Corruption in the International Business Environment

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ABSTRACT

Corruption has long been a problem in international business relations despite the proliferation of anti-corruption laws and international agreements. Transparency International’s Corruption Perception Index (CPI), which measures and compares perceived levels of corruption in different countries around the world, indicates that no country is corruption-free, but some are more corrupt than others. Transparency International (TI) also indicates that the problem is more pervasive in developing countries than in the economically-advanced countries, but that does not imply that developing countries are necessarily more tolerant to corrupt practices. This paper examines corrupt practices in international trade and investment, possible causes and effects of corruption, and some of the anti-corruption measures so far taken by some governments, and international organizations. It recommends adopting more comprehensive solutions that go beyond legal deterrence, and other negative disincentives.

Keywords: Corruption, Bribes, Facilitation Payment, Refrascos, Transparency International, Foreign Corrupt Practices Act, Influence Peddling.

INTRODUCTION

Corruption is one of the most menacing issues that face corporate executives and entrepreneurs as they try to do business in the global market. Historically, it has been difficult to uncover and difficult to fight (Treisman, 2000, p. 4). In a survey of internationally active Norwegian firms, Soreide (2006) reports that 42 percent of the respondents “were convinced that unethical business practices were common, (and) one third (of them) decided not to operate in a specific country because of corruption and other problems” (p. 389). In addition, two-thirds of those firms indicated that their executives faced problems related to corrupt practices as they tried to operate in foreign markets (Soreide, 2006, p. 389). Transparency International (2015), which is a German-based NPO that ranks countries on the basis of perceived corruption, also reports that no country in the world is corruption-free although some are more corrupt than others. In a report on the costs of corruption, Transparency International (2013) estimates that corruption costs the world about five percent of its GNP (about US$ 2.6 trillion). In addition, corruption has some non-monetary costs that are difficult to quantify but impact most societies (p. 1-2). In a paper, published by the Bank of Finland, Roy and Nelson (2008) report that bribery alone costs the world about US$ 1 trillion annually (p. 7). Furthermore, Udenze (2014) reports that a survey of international business managers indicates that corruption, sometimes, raises project costs by more than 15 percent (p. 87); hence, the high priority international development institutions place on fighting corrupt practices, and on improving governance in the most affected countries.

This study examines the extent to which corruption impacts international business practice, and some of the measures so far introduced to fight it. It also examines the impact of cultural differences on the perception of corruption as well as the multiple costs and consequences of this problem. The intent of the paper is to contribute to the new international business managers’ understanding of a problem usually
encountered in the global market, which has to be dealt with tactfully in order to continue to increase sales and take advantage of business opportunities without violating anti-corruption laws at home or abroad.

**HOW DO THE LEAST AND MOST CORRUPT COUNTRIES RANK?**

The following tables show Transparency International’s twenty least corrupt countries and twenty most corrupt countries in 2015. Even Denmark, which was ranked as the least corrupt country, had a score of 92 out of 100, indicating having less than a perfect score.

**Table I: Top Twenty Countries with the Lowest Corruption (2015)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Corruption Perception Index (100=Corruption-Free; 0=Maximum corruption Level)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>1</td>
<td>92 out of 100</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2</td>
<td>91</td>
</tr>
<tr>
<td>Finland</td>
<td>3</td>
<td>89</td>
</tr>
<tr>
<td>Sweden</td>
<td>4</td>
<td>87</td>
</tr>
<tr>
<td>Norway</td>
<td>5</td>
<td>86</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5</td>
<td>86</td>
</tr>
<tr>
<td>Singapore</td>
<td>7</td>
<td>84</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8</td>
<td>83</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>9</td>
<td>82</td>
</tr>
<tr>
<td>Canada</td>
<td>10</td>
<td>81</td>
</tr>
<tr>
<td>Australia</td>
<td>11</td>
<td>80</td>
</tr>
<tr>
<td>Germany</td>
<td>12</td>
<td>79</td>
</tr>
<tr>
<td>Iceland</td>
<td>12</td>
<td>79</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>14</td>
<td>78</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>76</td>
</tr>
<tr>
<td>Japan</td>
<td>15</td>
<td>76</td>
</tr>
<tr>
<td>Barbados</td>
<td>17</td>
<td>74</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>17</td>
<td>74</td>
</tr>
<tr>
<td>Ireland</td>
<td>17</td>
<td>74</td>
</tr>
<tr>
<td>United States</td>
<td>17</td>
<td>74</td>
</tr>
</tbody>
</table>


**Table II: Twenty Countries with the Highest Level of Corruption Perception (2015)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank among 175 Countries</th>
<th>Score Out of 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Somalia</td>
<td>174</td>
<td>8</td>
</tr>
<tr>
<td>N. Korea</td>
<td>174</td>
<td>8</td>
</tr>
<tr>
<td>Sudan</td>
<td>173</td>
<td>11</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>172</td>
<td>12</td>
</tr>
<tr>
<td>South Sudan</td>
<td>171</td>
<td>15</td>
</tr>
<tr>
<td>Iraq</td>
<td>170</td>
<td>16</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>169</td>
<td>17</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>166</td>
<td>18</td>
</tr>
<tr>
<td>Libya</td>
<td>166</td>
<td>18</td>
</tr>
<tr>
<td>Eritrea</td>
<td>166</td>
<td>18</td>
</tr>
<tr>
<td>Yemen</td>
<td>161</td>
<td>19</td>
</tr>
<tr>
<td>Venezuela</td>
<td>161</td>
<td>19</td>
</tr>
<tr>
<td>Haiti</td>
<td>161</td>
<td>19</td>
</tr>
<tr>
<td>Guinea Bissau</td>
<td>161</td>
<td>19</td>
</tr>
</tbody>
</table>
Although these scores are widely used in comparing corruption in different countries, they are still subjective since they are based on surveys that reflect perceptions of corruption, not the actual number or frequency of acts of corruption. Thus, as Kenny (2006) states in a World Bank Policy Research Paper (WPS4099), “broad aggregate perceptions indices ….measure perceptions of corruption, not corruption itself” (p. 8). It should also be noted that some of the countries ranked are facing internal and/or external conflicts that can impact societal values, exacerbate economic problems, create uncertainties, disrupt public institutions, and, therefore, could impact the values and behaviors of public official in regard to bribery, embezzlement, kickbacks, etc. The TI scores also focus only on business-government corrupt practices, and exclude business-business corruption that can be substantial.

### THE DEFINITION CHALLENGE

Corruption is defined differently in different societies and in different cultural contexts. There is no universally-accepted definition of corruption, although most of them have some common elements in regard to misuse of an office for personal gain. To Vitoria and Kroeze (2015), having a single definition may not even be helpful since corrupt practices change from time to time, depending on social and political dynamics (p. 2).

According to Gerring and Thacker (2004), the term is often used as a generic term to imply any of several illegal and improper practices like bribery, fraud, side payments, and kickbacks (p. 300). In its Glossary of International Standards in Criminal Law, OECD (2008) brings attention to multiple definitions of corruption that are used by different countries, organizations and groups, including: (1) Corruption “is the abuse of public or private office for personal gain”(p. 22), (2) “Corruption involves behavior on the part of officials in the public sector, whether politicians or civil servants, in which they improperly and unlawfully enrich themselves, or those close to them, by the misuse of the public power entrusted to them”, and (3) “Corruption involves behavior on the part of officials in the public and private sectors in which they improperly and unlawfully enrich themselves and/or those close to them, or induce others to do so, by misusing the position in which they are placed” (p. 23). For the purpose of this paper, the first and third definitions are most appropriate since they include both the business-government and the business-business acts of corruption.

### FORMS OF CORRUPTION

Corruption takes place in various forms that are not all treated equally from a legal standpoint. Some are seen in some societies as improper, or even immoral but not unlawful. Others are universally outlawed. The following are some of the most recognized forms of corruption:

1. Bribery.
2. Extortion.
4. Embezzlement.
5. Influence peddling.
6. Facilitation or lubrication payments (refrescos).
7. Nepotism.
8. Fraud.

Beyond these forms, bribes can be classified in a variety of ways. They can be seen as active or passive. The first is the kind in which the giver of the bribe initiates the action. In the passive kind, on the other hand, the potential recipient of the bribe initiates the idea with a direct request, or an indirect request through an agent or a partner. Bribes can also be a part of grand corruption schemes or petty schemes. Grand corruption involves substantial payments to politicians, or high-level officials or policy-makers as opposed to the petty type in which the payees are middle or lower-level officials who can still have some power and influence. Facilitation payments, speed money, or greasing payments (refrescos) fall in the petty corruption category. They usually help speed up the process of contract approval, getting the wheels moving, and giving the payer what he/she is already entitled to have, but on a timely basis. According to Diran (2008), “mountains have been moved in Latin America with refrescos” (p. 37).

In addition to their monetary value and the recipient’s political stature or position in bureaucracy, bribes can also be classified in terms of their intent. The intent may be to get an exemption from a regulatory requirement or a code, rigging a tender, allowing a law violation, getting a lower tariff rate, getting an unworthy project approved, or generally having a competitive advantage in the awarding of government contracts. If the result is the violation of a safety or an environmental protection code, the consequences may be quite serious as human lives can be lost. One can imagine the extent of damage that can result from allowing the violation of building codes in construction projects or the building of a dam as a result of the payment of a bribe (Roy and Singer, 2006, p. 3).

THE CULTURAL FACTOR IN CORRUPTION PERCEPTION

Some corrupt practices are universally recognized as such and generally outlawed, while others are tolerated or viewed as normal or manifestations of local culture, business etiquette, and proper social behavior. An example of such practices is gift-giving in conducting or promoting a better business relationship. This could be perfectly acceptable, if not recommended, in some cultures, but is frowned upon and outlawed in others. To demonstrate the impact of different business cultures on the treatment of gift-giving and receiving, Correy (2015, May 12) brings attention to an old case in a British court (1787-89), in which the British governor of Bengal, India, was accused of corruption for being known for accepting repeated gifts from Indian princes and other officials. After listening to the defense’s argument, the court declared him “not guilty” on the basis that gift-giving/receiving was not only a part of the Indian culture but was also expected, and that it would be naïve in this situation to apply values stemming from the British culture (p. 2).
CAUSES AND MOTIVATING FACTORS

Scholars have pointed to several causes and consequences of corruption. For international business operators, the ultimate motive is increasing sales and profits and gaining a greater competitive advantage. Among the contributing factors in the environment are:

1. Materialism and the belief that every man/woman has a price.
2. Low civil service pay that contributes to the attractiveness of bribes and kickbacks.
3. Inadequate internal/administrative controls, and checks and balances in the political system.
4. Excessive government regulations (red tape) that complicate project approval.
5. A large number of competitors seeking approval for the same project or contract.

Recipients of bribes are also encouraged by internal and external factors such as:

1. A culture that associates social status with wealth and purchasing power.
2. A wide income disparity.
3. Having power to approve or disapprove projects or contracts.
4. Lax financial and/or operational controls.
5. Lack of transparency in decision processes.
6. Weak legal culture, in which laws are ignored if nobody is watching.
7. Low risk of getting caught and getting convicted.
8. Minimum or insignificant penalty if caught and convicted (Treisman, 2000, p. 4-12; Goel and Nelson, 2008, p. 8).

CONSEQUENCES OF CORRUPTION

Corruption has many economic, political, and sociological consequences although clear causation may be difficult to establish. According to OECD (2014), however, “the costs of corruption for economic, political and social development are becoming increasingly evident” (p. 1). The political turmoil in Brazil in 2006, for example, is believed to have been precipitated by prevalent corruption in both business and government, but there might be multiple additional, current and historic, factors behind this and other political upheavals. Studies about the relationship between corruption and economic growth, for example, lead to different conclusions. As Lambsdorff (2006) observes “the link between corruption and GDP or the growth of GDP has its empirical and theoretical weaknesses” (p. 27). Similarly, Mo (2001) states that “theoretically, the literature reaches no agreement about the effect of corruption on economic growth” (p. 66). However, he has found that “a 1% increase in the corruption level reduces the economic growth rate by about 0.73%” (p. 76). The World Bank and other financial institutions consider corruption a major challenge in the battle for economic progress and poverty reduction despite conflicting theoretic conclusions (The World Bank, 2016, May 10, p. 1). It also states that “countries capable of controlling corruption are able to use their human and financial resources more efficiently, attract more foreign and domestic investment, and grow more rapidly” (p. 2).

OECD (2014) indicates as well that about 5 per cent of the world GDP is lost due to corruption, and the World Economic Forum finds that corruption, on average, adds 10 per cent to the cost of doing business. Meanwhile, it is estimated that as much as 25 per cent of Africa’s GDP may be lost annually due to corruption. With the resulting inefficiencies due to corrupt practices, poverty rates rise and so does income inequality (OECD, 2014, p. 3).
In support of the conclusion that corruption results in economic inefficiencies, one may envision the results of the selection of inferior and costly projects due to the payment of bribes or the promise of kickbacks. Such corrupt practices add to project or contract cost, as previously indicated; thus inflating their cost. The bribe given, to get a project approved, adds to the cost of the project. In the meantime, quality and safety standards may be compromised. Another example of the impact of corrupt practices is when a bribe causes a customs official to give an importer a lower tariff rate that reduces government revenues and diminishes the competitiveness of other companies in the marketplace that refuse to pay a similar bribe, and end up paying a higher tariff rate.

**LEGAL FRAMEWORK TO CURB CORRUPTION**

The overwhelming global concern about the negative consequences of corruption has resulted in an increase of anti-corruption laws in most countries, and the signing of international agreements and conventions, particularly in the last few decades. In 1977, the United States, for example, enacted the Foreign Corrupt Practices Act, which outlaws payments by American-based firms to foreign government officials as well as foreign political candidates and political parties (Rodrigues, 1996, p. 467). As Hill and Hult (2017) also indicate, the revised version of this act allows “the payment of speed money to government officials…to get business done” (p. 143). This act has been criticized for its seeming extraterritorial reach, and by businesses that have difficulty competing with foreign-based bribe-giving firms (Ala’i, 2002, p. 6).

On a broader scale, the UN and a number other intergovernmental organizations have passed anti-corruption resolutions, and/or have had their members sign anti-corruption agreements or conventions. For example, the UN General Assembly has approved “Resolution 3514” that is entitled “Measures against Corrupt Practices of Transnational and Other Corporations”, and OECD has had its members and other interested nations become signatories to the “Convention on Combating Bribery of Foreign Public Officials in International Business Transactions”. Other agreements have been reached under the auspices of the Council of Europe, the Organization of American States (OAS), and the Asia-Pacific Economic Cooperation (APEC). These resolutions and agreements urge signatories to pass and enforce anti-corruption laws with appropriate penalties (Ala’i, 2002, p. 2-7; OECD Glossary, 2008, p. 11-46).

One legal issue that had to be addressed by law makers in different countries is the liability of corporations as legal persons, and their executives and agents who act on their behalf or in their name. Stressing the importance of corporate liability in corruption cases, OECD’s Glossary (2008) states that “making legal persons liable for bribery (has) a deterrent effect. It … also force(s) companies to take preventive measures, such as implementing corporate compliance programs and codes of ethics (p. 69). OECD (2008) also indicates that many countries have adopted “the Legal Identification Theory”, according to which corporations can be liable to corrupt practices committed by their executives and other employees to whom authority has been delegated to act on their behalf or in their name. As a result, corporations could face financial penalties in accordance with domestic anti-corruption laws (p. 64-65).

**WHY HAS CORRUPTION BEEN DIFFICULT TO CONTROL**

Efforts to end corruption have had limited success, as evidenced by the fact that no nation around the world is completely corruption-free. One reason may be the excessive reliance on legal deterrence, as opposed to treating the problem from a holistic standpoint, in which multiple remedies are attempted to
deal with the various root-causes of corruption. Thus, one can identify multiple obstacles to this complex problem, including:

1. A weak legal culture, in which laws are not commonly or consistently respected.
2. Perception that there is a small chance of getting caught.
3. Corrupt practices are commonly accepted or tolerated in the society at large.
4. Having a “nobody gets hurt” attitude toward certain corrupt practices.
5. Different views towards the meaning of corruption and its different forms.
6. Attitude that corruption is a form of “exchanging favors”.
7. Insignificance of the penalties for acts of corruption.
8. Low pay of public officials.
10. Lack of checks and balances and transparency in decision making.
12. Weak identification with common organizational and/or broader community goals and aspirations.
14. Low appreciation of the prevailing societal and/or organizational values.

Roy and Singer (2006), indicates that right-leaning and left-leaning observers differ in their prescriptions of how to reduce corruption. The right-leaning, for example, suggest:

1. Reducing the level of government intervention in the economy.
2. Raising the motivation and pay of government employees.
3. Increasing awareness of the legal consequences.
4. Educating all concerned on the importance of the reputation of public servants.

The left-leaning, on the other hand, favor:

1. The creation of a culture that values merit as a means of increasing income.
2. Reducing privileges that are not based on earned income.
3. Educating all concerned on the consequences of their decisions on self and others (Roy and Singer, 2006, p. 11-12).

CONCLUSION

Despite the increase in worldwide efforts to control, if not to eliminate, corruption, it is likely to remain in some form and to some degree, particularly since there is no agreement on its meaning and dimensions. Cultural differences across countries would likely to continue to impact corruption perception, at least some of its forms. For example, a gift from a corporate executive to foreign government official may be treated by US authorities as a violation of the Foreign Corrupt Practices Act. The same action may be treated in another country as a mere expression of friendship or a way to break the ice. This and other differences complicate reaching universal solutions to this economically, socially, and politically damaging problem. Aside from the legal remedies, adopted in most nations, the world needs comprehensive solutions that go beyond outlawing certain practices, and punishing anti-corruption law violators. Other remedies may include raising identification with societal and organizational ideals and aspirations. Finding ways for harmonizing individual interests with broader interests may lessen the motivation to engage in selfish corrupt practices, and may, over a period of time, help put greed under some control.
WORKS CITED


