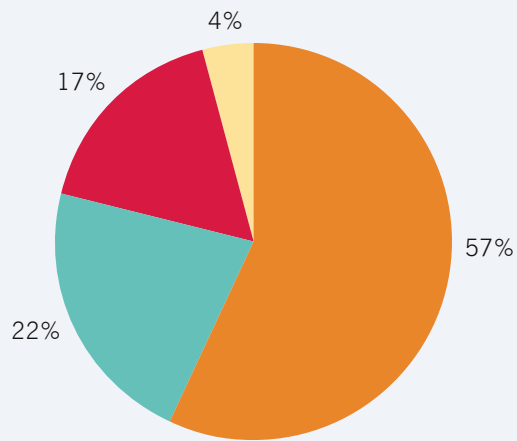


Chart 8

Collusion between bidders for market sharing purposes

- Very corrupt (567)
- Moderately corrupt (498)
- Not very corrupt (310)
- Not at all corrupt (29)

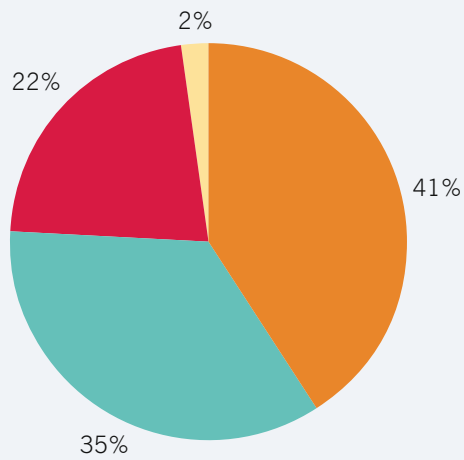


Chart 9

Bribery to obtain a contract

- Very corrupt (805)
- Moderately corrupt (255)
- Not very corrupt (291)
- Not at all corrupt (53)

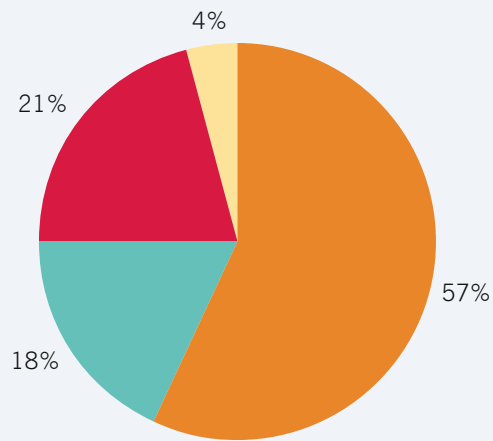


Chart 10

Leaking of information to a preferential bidder

- Very corrupt (542)
- Moderately corrupt (569)
- Not very corrupt (265)
- Not at all corrupt (28)

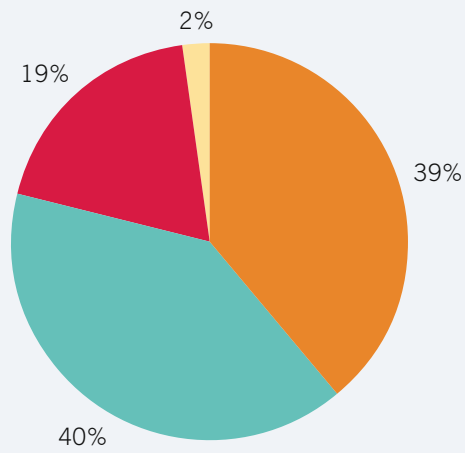


Chart 11

Production of fraudulent timesheets

- Very corrupt (744)
- Moderately corrupt (442)
- Not very corrupt (187)
- Not at all corrupt (31)

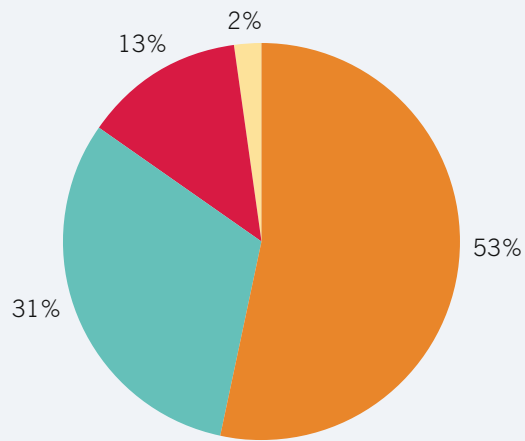


Chart 12

Production of fraudulent invoices

- Very corrupt (763)
- Moderately corrupt (315)
- Not very corrupt (275)
- Not at all corrupt (51)

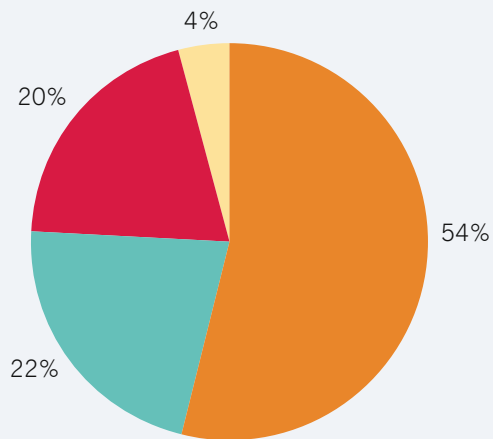


Chart 13

False or exaggerated claims against a contractor in order to withhold or reduce payment a contract

- Very corrupt (620)
- Moderately corrupt (488)
- Not very corrupt (255)
- Not at all corrupt (41)

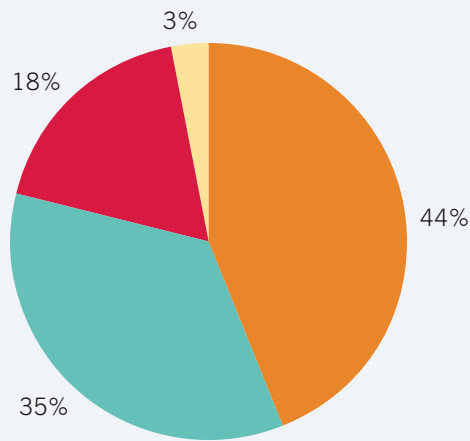


Chart 14

Inclusion of false extra cost to a contract claim

- Very corrupt (584)
- Moderately corrupt (550)
- Not very corrupt (242)
- Not at all corrupt (28)

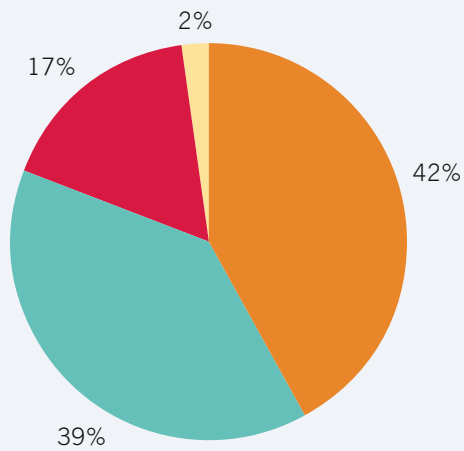


Chart 15

Bribes from the building contractor to also win operation and maintenance contracts

- Very corrupt (741)
- Moderately corrupt (272)
- Not very corrupt (321)
- Not at all corrupt (70)

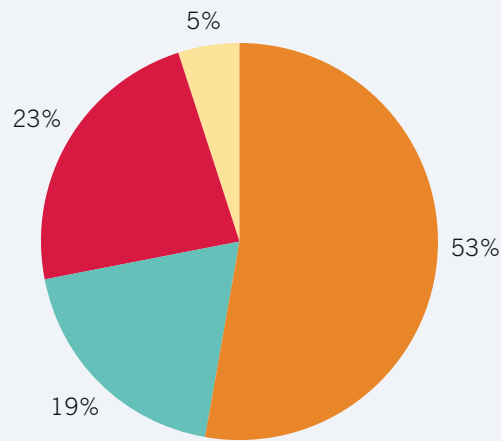


Chart 16

While it is clear that the majority of respondents acknowledge that all of these practices are corrupt, they held differing views on how corrupt each practice was considered to be. Practices involving bribes or the concealment of a bribe were most commonly considered to be very corrupt whereas cover pricing was more often seen as only moderately or not very corrupt.

What types of corruption do you think are most prevalent within the industry?

Fraud

- Very corrupt (192)
- Moderately corrupt (643)
- Not very corrupt (513)
- Not at all corrupt (56)

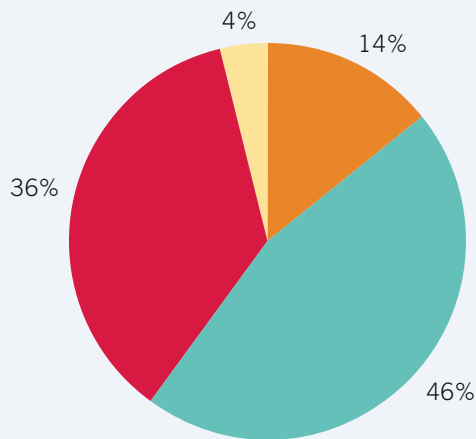


Chart 17

Employment of illegal workers

- Very corrupt (426)
- Moderately corrupt (652)
- Not very corrupt (290)
- Not at all corrupt (36)

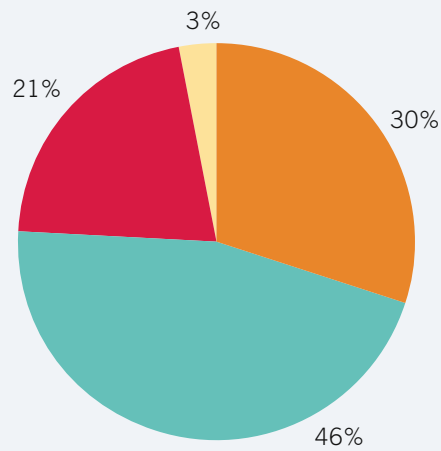


Chart 18

Concealment of bribes

- Very corrupt (161)
- Moderately corrupt (555)
- Not very corrupt (557)
- Not at all corrupt (111)

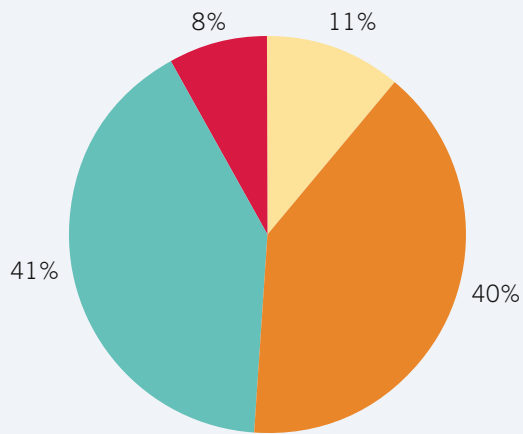


Chart 19

Corrupt practices during pre-qualification and tendering phase

- Very corrupt (116)
- Moderately corrupt (514)
- Not very corrupt (663)
- Not at all corrupt (111)

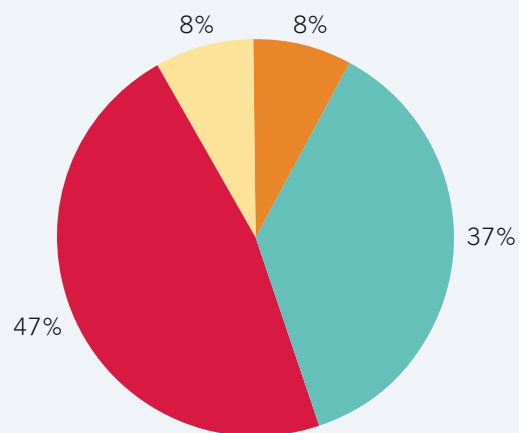


Chart 20

Corrupt practices during project execution phase

- Very corrupt (105)
- Moderately corrupt (540)
- Not very corrupt (644)
- Not at all corrupt (115)

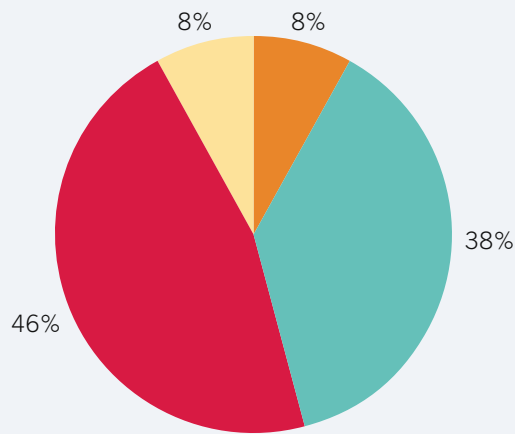


Chart 21

Corrupt practices during operation and maintenance phase

- Very corrupt (83)
- Moderately corrupt (435)
- Not very corrupt (717)
- Not at all corrupt (169)

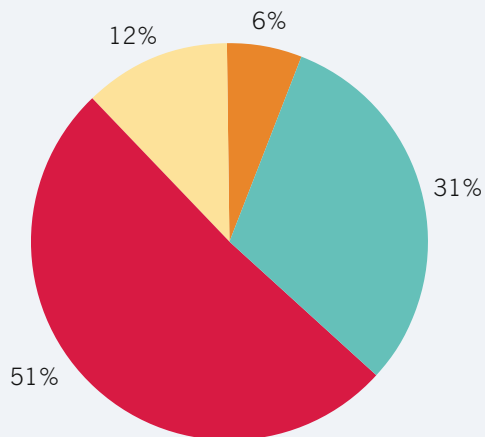


Chart 22

Respondents also held differing views on how common they felt different types of corruption were. One of the practices viewed as being most common was the employment of illegal workers. Corruption in the operation and maintenance phase was more often viewed as being not very or not at all common.

How much would you estimate that fraud or corruption costs your company/site each year?

Concealment of bribes

£0 - £100	(278)
£101 - £1000	(107)
£1001- £5000	(167)
£5001- £10,000	(194)
£10,001 - £50,000	(257)
£50,000 - £100,000	(157)
More than £100,000	(244)

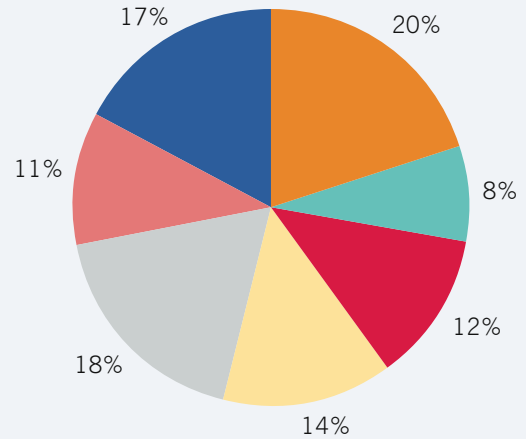


Chart 23

There was a great deal of variation in the estimates that respondents made of the perceived cost of corruption to their companies.

Are you aware of fraud or corruption in the procurement or supply of materials to your company?

Corrupt practices during pre-qualification and tendering phase

Yes	(153)
No	(897)
Unsure	(354)

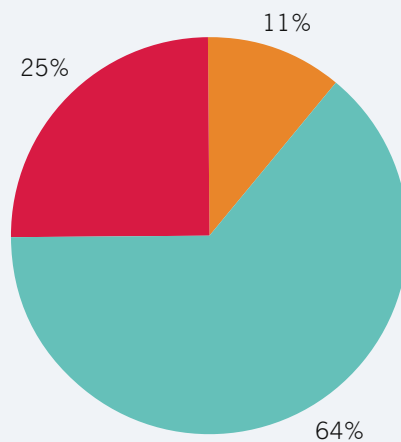


Chart 24

The majority of respondents were not aware of fraud or corruption in the procurement or supply of materials to their company, however, over a third (36%) either were aware of it or were not sure if corruption was occurring.

If you or your colleagues have uncovered fraud or corruption, how was it detected? (multiple choice)

Where fraud or corruption was uncovered, the most common method was through regular checks or audits. Where the answer was 'other', common answers tended to be:

- through discrepancies in invoices
- through awareness of suspicious behaviour
- through a specific anti-fraud department
- awareness of excessive costs/losses
- direct offer of a bribe
- checks carried out for another reason e.g. health and safety

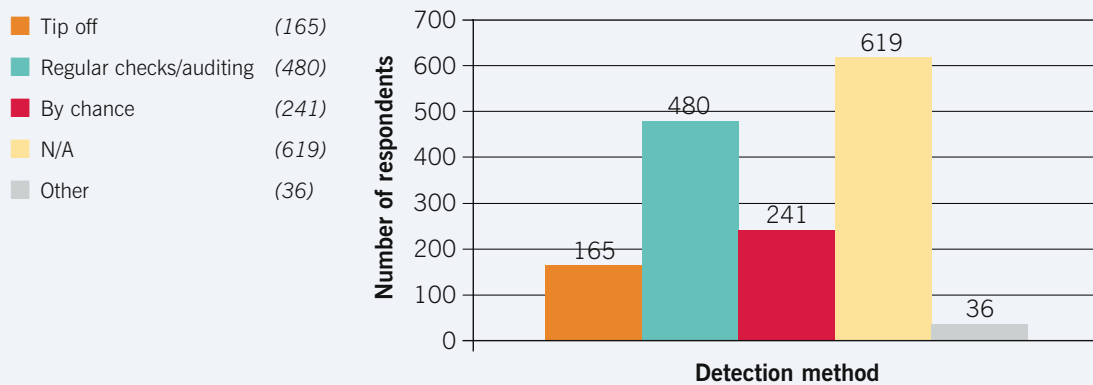


Chart 25

If you or your colleagues have uncovered fraud or corruption, has it been reported to the police?

- Yes (164)
- No (461)
- N/A (779)

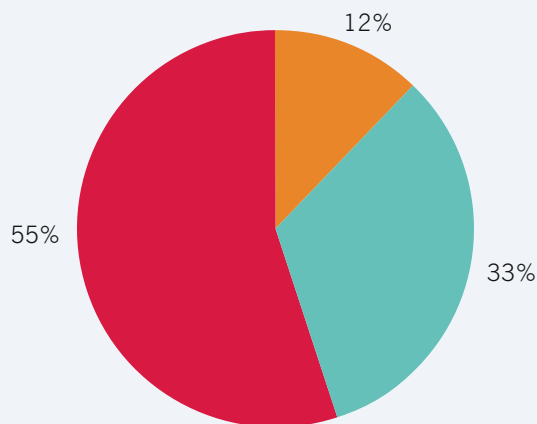


Chart 26

In the majority of cases where fraud or corruption had been uncovered, it was not reported to police (74% of those that had uncovered it did not report it to the police).

If you or your colleagues have uncovered fraud or corruption, did it come from inside your organisation or outside it?

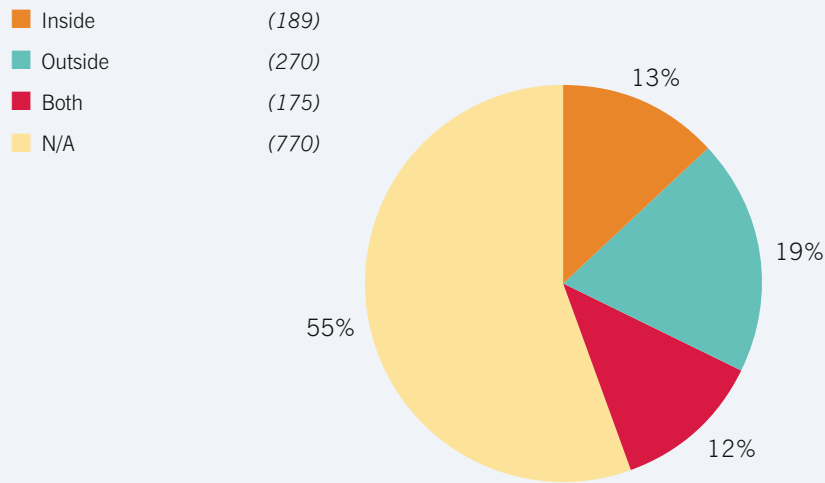


Chart 27

Where corruption was uncovered it was often both inside and outside the organisation.

Have you personally ever been offered a bribe or incentive to engage in corrupt practice?

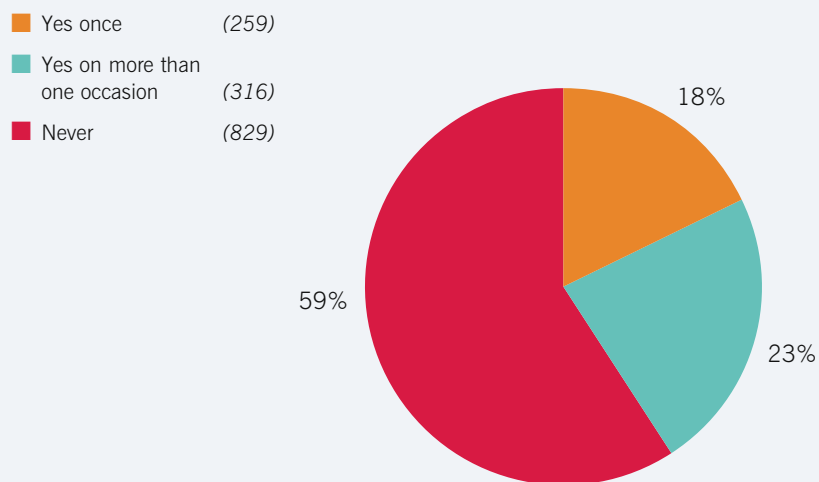


Chart 28

41% of respondents had been offered a bribe on at least one occasion.

Have you personally ever come across cartel activity in the UK construction industry?

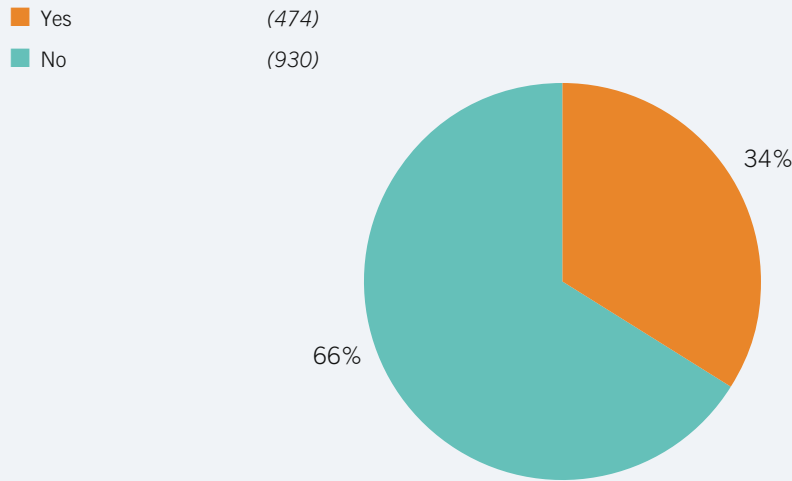


Chart 29

Just over a third of respondents had encountered cartel activity in the UK construction industry.

Overall, have the levels of fraud and corruption in the construction industry changed over the last five years in your view?

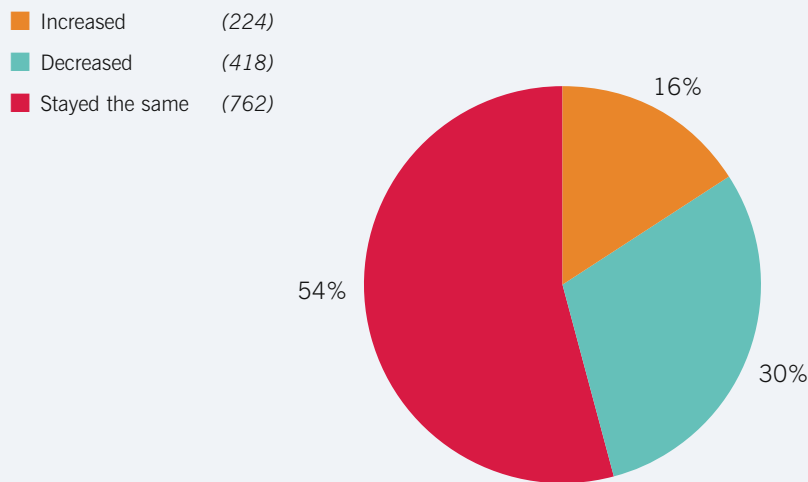


Chart 30

Over half of the sample felt that corruption levels in UK construction had not changed over the last five years. Of those that felt it had changed, the majority were of the opinion that it had decreased.

Do you think that the UK construction industry is doing enough to combat corruption?

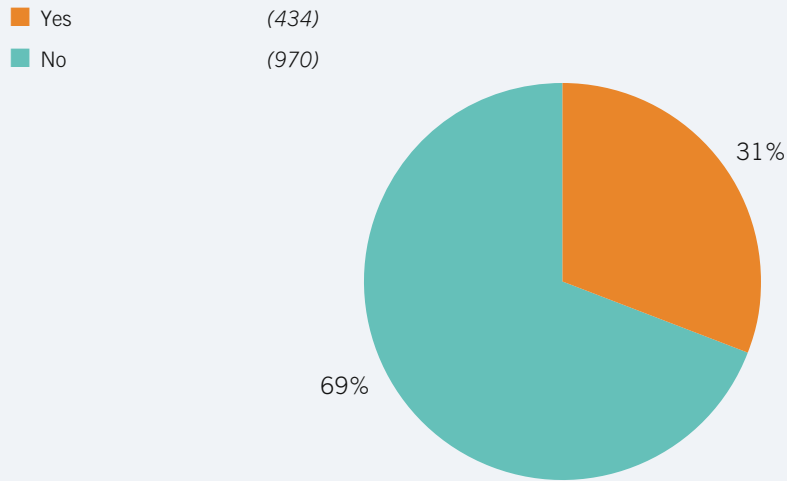


Chart 31

Over two thirds of respondents felt that the UK construction industry was not doing enough to tackle corruption.

Do you think that the Government is doing enough to combat corruption in the UK construction industry?

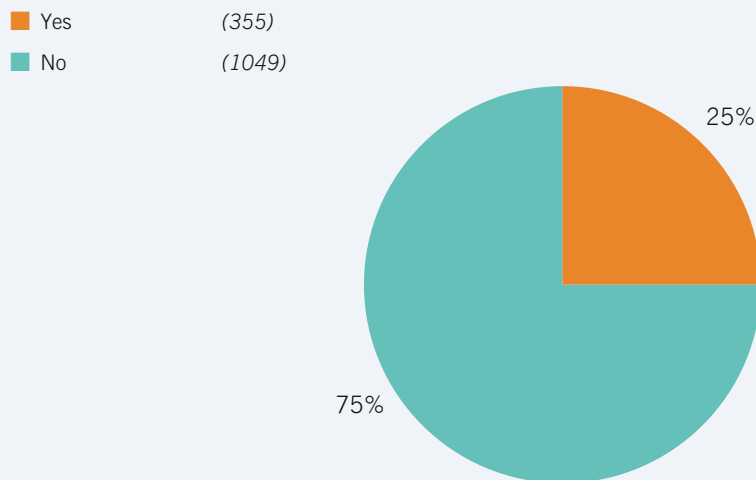
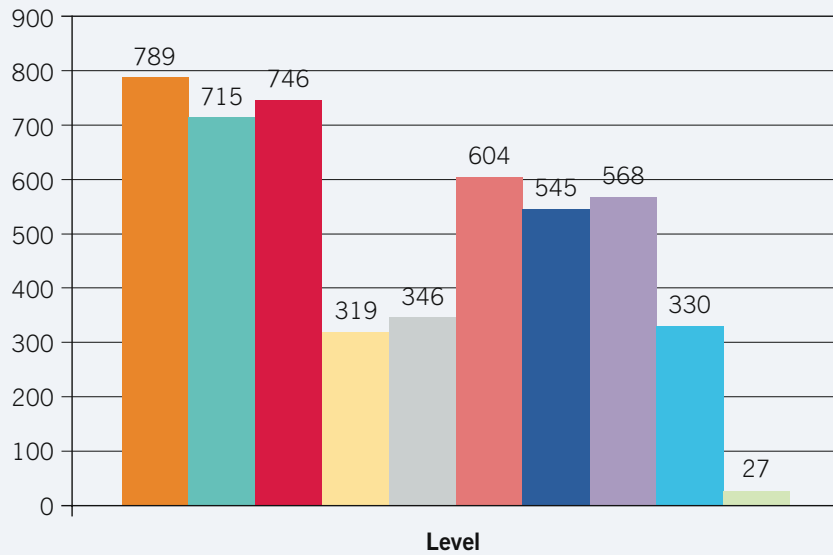


Chart 32

Three quarters of respondents did not feel that the UK government was doing enough to tackle corruption.

At what level do you think corruption is most likely to occur? (multiple choice)



- Individual at operational level (789)
- Individual at middle management level (715)
- Individual at senior management level (746)
- Corporate at operational level (319)
- Corporate at middle management level (346)
- Corporate at senior management level (604)
- Client (545)
- Local government (568)
- National government (330)
- None of these (27)

Chart 33

The results indicate that respondents felt that corruption was more likely to occur on an individual rather than a corporate level. Where corporate corruption was seen to occur, it was at a senior management level.

One of the major issues arising from this survey is a lack of clear definition of corruption and corrupt practices. From the results it is apparent that the respondents felt that corruption certainly did exist in the UK but to what extent was not clear. Furthermore, while there was clear consensus that the described practices were corrupt, there were differences in perception of how corrupt each practice was deemed to be. Cover pricing for example, was seen as extremely corrupt by 18% of respondents yet not at all corrupt by 5% of respondents. The survey gives indication on the “shades of gray” perception and provides valuable information on the levels of tolerance and accepted practice throughout the industry.

A possible explanation for these discrepancies becomes apparent when looking at the responses provided in the free text box at the end of the survey. Many respondents felt that practices such as cover pricing were not corrupt because they were part of the way that the industry operates. There seems to be a perception that if a company declines to bid for a contract, it may affect the likelihood of that Client inviting them to tender for other work in the future.

A common theme emerging from the free response section was the prevalence of non-cash incentives to gain advantage. This is a particularly nebulous area as gifts can range from free pens to all expenses paid holidays; the point where an innocent gift becomes a bribe is not clear. This may be particularly true of corporate entertainment, for example one respondent described a situation whereby they were offered a holiday abroad disguised as being a site visit. The industry is one where personal relationships are important as operations consist of a team of companies and people who may never have worked together before. The hospitality and networking functions are seen by some as teambuilding events and by others as a corrupt practice.

A further recurrent theme was the altering of daywork sheets. Respondents described situations whereby they had either witnessed extra hours or materials being added to sheets or had been asked to sign off altered sheets. This was explained by some respondents as being an accepted practice as contractors exaggerate their hours knowing that the client will knock them down. The client is knocking down the hours as they are aware that exaggeration is common therefore the situation becomes self-fulfilling and self-perpetuating. A similar situation appears to be occurring with inflated invoicing or claims for extra costs. On the flip side of this, clients may be finding spurious reasons to withhold payment from the contractor. As one respondent argued ‘is this corruption or merely a form of negotiation?’

A frequent complaint from respondents was that the employment of illegal labour allowed contractors to undercut prices or to make a profit by underpaying them while charging full labour rates. This was highlighted as being a serious issue in terms of tax health and safety and in undermining the skills base.

Other issues that arose from the open ended questions were theft of materials from sites, leaking of information to friends and family in order for them to put in the most competitive quote and refusal to consider more than one sub contractor for work. This, combined with the other findings suggests that corruption is present in most aspects of the UK construction industry.

The results strongly suggest that many of those working in the UK construction industry are not happy with the current situation and would like to see more measures in place to prevent corruption occurring.

What is the CIOB currently doing?

The CIOB is a member of the Anti-Corruption Forum, which exists to develop and promote measures to reduce corruption in development aid programmes. It seeks to ensure that the UK industry shows leadership in fighting corruption, particularly in developing a business case for eliminating corruption.

CIOB, have also embarked on a project on Ethics, which aims to review the CIOB's current approach to promoting ethical behaviour and identify current and emerging best practice with other professional associations. The project will identify areas for improvement and develop an action plan that will utilise best practice.

The CIOB has a clear policy on corruption, ethics and transparency that recommends and supports the development and implementation of industry-wide anti-corruption mechanisms.

The CIOB intends to follow up this initial research and explore the questions and issues it poses with other bodies such as the CIC, OFT, Transparency International and Ethical Edinburgh.

When asked if they felt that the construction industry and the government were doing enough to tackle corruption, the overwhelming response in both cases was no, they were not. It seems very clear from this that there needs to be more agreement on what constitutes corruption in order to begin enforcing anti-corruption measures.

Clear codes of ethical conduct must be widely communicated to the construction industry and implemented at all levels. Promotion of best practice should be seen as a priority. CIOB will join with other industry bodies, possibly under the umbrella of CIC, and instigate further investigation of the definition and existence of corruption as well as further research into the drivers that encourage corrupt practices.

Industry bodies should unite in a common initiative to provide guidelines and advice to professionals, especially those at the start of their career, on how to deal with these issues. It is further recommended that professional bodies either individually or in a combined initiative, develop a positive guidance and advice service for all who come into contact with corrupt practices and are unsure what course of action to take.

8

RESOURCES

Ethical Edinburgh – www.ethicaledinburgh.org

Institute of Business Ethics – www.ibe.org.uk

Serious Fraud Office – www.sfo.gov.uk

Transparency International – www.transparency.org.uk

UNICORN (United Against Corruption) – www.againstcorruption.com

Bribery – A representative of one party directly or indirectly pays a bribe to a representative of another party. This may be cash or a non-cash advantage. Bribes may be paid or received with or without the full approval of the organisations involved.

Fraud – A representative of one party tries to deceive a representative of another party, for example contractors may secretly collude during bidding to increase to contract price or a client may accuse the contractor of project defects in order to withhold payment.

Concealment of bribes – bribes are often paid through intermediaries in order to conceal their identity and purpose, often with the knowledge (including wilful blindness) of the contractor. Examples include the use of agents, or disguised sub-contract arrangements.

Corrupt practices during planning and design – examples include: bribing a local official in order to obtain approval or planning permission or the improper favouring of one bidder over another, possibly as the result of a bribe.

Corrupt practices during pre-qualification and tendering phase – examples include leaking of information such as the tender assessment procedure; collusion between bidders in order to share the market; or collusion between suppliers of materials in order to keep prices high.

Corrupt practices during project execution phase – examples include: bribes offered to the works inspector for approving defective work; the production of fraudulent timesheets or invoices; false or exaggerated claims against a contractor or the inclusion of false extra cost to a contract claim.

Corrupt practices during operation and maintenance phase – examples include: bribes paid to win operation or maintenance contracts and inflated costs due to monopoly over operation and maintenance (e.g. if the contractor that build the project is the only one capable of maintaining it)

(Source: Transparency International)



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