Hidden Corruption in Supply Chains

18 FEBRUARY 2026

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2365 words (not updated with new added words)

Corruption in global supply chains remains a significant cross-sector issue. It occurs at every stage, from raw-material procurement to final distribution (Demeshko et al., 2024). It often appears as bribery (Alqudah et al., 2025), facilitation payments, secret agreements, or manipulation of audits (Nicolás-Carlock & Luna-Pla, 2024). These practices are frequently normalised within commercial relationships (Basnyat et al., 2023).

This corruption is primarily systemic (Nicolás-Carlock & Luna-Pla, 2024). Embedded in complex intermediary networks, it obscures who controls and benefits from it. Researchers using network and complexity analysis have demonstrated that economic crime leaves 'hidden traces' in dense corporate and transactional networks (Kertész & Wachs, 2020). Those are extremely difficult to detect with traditional, firm-by-firm approaches (Kertész & Wachs, 2020).

The issue is not merely moral, in the sense of individual ethical failure, but also structural and institutional. Governance arrangements and power imbalances create a propitious environment for misconduct to thrive. Empirical evidence has linked corrupt practices to reduced firm productivity, distorted investment decisions and weakened institutional quality (La Rocca et al., 2023). This shows that corruption reflects and reinforces broader inefficiencies in economic organisation (De Rosa et al., 2010).

Such abuses stem not from a regulatory vacuum but from gaps between international norms and their national implementation (Demeshko et al., 2024). International standards on business and human rights, as well as on responsible supply chains, establish explicit expectations (Hofmann et al., 2018). However, the impact of these standards depends on the manner in which states transpose and enforce them, as well as on the extent to which companies integrate them into governance and contractual frameworks (Lebaron & Lister, 2015). Corruption in supply chains often facilitates violations of workers' rights, including wage theft, forced overtime, exposure to hazardous environments, and suppression of union activities. For instance, corrupt practices may allow factories to bypass safety regulations or ignore minimum wage laws, directly harming vulnerable workers (Ahmed et al., 2025; Demeshko et al., 2024). To understand why corruption remains possible, it is necessary to consider why global supply chains are particularly vulnerable, how corrupt practices operate and adapt, and what concrete impact they have on economies and societies (UNODC, 2025). Only then can transparency tools, due diligence and legal harmonisation be assessed as means to close the governance gaps that currently allow such practices to persist and mutate (Treleaven et al., 2021).

The complex nature of global supply chains involves multiple actors including lead firms, tiers of suppliers, subcontractors, logistics providers and public authorities (Lebaron & Lister, 2015). This complexity heightens corruption risks (UNODC, 2025). The multiplication of actors in such contexts has been demonstrated to increase the number of potential points at which bribes, kickbacks or collusive arrangements can occur (Nicolás-Carlock & Luna-Pla, 2024). Furthermore, this increase in complexity disperses responsibility; which, in turn, makes it difficult to assign liability to any single entity (Hofmann et al., 2018).

Subcontracting is a central feature of many industries, particularly in sectors such as garments, electronics and food. There, production is often outsourced to low-cost suppliers in different jurisdictions (Ahmed et al.,

2025). Each subcontracting layer increases the distance between brands and on-the-ground operations (Demeshko et al., 2024). This can enable local elites, brokers or criminal groups to exercise informal control through the implementation of corrupt practices (Hofmann et al., 2018).

Moreover, cross-border operations complicate oversight because supply chains often traverse countries with very divergent legal standards, enforcement capacities and levels of corruption risk (La Rocca et al., 2023). Companies may exploit regulatory diversity through jurisdictional arbitrage (De Rosa et al., 2010). And the absence of effective oversight in certain locations may result in the proliferation of illicit payments and opaque financial arrangements, which would be difficult to detect (Hofmann et al., 2018).

Information asymmetry conceals corruption, as lead firms know less about distant production sites, compared to local intermediaries (Kohler & Wright, 2020). This asymmetry enables agents on the ground to manipulate information regarding costs, compliance or local dealings (Demeshko et al., 2024). This can be achieved by concealing corrupt transactions behind ostensibly legitimate documentation or audit reports (Lebaron & Lister, 2015).

Risk is systematically externalised down the chain, because lead firms often shift operational and compliance responsibilities to suppliers and agents without providing equivalent support, oversight or incentives (De Rosa et al., 2010). When pressure to reduce costs and meet strict deadlines is communicated from head management to suppliers, a risk arises that those suppliers may resort to bribery or non-compliance to survive economically (La Rocca et al., 2023). In the meantime, the reputational and legal risk remains diffuse (Lebaron & Lister, 2015).

In addition, the efficacy of upstream control is often called into question (Demeshko et al., 2024). Social audits frequently encompass merely a fraction of facilities, which are often announced in advance, and tend to miss the parts of the chain where abuse is most probable (Ahmed et al., 2025). Research conducted on the 'ethical audit' regime has shown that reliance on standardised checklists and private monitoring can create an illusion of control (Lebaron & Lister, 2015). In practice, this illusion conceals labour exploitation, environmental damage and corrupt practices.

These vulnerabilities are compounded by enforcement challenges across different legal jurisdictions, where limited coordination, evidentiary barriers and uneven regulatory capacity reduce the likelihood of effective accountability. (Casino et al., 2022). Furthermore, corporate governance structures frequently prioritise cost efficiency over compliance. This is due to incentives that are misaligned and a fragmented internal oversight system, which allows risks to be externalised onto suppliers. (Schembera et al., 2023). Collectively, these elements facilitate the conversion of regulatory lacunae into entrenched and pervasive forms of corruption within supply chains. (Treleaven et al., 2021).

Consequently, the perpetuation of corruption in supply chains is not attributable to an absence of norms (Hofmann et al., 2018). It is rather

due to governance and enforcement gaps arising from complex structures, conflicting incentives and insufficient oversight (Lebaron & Lister, 2015). These gaps enable formal compliance with high-level standards to exist alongside deeply rooted informal practices that systematically undermine those same standards in practice (Demeshko et al., 2024).

The use of intermediaries, such as agents, brokers, shell companies or consultancies, within supply chains has been identified as a significant facilitator of corruption (Kuhn, 2019). These entities function as conduits for the transmission of illicit payments, thereby contributing to a system that is susceptible to abuse (Kertész & Wachs, 2020). These intermediaries frequently occupy positions of opacity between formal corporate structures and local authorities. This renders the tracing of the flow of money and the proving of the intention of a payment as a bribe difficult (Nicolás-Carlock & Luna-Pla, 2024).

Furthermore, the utilisation of shell companies in procurement networks shows the intricate web of legal entities that can be employed to disguise ownership and orchestrate illicit activities such as bid-rigging or the exchange of kickbacks (Kertész & Wachs, 2020). Analyses of such networks demonstrate the presence of dense clusters of related suppliers that appear to be independent, yet are controlled by the same actors (La Rocca et al., 2023). This enables the extraction of public funds and manipulation of competition.

Local political influence is another crucial enabler, as business actors may rely on politically connected figures or criminal groups to secure access to land, licences or labour (Ahmed et al., 2025). These regimes involve the concurrent utilisation of violence, intimidation and corruption, with the primary objective being the maintenance of order and the suppression of workers' rights, while ensuring the uninterrupted flow of production (Demeshko et al., 2024).

Weak governance zones, including regions with limited state capacity, high levels of poverty or ongoing conflict, offer particular opportunities for corruption related to natural resources and raw materials (Kertész & Wachs, 2020). Research on conflict minerals has shown how armed groups, local elites and complicit officials are able to capture parts of the supply chain using extortion and illegal taxation (Kertész & Wachs, 2020). These actors are then able to feed into global markets through intermediaries (Hofmann et al., 2018).

The fragmentation of legal frameworks across different jurisdictions has been shown to create a multitude of loopholes and inconsistencies that are able to be exploited by those with corrupt intent, particularly in cases where enforcement is inconsistent or sanctions are deemed insufficient (Treleaven et al., 2021).

National incoherence is also a contributing factor (Kohler & Wright, 2020). This is due to domestic regulations on procurement, corporate liability and transparency which may be poorly coordinated or undermined by

political interference (Kohler & Wright, 2020). In some settings, regulatory capture enables powerful economic interests to influence enforcement priorities or to block reforms that would strengthen oversight and accountability (De Rosa et al., 2010). The term 'regulatory capture' is used to denote the corruption of authority that occurs when a political entity, legislator, or regulatory body is co-opted to serve the commercial, ideological, or political interests of a member (La Rocca et al., 2023). It is important to note that processes designated as deregulation have the potential to generate further spaces for bypassing when they result in the reduction of obligations or the weakening of supervisory mechanisms without the provision of alternative safeguards (Treleaven et al., 2021). For instance, efforts to simplify procedures or reduce 'red tape' may unintentionally lower transparency and reporting requirements, making it easier for corrupt transactions to flourish undetected (Treleaven et al., 2021).

In addition, digitalisation and emerging technologies offer both risks and tools. While platforms and e-procurement systems can be susceptible to manipulation for fraudulent activities, their very design can also enhance traceability and detection if executed effectively (Bandara et al., 2025). In the field of data science, there has been a recent proposal of a new approach to reduce discretion, create immutable records and identify suspicious patterns across large datasets (Treleaven et al., 2021). This approach involves using blockchain, open data catalogues and advanced analytics (Treleaven et al., 2021). However, the impact of these factors is contingent upon the corporate governance and internal compliance cultures of the respective organisations. Absent independent oversight and authentic integration into decision-making processes, such tools may be relegated to mere symbolism, failing to meaningfully mitigate corruption risks (Schembera et al., 2023)

Corruption missallocates resources, raises transaction costs and reduces productivity at firm and sector levels (De Rosa et al., 2010). Research into companies' behaviour has indicated that informal payments can be considered a form of 'bribe tax', reduces output and discourages investment, particularly in environments where companies face both heavy bureaucracy and high levels of corruption (La Rocca et al., 2023). Corruption also distorts competition by favouring firms that engage in illicit practices over those that respect the rules. This, in turn, undermines market efficiency and innovation (De Rosa et al., 2010). When contracts are awarded or maintained on the basis of bribes rather than quality or price, efficient firms may be excluded and long-term development prospects may be harmed (Nicolás-Carlock & Luna-Pla, 2024).

At a societal level, corruption has been shown to erode trust in public institutions, private companies and certification schemes. And this can weaken social cohesion and democratic accountability (Lebaron & Lister, 2015). In sectors such as food and health, the presence of corrupt practices may directly threaten public welfare by compromising safety standards,

precipitating shortages or diverting essential goods from vulnerable populations (Kohler & Wright, 2020). The correlation between corruption and human rights abuses is an increasingly recognised phenomenon, as illicit practices often go hand in hand with labour exploitation, unsafe conditions and environmental harm (Demeshko et al., 2024). In global food systems and manufacturing, research highlights that marginalised workers are the most affected by the aforementioned combined pressures, experiencing wage theft, violence and exposure to hazardous environments (Ahmed et al., 2025).

Greater transparency in supply chains is frequently proposed as a core part of the solution, through measures such as public beneficial-ownership registers, open procurement data and mandatory reporting by companies (Kohler & Wright, 2020). Evidence from procurement and digital-governance experiments suggests that transparent, standardised data can facilitate external scrutiny, crowd-based monitoring and data-driven oversight (Bandara et al., 2025). In this regard, a due-diligence-based approach, under which companies must identify, prevent and mitigate adverse impacts within their supply chains, is increasingly promoted in both soft law and binding legislation (Ivanhoe, 2016). Research conducted on conflict-mineral regimes and sector-specific initiatives has shown that due diligence can shift in corporate behaviour, particularly when coupled with clear expectations, stakeholder engagement, and credible enforcement mechanisms (Demeshko et al., 2024).

International legal and policy harmonisation is crucial to avoid regulatory arbitrage and to create a more level playing field for businesses that are committed to integrity (Treleaven et al., 2021). Convergence between anti-corruption, human-rights and sustainability standards can help align incentives and reduce confusion for companies operating in multiple jurisdictions (Robin-Olivier, 2025). Existing frameworks, including the OECD Guidelines for Multinational Enterprises, provide a structured reference point for responsible business conduct. The Guidelines set out due-diligence expectations covering human rights, labour standards, environmental protection and anti-corruption (OECD, 2023). Their implementation is supported by National Contact Points (NCPs), which can receive complaints and facilitate mediation. However, the absence of binding enforcement mechanisms limits their deterrent capacity, as outcomes largely depend on reputational pressure rather than legal sanctions (Hofmann et al., 2018; OECD, 2023). In a similar manner, the UN Global Compact encourages companies to integrate ten principles relating to human rights, labour, environmental sustainability and anti-corruption into their strategic frameworks. Participation in this initiative remains voluntary and is primarily based on self-reporting through annual "Communication on Progress" disclosures. Whilst the initiative is effective in promoting awareness and normative alignment, concerns have been raised regarding its reliance

on voluntary compliance, which may result in selective engagement and superficial adherence (Ascencio, 2025).

These instruments promote coherence but depend on domestic implementation, corporate commitment and civil-society oversight (Hofmann et al., 2018). When combined with robust enforcement, meaningful stakeholder participation and technological tools for monitoring, they can contribute to closing the gaps that currently allow corruption to remain hidden in supply chains (Bandara et al., 2025).

Corruption in supply chains persists because of structural governance gaps, information asymmetries and fragmented regulation. These factors combine to create an environment conducive to the proliferation of illicit practices which are then masked by a veneer of compliance (Lebaron & Lister, 2015). Addressing this issue not only needs moral condemnation but also the establishment of a coherent framework centred on transparency, risk-based due diligence and international legal harmonisation. This framework must be capable of transforming the organisation and supervision of global production (Treleaven et al., 2021).

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