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Corruption in International Business and Double Standards of Multinational Corporations

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Jimmy Perumadan

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*Für Mama, Papa, Jasmin, Jimmy, Stefan,
und all jene die an mich geglaubt und mich ermutigt haben!*

Ein bulgarischer Politiker macht eine Dienstreise nach Süditalien. „Siehst du diese Straße?“, fragt sein italienischer Kollege. „Ja“, antwortet der Gast. „50 % für die Straße, 50 % für mein Haus“, sagt der Italiener stolz und zeigt auf seine Villa. „Siehst du diese Brücke?“ fragt er weiter. Der Bulgare nickt. „50% für die Brücke, 50 % für mein Auto“, sagt er und zeigt auf seinen Ferrari. „Und siehst du diese Schule? 50% für die, 50% für meinen Garten.“ Einige Zeit später reist der Italiener nach Bulgarien. Er sieht zehn Villen mit wunderschönen Gärten und zehn Ferraris, die davor parken. „Wie kommt es, dass du so reich bist?“ fragt der Italiener, und der Bulgare sagt: „Siehst du diese Straße, diese Brücke und diese Schule?“ „Nein, da ist nichts“, sagt der Italiener. „Eben.“

Ivan Krastev, Bulgarian political scientist

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Acronyms

BPI	Bribe Payers Index
CPI	Corruption Perception Index
CSR	Corporate Social Responsibility
FCPA	Foreign Corrupt Practice Act
FDI	Foreign Direct Investment
IS	Internet source
LDC	Low Development Countries
MNCs	Multinational Corporations
NGO	Non-governmental Organization
OECD	Organisation for Economic Co-operation and Development
TI	Transparency International
UK	United Kingdom
UN	United Nations
US(A)	United States (of America)

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Abstract

This diploma thesis analyzes the role of multinational corporations (MNCs) in corruption in the particular context of international business, and critically assesses their behavior in foreign markets. It attempts to answer the question whether or not MNCs have different standards of business ethics when operating beyond their headquartered country. This is an important field of investigation since previous studies have proven the detrimental effects of corruption on international business, however the compliance with anti-corruption laws is hardly explored from a private business point of view.

This thesis is based on a broad literature review, which consists mainly of articles from well-known journals, working papers provided by international organizations and NGOs, and some of the rare relevant books, published by important figures in corruption research.

The findings reveal that MNCs operate with different standards in foreign countries, especially in developing countries. MNCs mainly from industrialized countries have sophisticated payment mechanisms to evade home country anti-corruption laws. This implies that they apply double standards regarding corruption. Ethical norms, which hold for home countries are no longer abided in international markets. This thesis should provide a basic framework for further considerations and facilitate empirical studies.

1 Introduction

Corruption is a widespread and complex phenomenon. It is defined as the abuse of entrusted power for private gain (Transparency International, IS 1). Corruption can be found in developing countries as well as in industrialized countries. It is a culturally embedded phenomenon, which differs from country to country. It is multidimensional and occurs in various forms, be that the misappropriation of public funds, or the purchase of a university degree.

Corruption affects small and big businesses, government revenues and spending, but also the average citizen. Corruption is a major barrier in reducing poverty in developing countries. It misallocates great sums of development assistance to unscrupulous politicians' private pockets (World Bank, IS 2). However, corruption is not exclusively based on immoral motivation. It also includes situations where public institutions are weak and ordinary people have to bribe officials in order to receive basic public services such as health care, education or licenses.

Corruption is not a new phenomenon; it is as ancient as mankind itself. Nevertheless, the attention on corruption has increased in the last two decades and the society is more aware of corruption since ever before (Eicher, 2009). But what has caused this degree of attention now?

First, the availability of information can be one reason for this new consciousness (Tanzi, 1998). In 1995, corruption research experienced a breakthrough with the publishing of the Corruption Perception Index (CPI), the first index of perceived corruption by the NGO Transparency International (TI). The index has made it possible to conduct empirical studies on this issue, which was before that, difficult due to missing data. Secondly the increasing importance of international organizations such as the United Nations and the

OECD¹, has brought the dilemma of corruption worldwide under spotlight (Eicher, 2009, Tanzi, 1998). Finally, the economic globalization is converging societies with different perceptions of trust and business ethics. National firms expand their operations to foreign countries to acquire new markets. Consequently firms have to face business environments with different norms and rules. In a highly integrated corporate environment, different business customs and ethics meet together and their difference becomes more obvious (Fleming and Zyglidopoulos, 2009, Eicher, 2009).

The role of corruption in international trade is often underestimated, even though many studies have found corruption to be detrimental to international business (De Jong and Udo, 2006). Corruption discourages Foreign Direct Investment (Javorcik and Wei, 2009, Habib and Zurawicki, 2001), influences firms' mode of market entry (Uhlenbruck et al., 2006), decreases national competitiveness (Sanyal, 2005) and deters economic development (Mauro, 1995). There is plenty of research on macroeconomic causes and consequences regarding corruption. However, relevant literature from a private business point of view is rather limited. In particular, studies dealing with the behavior of multinational corporations (MNCs) in corrupt environments and their compliance with anti-corruption laws are lacking.

Given these facts, this diploma thesis highlights corruption in international business and addresses the toleration of corruption by MNCs in foreign markets. When keeping in mind the trend for Corporate Social Responsibility (CSR) and the movement of 'Green Business'² in industrialized countries (Eicher, 2009, Keinert, 2008), the behavior of MNCs in foreign countries, mainly developing countries, seems to be a serious contradiction. Many multinationals operate in foreign markets with different standards than in their home markets (Fleming and Zyglidopoulos, 2009). Rose-Ackerman (2002)

¹ Organisation for Economic Co-operation and Development

² In the broader sense, Green Business is an enterprise that operates in a way that has no negative impact on the local or global environment, the community or economy (Online Dictionary, IS 3).

has already addressed this ethical dilemma of corruption and accuses MNCs of double standards³. However she analyzed the topic from a behavioral scientist's point of view. Consequently, this paper attempts to highlight this paradoxical behavior of MNCs from an economic perspective.

When it comes to corruption in international business, bribery of foreign public officials is the most prevalent case, be that for speeding up administration delays or to be awarded in large public procurements in the construction sector (Eicher, 2009). For this reason, special attention is given on foreign bribery of public officials by globally operating companies.

This thesis is based on a broad literature review, which consists mainly of articles from well-known journals, working papers provided by international organizations and NGOs and some of the rare relevant books, published by important figures in corruption research.

The paper is divided into three main parts, beginning with corruption research, followed by corruption regarding MNCs and finally concluding with the role of MNCs in the fight for anti-corruption. The first part covers the difficulty of measuring corruption, forms of corruption, causes and consequences of corruption. It also attempts to figure out whether corruption can have beneficial effects from an economic point of view. The second part, discusses the behavior of MNCs in corrupt markets and the toleration of corruption in foreign markets. The last part deals with anti-corruption and points out the importance of international and national anti- corruption laws and finalizes with the significance of corporate code of conducts, as a tool for enforcing an ethical business philosophy.

³ Double standard is an attribute used for the unequal and unfair application of moral codes or principles of good behavior on different groups. In the context of corruption, it describes the use of different standards of business ethics in different markets (Online dictionary, IS 4).

2 Clarification of terms

2.1 Multinational corporations

Companies operating in multiple countries are more often faced with corruption than others (Beets, 2005). Therefore this research focuses on multinational corporations (MNCs) that are characterized by operating in more than one country with headquarter in the home country. It distinguishes from a company producing and exporting from its home market into various countries, by its substantial direct investment in the host countries. Further, it is important to highlight the strong engagement of the MNC's headquarter in the management of its legally independent subsidiaries in overseas markets. (Bartlett et al., 2003, Dunning, 1993). For this reason the subsidiaries are somehow influenced by the perception of business ethics and practices of its parent company.

2.2 Favoritism

Favoritism is giving preferential treatment to certain people by persons who have entrusted power, e.g. public officials who decide upon the distribution of resources. This can be either family, friends or others close to them but also people of the same ethnic or religious group. For example, an applicant for an employment is selected based on personal relationships, rather than on competences and experience. A special form is *nepotism* that limits the preferred persons to family members and close friends, also called 'Freunderlwirtschaft' in Austria (Andvig et al., 2000).

2.3 Red tape

The term 'red tape' describes excessive administrative regulation and inefficiency of government bureaucracy; the rigid adherence of formal rules by public officials. The term originates from the cord used for tying together government documents in the early centuries of British colonialism. It is a burden to organizations in everyday business, and causes long waiting times

and obscure official procedures (Luton, 2000, Kaufmann and Wei, 1999). Hence many businesses bribe public officials to speed up procedures and to overcome bureaucratic burdens (Méon and Sekkat, 2005).

3 PART I: Corruption research

Corruption is difficult to define, difficult to monitor and difficult to measure. Nevertheless, in the last two decades corruption has become a popular field of research (Frank, 2004). Major part of the literature is analyzing the topic from a political or legal point of view. The following sections give an overview on corruption research from an economic point of view and focus on international business.

3.1 Definition of corruption

Numerous scholars have published papers on the effects of corruption. Nevertheless, the literature is lacking in defining and classifying this illicit activity. International organizations, such as the United Nations or the leading NGO in anti-corruption Transparency International, have held various conferences on anti-corruption strategies and have filled numerous pages with reports on corruption, but a clear and satisfying definition, which covers all possible forms and occurrences, can't be found hardly anywhere.

Corruption is a phenomenon that is heavily embedded in culture. Business ethics differ from country to country and hence the perception of corruption differs as well. For instance, some business practices that are regarded as corrupt in Germany are ethically accepted in China, where it is usual to begin a business relation with personal gift giving. The nuance of what is legal and what is illegal is very subtle and differs from culture to culture (Fleming and Zyglidopoulos, 2009). Andvig et al. (2000) agree on the complexity to find a universal definition of corruption that can be applied to all business environments. Consequently, defining corruption can be a question of political, cultural, economic, or moral attitude.

Nevertheless, what is corruption about? What does it mean and what “count” as corruption?

The etymology of the term corruption goes back to the mid 14th century, from the old French word *corruptio*, which means ‘unhealthy and uncouth’ and directly stems from the Latin word *corrumpere*, meaning ‘to destroy, to mar or to spoil’, but also figuratively ‘to seduce or to bribe’ (Skeat, 1993).

Transparency International (TI) defines corruption as *“the 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”* (Asian Development Bank, 2005). A similar interpretation is made by the OECD, which states that corruption is the *“active or passive misuse of the powers of public officials (appointed or elected) for private financial or other benefits”* (2007, p. 152).

Another definition that is often cited in the literature comes from Nye (1989), *“Behavior which deviates from the formal duties of a public role because of private- regarding [...] pecuniary or state gains, or violates rules against the exercise of certain types or private-regarding influence”* (quoted in Fleming and Zyglidopoulos, 2009, p. 5).

To sum up, most of the definitions share the common attention upon *the misuse of public power for private benefit*. The attribute *misuse* refers to a behavior that deviates from the formal duties of a public role. The term *private benefit* outlines the obtaining of money or valuable assets, but covers also increases in power or status, as well as future favors for friends or relatives. *Public power* is carried out by persons elected to public positions, such as bureaucrats and politicians and is exercised in different sectors. For example, *“judiciary, public procurement, business regulations and granting of permit, privatization, foreign exchange (including customs, trade permits, international financial transactions), taxes (including granting of tax exemptions), police, subsidies, public utility (water, electricity, telephone, garbage collection, health*

care), and government services (health, education)” (Lambsdorff, 2007, p. 16).

In general all definitions approve that corruption is a problem and arises only in the interaction of public and private interests, where someone holds a public office and takes advantage of it by violating the rules. However, these interpretations do not apply to corrupt activities in the private sphere. Most of the definitions are limited to situations in which one side is a public official (Husted, 1999). This focus on the private and public division is often criticized and contributes much to the confusion in interpreting corruption (Bratsis, 2003, Treisman, 2000).

Only recently the discussion has extended from public corruption to corruption in the private sector. The statement of the European Union that declares corruption as the abuse of power for private gain (Commission of the European Communities, 2003) does not limit corruption only to public crime. It evades the term ‘public’, in order to cover actions where power is not distributed by the state. One way to overcome the complexity of corruption is to keep the definition rather general. Affirmative to these concerns the United Nations define corruption as *“requesting, offering, giving or accepting, directly or indirectly, a bribe or any other undue advantage or prospect thereof, which distorts the proper performance of any duty or behavior required of the recipient of the bribe, the undue advantage or the prospect thereof”* (United Nations, 2005, p. 132).

Since this paper focuses on the behavior of multinational corporations in corruption rather than political inefficiency, a definition that includes both private firms and government officials is used for the purpose of this thesis. The further research is based on the current definition of Transparency International, *“Corruption is the abuse of entrusted power for private gain”* (Transparency International, IS 1). This interpretation allows focusing on the unethical action, rather on the kind of person who is engaged.

3.1.1 Definition of bribery

The OECD defines bribery as *“the offering, promising, or giving something in order to influence a public official in the execution of his/her official duties”* (Sanyal and Smanta, 2004, p. 1). This can involve monetary or other financial benefits, such as scholarships for university education, or non-financial benefits such as favorable publicity (Sanyal and Smanta, 2004).

Foreign bribery is the most frequent form of corruption in international business. It occurs when first, a border is crossed and second, involves the production, distribution or circulation of legitimate goods or services, usually by multinational firms. Foreign bribery takes place when *“employees and agents of multinational corporations illicitly reward government officials of host countries with monetary, material, or social assets in order to obtain business contracts and concessions”* (Sung, 2005, p. 112). There are many terms describing bribery, such as kickback, payoff, graft, payola, slush money or grease money (Andvig et al., 2000).

3.2 Measurement of corruption

The main challenge in corruption research is to collect consistent and reliable empirical data (Husted, 1999). Corruption is illicit and unethical, and thus takes place undercover. As it is with other criminal activities, corruption is hard to observe directly. It is not registered anywhere, nor do direct victims exist, and the involved parties do their best to keep it in secret. Obviously it is very difficult to acquire first hand information, causing researchers to rely on perception-based measures, which are subjective and rather inaccurate (Treisman, 2000).

A very early quantitative study was conducted by Mauro (1995), who analyzed an index (published by Business International), including 52 countries based upon estimations of journalists, businesspeople and specialists, who were asked to tell to what extent business transactions in the country in question

involved corruption and questionable payments (Andvig et al., 2000, Mauro, 1995).

These days a range of private and public institutions, such as business consultancies, research companies, NGO's and universities, make an effort to observe the international business environment to provide similar indices. These surveys include domestic and expatriate business people as well as ordinary residents on the perceived level of corruption in the countries where they live or work. The comparative results from these surveys are remarkably consistent. Different indices correlate highly. Domestic and foreign business people, consultancy firms and residents basically agree about which countries have more corrupt governments (Treisman, 2000).

Today, Transparency International (TI) publishes the most accepted and commonly used index, the Corruption Perception Index (CPI), annually.

3.2.1 The Corruption Perception Index

Founded in 1993 and headquartered in Berlin, Transparency International is today the leading non-governmental organization, which deals against corruption with 90 departments worldwide.

The first CPI was published in 1995 and was designed by Johann Graf Lambsdorff, who plays a pivotal role in corruption research. Until 2008 the CPI was calculated under his direction at the University of Passau, in Germany. The publication of the CPI was an important step for the research in corruption since it was the first time when a corruption index was made available to the public. Each year the presentation of the new CPI ranking arouses the attention of the media, stirs up political debates and consequently creates awareness in society for the problems caused by corruption. Many countries have realized the urgency of anti-corruption policies for their international reputation, in terms of political and economic attractiveness. But also from an academic point of view, the establishment of TI's corruption index was of great importance. It provides the foundation for further empirical research and since then the research on corruption has been flourishing.

The CPI evaluates the level of perceived corruption by politicians and public officials. Hence it deals with corruption in the public sector and includes the embezzlement of public funds and the subject of bribery. The CPI ranks countries by its corruption level from 0 to 10, whereas 10 indicates a country with a low level of perceived corruption and 0 represents a country perceived to be highly corrupt. This ranking allows a cross-country comparison. In 1995 the index covered 41 countries and in 2010 it included 178 countries. At the present the index is based on the weighted average of 13 different expert surveys and investigations, which are conducted by 10 independent institutions. A country is included in the ranking provided that it is evaluated by at least three surveys. The score of a country is a better indicator of perceived corruption than its ranking because the ranking can change every year simply because new countries enter the index or others drop out due to non-availability of data (Lambsdorff, 2007).

According to the CPI 2010 the three 'cleanest' countries in 2010 are Denmark, New Zealand, and Singapore, whereas the countries with the highest perceived corruption are Somalia, Myanmar and Afghanistan. Austria ranks 15th, the USA 22nd, Italy attains place 67 and Russia is inconceivably 154th out of 178. An alarming finding is that nearly 75% of 178 nations score below 5⁴. The following figure visualizes the result of the CPI 2010.

⁴ For results of the CPI 2010 see Appendix, figure A, p. 77

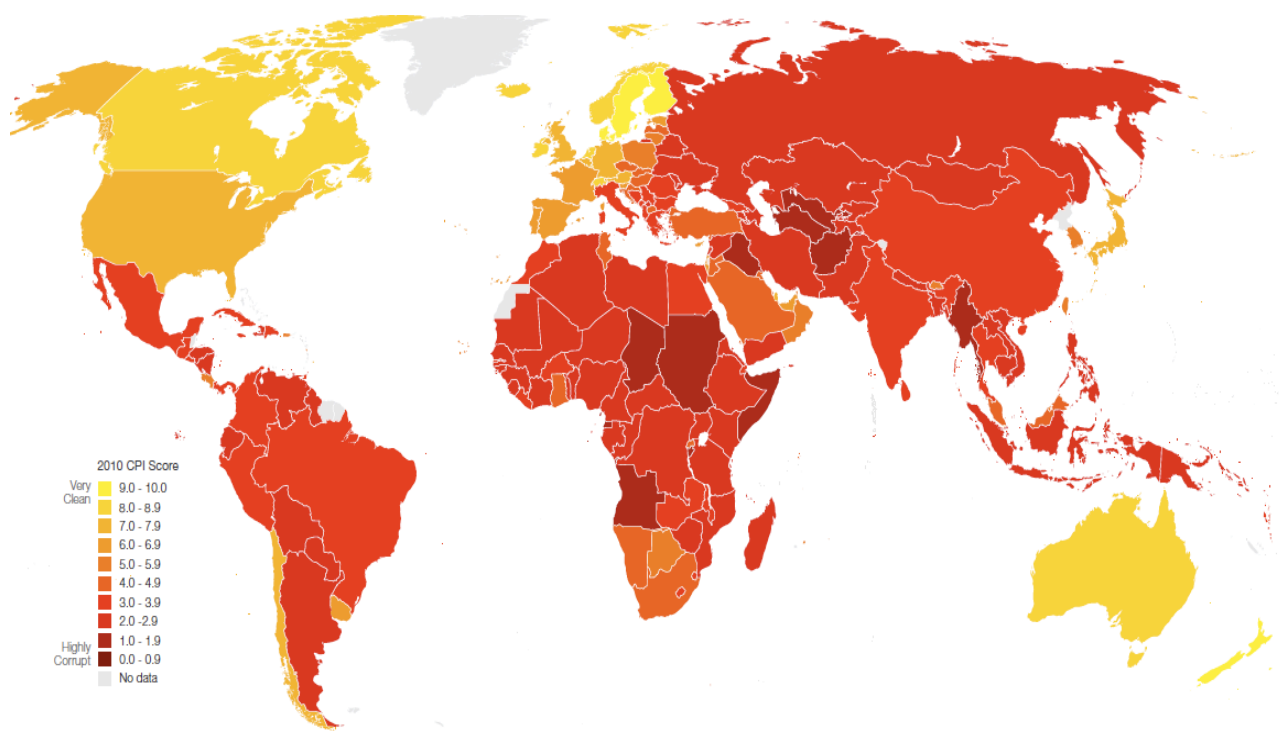


Figure 1: Results of Corruption Perception Index 2010 (Source: TI, 2010)

The illustration reflects that countries with higher levels of perceived corruption are primarily developing countries, which are marked by long-standing conflicts and political instability, such as in Afghanistan or Myanmar. However it also highlights that the issue of corruption is not only constrained to third world countries; some industrialized countries are performing very poorly as well, such as Greece, Italy and France⁵.

How reliable is Transparency International's corruption index? The CPI 2010 is a combination of 13 different surveys from 10 independent organizations. This makes the index statistically robust and reduces the chance of errors. Further, the methodology used to assess the data is the same for all countries. According to Transparency International the results from different organizations correlate well with each other. This holds even for different types of respondents; the assessment of locals goes along with those of

⁵ More on this see below "The Bribe Payers Index" p. 14

foreign country experts (TI, 2010, Lambsdorff, 2007). Likewise, when comparing the CPI with other corruption perception indices, the results do correspond with each other. For example the index compiled by Business International, which was used by Mauro in 1995 (Treisman, 2000).

However, there are some limitations to the CPI. Galtung (1998) criticizes the significance of the CPI due to its subjective ranking. He labels it a 'survey on surveys'. Second he argues that it measures only the rankings in relation to other countries but does not give any information on the absolute number of corrupt transactions. Furthermore Lambsdorff (2007) points out that the annual changes in ranking of one country can be induced by variations in the number of included countries. Thus the index is not an appropriate tool for trend analysis or for monitoring changes over time. Moreover he adds that the definition of corruption varies between the surveys and thus it is questionable whether they measure the same phenomenon (Lambsdorff, 1999). The questionnaires ask about the extent of perceived corruption, but it is rather unclear whether it aims at the frequency of corrupt activities or the paid amount of bribes. In addition to it, the surveys do not differentiate between administrative and political corruption⁶ (Andvig et al., 2000).

Besides the CPI, Transparency International publishes a second index, the Bribe Payers Index (BPI). The BPI is of greater importance to this diploma thesis, because it deals with corruption carried out by companies in foreign markets.

⁶ According to Transparency International political corruption is "the behavior of (elected) public officials which diverges from the formal components - the duties and powers, rights and obligations - of a public role to seek private gain" (Khan, IS 5). Administrative corruption is defined as "the institutionalized personal abuse of public resources by civil servants" (Khan, IS 5).

3.2.2 The Bribe Payers Index

While the CPI is measuring corruption from the demand side, meaning the bribe taking, the BPI is dealing with the supply side of corruption. The bribe giving, defined as those who are willing to pay money out of their own motivation in order to receive benefits.

The Bribe Payers Index ranks the leading exporting countries in terms of the degree to which their companies are perceived to be paying bribes in foreign markets based on interviews of senior business executives. The first BPI was released in 1999 and the latest BPI in 2008 and includes the 22 world's most economically influential countries accounting for 75% of exports of goods and services and Foreign Direct Investment (FDI) outflows. As well as the CPI, the BPI scores range from 0 to 10. The higher the score for a country, the lower the likelihood for companies headquartered in this country to participate in bribery when doing business abroad (TI, 2008).

The countries are selected on the base of their FDI inflows and imports, and some due to their importance in regional trade, namely, Australia, Brazil, India and South Africa.

According to the BPI 2008, Belgian and Canadian companies are perceived to be least likely to engage in bribery in foreign markets, followed by firms from the Netherlands and Switzerland. Whereas at the bottom of the ranking are Russian companies, which are most likely to bribe when doing business abroad (see figure 2).

Rank	Country/Territory	BPI 2008 Score	Standard Deviation	Confidence Interval 95%	
				Lower Bound	Upper Bound
1	Belgium	8,8	2,00	8,5	9,0
1	Canada	8,8	1,80	8,5	9,0
3	Netherlands	8,7	1,98	8,4	8,9
3	Switzerland	8,7	1,98	8,4	8,9
5	Germany	8,6	2,14	8,4	8,8
5	Japan	8,6	2,11	8,3	8,8
5	United Kingdom	8,6	2,10	8,4	8,7
8	Australia	8,5	2,23	8,2	8,7
9	France	8,1	2,48	7,9	8,3
9	Singapore	8,1	2,60	7,8	8,4
9	United States	8,1	2,43	7,9	8,3
12	Spain	7,9	2,49	7,6	8,1
13	Hong Kong	7,6	2,67	7,3	7,9
14	South Africa	7,5	2,78	7,1	8,0
14	South Korea	7,5	2,79	7,1	7,8
14	Taiwan	7,5	2,76	7,1	7,8
17	Brazil	7,4	2,78	7,0	7,7
17	Italy	7,4	2,89	7,1	7,7
19	India	6,8	3,31	6,4	7,3
20	Mexico	6,6	2,97	6,1	7,2
21	China	6,5	3,35	6,2	6,8
22	Russia	5,9	3,66	5,2	6,6

Figure 2: Bribe Payers Index 2008 (Source: TI, 2008)

According to the BPI 2008 *“companies based in emerging economic countries, such as China, India and Russia, are perceived to routinely engage in bribery when doing business abroad”* (Transparency International, IS 6).

Additionally the Bribe Payers Survey ranks sectors according to the degree of perceived bribery of foreign officials. Sanyal and Guvenli (2009) remark that some industries and transactions, especially ‘big-ticket items’ are more prone to bribery than others. Hence it is plausible that a company for consumer products will not give bribes to win a contract in a foreign country, while a company for oil from the same country may behave differently.

The findings by sectors in the Bribe Payers Survey support this concern and show that bribery of public officials are highest in the sector for public works contracts and construction, followed by real estate and property development (see figure 3).

Industrial Sector	Score 2008	Standard Deviation	Confidence Interval 95%	
			Lower Bound	Upper Bound
Public works contracts & construction	5,2	3,29	4,9	5,5
Real estate & property development	5,7	3,08	5,4	6,0
Oil & gas	5,9	3,18	5,5	6,2
Heavy manufacturing	6,0	2,93	5,7	6,3
Mining	6,0	3,13	5,4	6,5
Pharmaceutical & medical care	6,2	3,16	5,9	6,5
Utilities	6,3	3,06	6,1	6,6
Civilian aerospace	6,4	3,13	5,8	7,0
Power generation & transmission	6,4	3,03	6,0	6,7
Forestry	6,5	3,19	5,8	7,1
Telecommunications & equipment	6,6	2,74	6,4	6,8
Transportation & storage	6,6	2,91	6,4	6,7
Arms & defence	6,7	3,31	6,0	7,3
Hotels, restaurant & leisure	6,7	2,85	6,4	7,0
Agriculture	6,9	2,91	6,6	7,2
Light manufacturing	6,9	2,69	6,7	7,1
Information technology (computers & software)	7,0	2,75	6,8	7,2
Banking & finance	7,1	2,77	7,0	7,3
Fisheries	7,1	3,07	6,4	7,7

Source: Transparency International Bribe Payers Survey 2008.
Possible scores range from 0 to 10, with 0 representing the view that "bribes are almost always paid" and 10 that "bribes are never paid" by a sector.

Figure 3: Bribery of public officials by sectors (Source: TI, 2008)

The results of the Bribe Payers Survey demonstrate the significant role of corruption in international business. Corruption is not a phenomenon constrained only on developing countries; the BPI displays that many of the world's most influential economies are experienced to be corrupt.

3.3 Forms of corruption

There are several terms, such as bribery, embezzlement and fraud, which are all closely related to corruption but examining the topic from different point of views. Tanzi (1998) classifies corrupt acts in different categories as follows:

- bureaucratic or political
- cost-reducing or benefit-enhancing
- briber-initiated or bribee-initiated
- coercive or collusive
- centralized or decentralized
- predictable or arbitrary, and

- monetary or non-monetary forms

Each of these types has different causes and effects, with some being perceived more severely than others. This distinction is not exclusive, for example bureaucratic corruption can be centralized and at the same time predictable. Corruption is not limited to one of the following characteristics. Certainly this categorization could be extended by other attributes, but it gives a good overview about the various instances of corruption.

3.3.1 Bureaucratic versus political corruption

Bureaucratic and political corruption can be defined with reference to the persons involved and their hierarchy level in a public system. In any case, both types belong to public corruption.

Bureaucratic corruption takes place in the lower levels of public hierarchy and involves public officials. That's why it is also known as "petty corruption"⁷, which is the most frequently occurring case. Often these are payments to public officials to speed up bureaucratic processes. Companies are forced to pay in order to avoid long waiting times, for instance to register a firm or to require licenses and permits for imports and exports (Rose-Ackerman, 1997). Citizens can encounter bureaucratic corruption in everyday life, for example in public administration and services like hospitals, schools, local licensing authorities and so on. The paid amount of money is rather modest. In many countries this is a very common practice and in some cases it is not even possible to get things done without petty corruption.

In practice, however, this kind of corruption is regarded as minor crime and justified to circumvent bureaucratic barriers, also known as facilitation payments. However, researchers advert to the detrimental consequences of tolerated petty corruption (Rose-Ackerman, 1997). Petty corruption reduces

⁷ Petty means of little importance, in the sense of small size and comes from the French word *petit*=small (Skeat, 1993).

the economic attractiveness of a country, worsens the business climate and makes normal day-to-day transactions exhausting (Eicher, 2009).

Whereas petty corruption is found in lower sections of public administration, political corruption takes place at the higher level of political authority, that is why it is also called “grand corruption”.

Grand corruption is the misuse of political power for personal gain; when politicians or political decision makers, such as heads of states, national representatives, ministers, employees of federal departments, and top officials are corrupt themselves. They abuse or exploit their political position to enrich themselves, directly or indirectly (relatives and friends) at the expense of public interest (TI, 2004). These are *“highly placed individuals who exploit their positions to extract large bribes from national and transnational corporations, who appropriate significant pay-offs from contract scams, or who embezzle large sums of money from the public treasury into private bank accounts”* (Andvig et al., 2000, p. 18). Besides bribe paying, political corruption also includes situations where politicians change laws and regulations for their own benefit (Moody-Stuart, 1997).

Political corruption enjoys high interest from media and public, first due to the high position of the involved persons and second because of the sizable amount of bribes.

3.3.2 Cost reducing versus benefit enhancing corruption

The difference between both cases is the monetary result of the bribery for the briber. This could be on the one hand the saving of costs, such as bribing a tax inspector in order to reduce one's tax bill, or on the other hand to increase profits. For example an illicit but common practice in the construction sector is to win the job for a lucrative public project by bribing the awarding authority. The winning contractor might not be the most competitive company and might not offer the most cost-effective tender (Rose- Ackerman, 1997).

3.3.3 Briber-initiated versus bribee-initiated corruption

Furthermore, the literature distinguishes between the demand side and the supply side of corruption. The supply side of corruption represents those who offer corrupt payments, briber-initiated, whereas the demand side covers those who demand and accept illicit payments, thus bribee-initiated (Baughn et al., 2010, Sung, 2005, Beets, 2005). The important characteristic is that in supplied corruption, the briber voluntarily offers money to take advantage of the venality of someone. For instance parents bribe their children's teacher in order to receive a good grade. Here the teacher does not ask for an incentive and so the parents are not forced to bribe, in fact they do it of their own free will.

In bribee-initiated corruption the bribee abuses his power and forces the briber to pay. For instance, in India the traffic police regularly stops cars, to get some extra money. All natives are aware of this illegal custom, but nonetheless the people prefer to pay small amounts instead of getting a ticket.

In former days those who paid bribes were seen as the culprit of corruption. The public official, who is bribed by multinational firms, was seen as a victim. Only recently the attitude towards the demand-side of corruption changed and the focus of anti-corruption campaigns is also on abolishing the demand of corruption (Beets, 2005).

3.3.4 Coercive versus collusive corruption

In coercive corruption someone is forced or threatened to carry out the corrupt transaction, and it can be initiated from the briber or the bribe taker. This type includes blackmailing and extortion. This could be the case when an official, who accepted a corrupt deal once, is now forced a second time to agree and if not he is threatened with whistle blowing⁸ of the first illicit activity.

⁸ Whistle blowing is the reporting of illegal or immoral activities to external authorities or to public. It is characterized by disloyal behavior to an organization or group, which is accused of (Jubb, 1999).

In general, collusion is the secret or illegal cooperation or conspiracy, particularly in order to cheat or deceive others (Skeat, 1993). In the context of corruption this means that the bribe taker and the briber freely agree on the fraud. In contrast to coercive corruption, collusive corruption requires the approval of both sides. Hence, this classification of corruption concentrates on the voluntariness of the involved parties.

3.3.5 Centralized versus decentralized corruption

Centralized corruption is organized and involves more than two parties, where even a whole system could be associated with the crime. It is a form of collusion, and consists on systematized sharing of corrupt proceeds on various hierarchical levels (Bac, 1998). Klitgaard (1988) gives the example of centralized corruption in the Hong Kong police force during the 1960s and 1970s, where officials collected money from drug and gambling dens. He reports that about HK \$65,000 were collected each month, and the sum was divided in an organized and hierarchical way, ranging from HK \$50 for a lower ranked policeman and around HK \$4000 for a senior official.

This paradox case illustrates the structural acceptance of centralized corruption within a network and its hierarchical character. Most of the network members are part of the game and take the situation as given, or are forced to, even those who are responsible for the supervision of the activities. The dangerous aspect of centralized corruption is the creation of a culture of corruption, and the difficulty for the environment to dissociate from it, which leads to a dissemination of corruption (Bac, 1998).

In contrast to centralized corruption, decentralized corruption involves no hierarchy. It is an individual and isolated act of corruption, with the motivation being the personal benefit. Most cases of petty corruption can be categorized in this group.

3.3.6 Predictable versus arbitrary corruption

The predictability or the arbitrariness of corruption is a crucial characteristic. Corruption is arbitrary or unpredictable when the bribee doesn't know in advance about the amount of the payment, when the bribee is asked for more money, for example by other officials, and when the confidence of the service delivery is not given. Arbitrary corruption is chaotic; several bureaucrats ask independent bribes on firms to maximize their own revenues. This causes a greater level of uncertainty over the size of payment and the eventual results of the bribe (Doh et al., 2003, Kaufmann and Wei, 2000).

In contrast, predictable corruption is organized, in the sense that people know in advance what to expect in exchange for a bribe. This bribe payment is predictable to corporations, similar to a tax raised by the government, besides the fact that the money goes to a public official's pocket. Under such conditions companies are still able to operate with some degree of predictability even when the corruption level is high. The lack of coordination among corrupt agents makes it difficult for companies to evaluate the actual impact of corruption on their operations and result in lower economic activities by foreign investors (Doh et al., 2003, Wei, 1997).

The following table shows the linkage between the predictability of corruption and the level of corruption. With a sample of 26 African countries, it was found the higher the confidence of bribe payments the higher will be the perceived level of corruption (Lambsdorff, 2007).

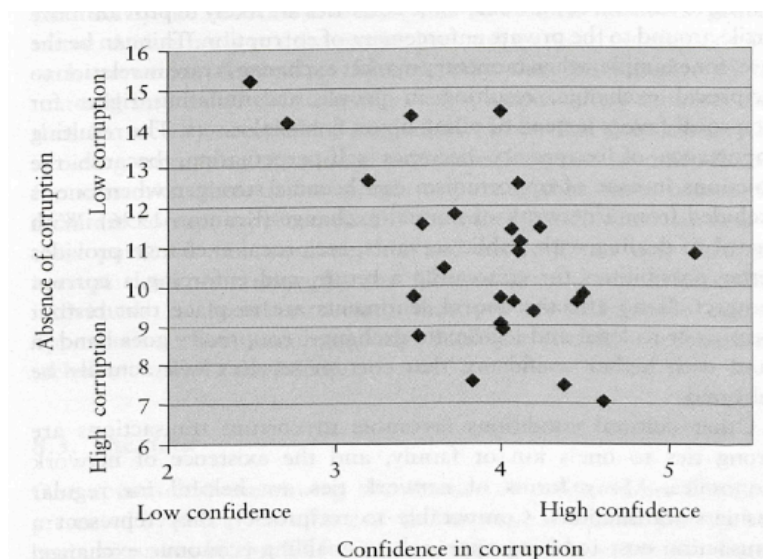


Figure 4: Corruption and confidence (Source: Lambsdorff, 2007)

Unpredictability of corruption has a significant negative effect on foreign investment due to the lack of confidence to investors⁹ (De Jong and Bogmans, 2010, Lambsdorff, 2007, Wei, 1997).

3.3.7 Monetary versus non-monetary corruption

Monetary corruption involves the payment of cash, which is called a bribe, kickback or payoff, and is the most common way.

In non-monetary corruption other forms of incentives are used instead of cash. This could be a luxurious journey or just a coffee machine; everything that does not include cash. Nepotism is a form of non-monetary corruption¹⁰. This form of corruption is very difficult to discover and in some countries it is not regarded as illicit, more as a trivial offense.

This classification by Tanzi could be extended with other characteristics, but in general it gives a good overview and shows the complexity of corruption and its multidimensionality. It helps to understand and to analyze individual acts of corruption.

3.4 Causes of corruption in international business

Causes of corruption are strongly interconnected with consequences of corruption. Often it is difficult to judge whether certain characteristics and circumstances produce corruption or if corruption itself is the triggering event, which causes a certain consequence (Lambsdorff, 2006). For instance many empirical studies give evidence for the correlation between corruption level and economic wealth of a country (Mauro, 1995; Husted, 1999), but scholars are indifferent in the direction of the causality. Does an economically poor country lack in resources to fight corruption and thus bring corruption to

⁹ More on the effects of unpredictability see chapter "Corruption and Foreign Direct Investment", p.30

¹⁰ See chapter "Favoritism", p.4

flourish, or does corruption hinder a country's economic development? This example shows that in reality causes and consequences intertwine. So, quite frequently it is just two sides of the same coin.

The issue of causality and economic effects is a broad and in depth explored area of corruption research. For this reason, this thesis is limited to causes and (in the following chapter) consequences of corruption in international business.

The comparison of cross-country data exhibits differences in perceived corruption levels across countries. What are the reasons that perceived corruption is more widespread in some countries than in others?

One of the most comprehensive quantitative analysis, available on causes of corruption was conducted by Treisman (2000). He investigated a multitude of determinants of corruption and finally found six variables that significantly explain 89% of the variation in the Corruption Perception Index (Frank, 2004).

In the following the determinants relevant to international business context are described on the base of Treisman's findings.

3.4.1 Corruption and economic openness

Many economists see the major cause of corruption in governmental restrictions on economic freedom (Lambsdorff, 2007, Graeff and Mehlkop, 2003, Tanzi, 1998). Economic freedom incorporates the possibility to do business without being restricted by governmental regulations within a country. For example, the receiving of permits and licenses or the legal security of private property rights (Lambsdorff, 2007).

Many countries, in particular developing countries, have complicated and nontransparent regulations, which give public officials monopolistic power and cause long waiting times for administrative processes. These conditions are favorable for public officials to ask for extra payments and increase the frequency of offering bribes by business agents (Tanzi, 1998).

Heavy regulations bring along red tape¹¹ and negatively affect market entry of businesses, in particular foreign businesses. Restrictive regulations cause higher barriers for international competitors to enter the market (Lambsdorff, 2007). Djankov et al. (2002) analyzed the influence of governmental regulations on market entry of start-up companies. Their data covered the number of procedures, official time and official costs required for starting a new business in 85 countries. They found that countries with heavier regulations have higher levels of corruption and larger unofficial economies. On the contrary, countries with higher degree of democratization and limited governmental interventions have lighter entry regulations. This finding also holds when controlling for economic development. They come to the conclusion that entry regulations are beneficial to corrupt politicians and bureaucrats (Djankov et al., 2002).

Hence, governmental restrictions on economic freedom hinder market entry of international companies, are likely to reduce competition and result in higher corruption (Lambsdorff, 2007).

3.4.2 Corruption and economic development

Researchers have found a strong connection between corruption and the level of economic development. Figure 5 visualizes the relation between the scores of CPI 2008 and economic wealth, measured by income per head. It shows the close connection between a country's economic performance and its level of perceived corruption (University of Passau, 2008). This is in line with results of other studies (Treisman, 2000).

¹¹ Red tape refers to excessive administrative regulations that are a burden to everyday business. More on p.4

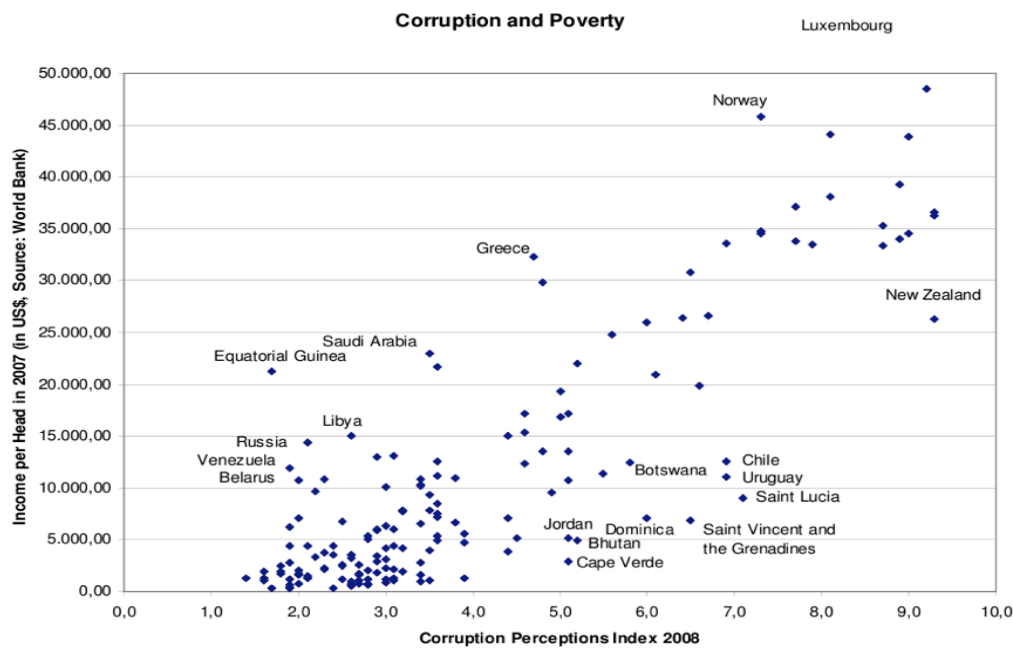


Figure 5: Corruption and economic wealth (Source: University of Passau, IS 7)

Treisman (2000) found that rich countries are perceived to be less corrupt than poor ones. Without doubt, there is a strong correlation between economic development and corruption but nevertheless, the direction of causality is questionable. It is difficult to assess whether poverty causes corruption, or corruption hinders the economic development of a country. While corruption is likely to lower economic development¹², poorer countries lack the resources to effectively combat corruption (Husted, 1999). Poverty is a condition that is strongly correlated with other variables. For example, higher economic development increases the spread of education, thus enhances democracy and raises government revenues that again allow countries to better combat corruption (Treisman, 2000). Previous studies have supported this view and argue that corruption deters economic growth (Mauro, 1995). Despite the direction of causality, it is likely to believe that the economic development of a country does reduce its corruption¹³.

¹² See chapter "Corruption and economic growth", p. 33

¹³ See chapter "Corruption and economic growth", p. 33

3.4.3 Corruption and public salaries

When wages in the public sector are remarkably low, there is a higher tendency for bureaucratic corruption (Sanyal, 2005, Treisman, 2000, Van Rijckeghem and Weder, 1997). Public officials who are paid low salaries but have at the same time administrative power, for instance, who are responsible for procurement contracts, privatizations and the award of concessions, are susceptible to asking for bribes in order to make some additional earnings (Sanyal, 2005). The likelihood for this behavior increases when monitoring and transparency mechanism are weak.

According to Sanyal (2005), it can be argued that public officials who are remunerated appropriately may be less prone to accept bribes or other illicit offers.

The extent of linkage of the level of public sector salaries to the level of corruption, was investigated by Van Rijckeghem and Weder (1997). Their main findings show that low salaries drive public servants to supplement their incomes by taking bribes. Simultaneously high salaries imply higher alternative costs if detected for fraudulent behavior. With a sample size of 28 developing countries they find a significant negative influence of civil service wages on the level of corruption in the manufacturing sector. An increase of public wages by 100% would improve the corruption index of a country by the order of 2 points in the corruption index (CPI) of Transparency International. However, the analysts point out the problem of reverse causality, meaning that corrupt countries tend to have low budgets and thus, as a consequence cannot afford to pay higher wages to public officials (Lambsdorff, 2006).

There are some speculations in the theoretical literature whether high wages can reduce corruption. Tanzi (1998) distinguishes between bureaucratic corruption caused by greed, that is the case of a public official accepting bribes due to psychological and moral characteristics, and corruption caused by need, that is the case of a corrupt public official due to economic necessity. Corruption due to greed implies that the civil servant is corrupt, regardless of his wage level and hence wage policies would not change his opportunistic

behavior. Some studies, like Treisman (2000) and Rauch and Evans (2000), could find only ambiguous and mostly insignificant results on the impact of public wages on corruption.

Nevertheless, even when assuming a negative impact of low wages on corruption the practical implication is rather unrealistic. In order to achieve a tangibly effect in curtailing corruption, the wages need to be increased excessively, which turns out to be a costly approach to fight corruption (Van Rijckeghem and Weder, 1997).

3.4.4 Corruption and cultural determinants

Can cultural traits clarify why some countries are more prone to corruption than others? Most studies exploring the causes of corruption have looked from an economic or political point of view and have left out the cultural perspective. However, Hofstede (2010) has proven that cultural characteristics have an influence on how business is conducted. Only recently the empirical research on corruption has paid attention to cultural determinants.

Do cultural characteristics play a role in the occurrence of corruption? If yes, which specific cultural traits determine the selection of unethical business practices, such as bribery?

In 1999, Husted conducted the first empirical study on a database of 44 countries, which sought to answer the question whether bribery is a culturally or economically determined phenomenon. In his study, Husted came to the conclusion that most important determinant for corruption is the level of economic development as measured by the GNP per capita.

Second, corruption is considerably correlated with power distance. Power distance reflects how societies deal with inequality. It is *“the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally”* (Hofstede, 2010, p.

61). This means that people from cultures with high power distance tend to tolerate corruption more than people from low power-distance cultures (Husted, 1999).

Third, corruption is positively correlated with masculinity. Masculinity refers, among other things, to material success. Masculine societies emphasize on mastery, self-assertiveness and ambitiousness. People are willing to compete with others to achieve their goals (Hofstede, 2010). In terms of corruption, this leads to *“a greater willingness to participate in corrupt transactions in the pursuit of material success”* (Husted, 1999, p. 344).

The fourth significant variable is uncertainty avoidance and is defined as *“the extent to which members of a culture feel threatened by ambiguous or unknown situations”* (Hofstede, 2010, p. 191). Hofstede mentions that people from high uncertainty avoiding cultures accept unethical behavior more often in order to reduce their anxiety. Regarding corruption, Husted explains that companies coming from cultures with high uncertainty avoidance aim to reduce uncertainty in the context of decisions by public officials through bribes. *“Corruption can be viewed as a mechanism to reduce uncertainty and in situations where the outcomes are uncertain, corruption may serve to secure a more certain result”* (Husted, 1999, p. 345).

The cultural variable individualism failed to be significant, which might be, according to Husted, the consequence of the high consistency with GNP per capita. Both variables carry similar information – redundant information – so that the contribution of the variable Individualism is insignificant in the model.

All three cultural variables: power distance, masculinity and uncertainty avoidance are positively correlated to corruption. On the basis of his results Husted characterizes a *“cultural profile of a corrupt country as one in which there is high uncertainty avoidance, high masculinity, and high power distance”* (Husted, 1999, p. 354).

Nonetheless Husted remarks that economic factors, such as the availability of resources, can moderate the effect of cultural determinants (Husted, 1999). This concern is strongly confirmed by Sanyal and Guvenli's (2009) findings. With data for 30 countries they analyzed the relationship between five cultural variables and one economic variable with the Bribe Payers Index. Indeed, they confirm that cultural variables, such as power distance, individualism, are significantly related to bribery. *"However, when the level of economic development in the home country, measured by per capita income, is included, the impact of cultural factors is muted considerably"* (Sanyal and Guvenli, 2009, p. 287). Cultural traits are influential but this does not hold when economic factors are considered.

Contrary to Husted's findings, Sanyal and Guvenli (2009) conclude that cultural aspects are less important variables in bribery. Economic characteristics, such as *"per capita income (purchasing power parity) in the home country is the single most important factor determining a firm's propensity to bribe abroad"* (Sanyal and Guvenli, 2009, p. 295). The findings of Sanyal and Guvenli's study have to be interpreted cautiously because the sample size is relatively small with 30 countries, and the data is not compared with other time periods.

To sum up, studies have found a significant influence of cultural variables on corruption, but nonetheless the results provide support to the hypothesis that economic determinism is the stronger force that explains the propensity to bribe.

3.5 Consequences of corruption on international business

This part gives a general overview of the consequences of corruption with focus on international business.

3.5.1 Corruption and Foreign Direct Investment

Foreign Direct Investment (FDI) plays a pivotal role in international business. In particular, it is important for the economic development of low-income countries, where local capital is much more limited (Habib and Zurawicki, 2001). According to the OECD, FDI is the ownership of one country's business or other property, by entities of another country. This can be an individual, public or private enterprise or government. It is characterized by an economically long-term relationship between both entities and involves all transactions between both entities (OECD, 1999).

There are several studies providing evidence of the negative correlation between Foreign Direct Investment and corruption. Javorcik and Wei (2009) identify a significant negative impact of corruption on FDI and note that corruption increases the cost of doing business in terms of obtaining local licenses and permits.

This goes in line with Habib and Zurawicki's (2001) findings. According to their study corruption has a substantially greater impact on foreign investment than on local investment. The authors interpret this result in the way that local investors are better positioned than foreign investors in managing corrupt environments due to their familiarity with the local business practices. In decision-making regarding FDI, transaction cost variables such as interpersonal relations, information asymmetries, market-specific know-how (culture, language, common business practices) are more important than production-related variables (Habib and Zurawicki, 2001). Further, they note that foreign investors have the alternative option to choose other countries to invest, something which most of the local investors do not have. *"Under these circumstances, investors will prefer not to invest and will likely divert the money to a safer investment location. In the long run, the economy and its growth will suffer"* (Habib and Zurawicki, 2001, p. 689).

Likewise De Jong and Udo (2006) find empirical evidence for the detrimental effect of corruption on international trade. They find that the nature of

corruption is pivotal. They distinguish between organized (or collusive) and chaotic (or arbitrary) corruption¹⁴. In an environment with organized corruption the businessperson knows in advance whom to bribe, the size of the payment and the delivered service. Whereas in chaotic corruption, the uncertainty is high and the traders are not sure about the amount of the bribes necessary as well as the service provided to them. The risk-averse businessman may consequently avoid operating in a country with a chaotic corruption system. Hence, the effect of corruption is strongly influenced by the degree of predictability. *“The more predictable the amounts to be paid and the services provided, the less detrimental the effects of corruption”* (De Jong and Udo, 2006, p. 3).

Wei (1997) makes an interesting comparison; he links the effect of corruption on FDI with taxing. The result is a negative effect of corruption on FDI, even higher than the effect of taxes. An increase in uncertainty from the level of Singapore to that of Mexico equals a tax rate rise on multinational firms by 32 percentage points (Wei, 1997). Wei interprets this result in the way that corruption is not predictable in contrast to taxes. *“Corruption, unlike tax, is not transparent, not pre-announced, and carries much poorer enforcement of an agreement between briber and a bribee”* (Wei, 1997, p. 1). In a country with organized corruption, where the amount of bribe payments are more or less transparent and the outcome is more or less reliable, corruption is equal to taxes. For a company it does not matter if the money goes to the government or into a bureaucrat’s pocket, from a rational point of view (Wei, 1997).

To summarize, apart from the level of corruption, the predictability of corruption strongly determines the economic effects. Countries with predictable corruption have higher investment rates than countries with arbitrary corruption. This holds for developing as well for industrialized countries (Lambsdorff, 2007).

¹⁴ More in chapter “Coercive versus collusive corruption”, p. 19

3.5.2 Corruption and market entry strategies

Does corruption influence the way firms enter new markets?

According to the “Eclectic theory of the choice of international entry mode” of Hill et al. (1990) market entry is determined by its resource commitment, the degree of control and dissemination risk¹⁵. Low market familiarity and high environmental risk¹⁶ of new markets induce firms to choose an entry strategy with low resource commitment, low dissemination risk and high degree of control. However, when the business involves high sophisticated technology, firms fear opportunistic behavior on behalf of local partners and thus prefer entry modes with high degree of control and know-how protection.

When entering new markets with high uncertainty firms attempt to reduce risks and costs by adapting particular entry strategies. Non-equity based market entries, such as licensing or franchising, allow firms the presence in a market without large capital investments. It represents a low cost and low risk approach of market entry. Whereas equity based market entries, such as Joint Ventures, Mergers & Acquisitions or wholly owned subsidiaries, are associated with higher resource commitment and risk. These equity based entry strategies include FDI and are connected with lasting economical interest of companies but also with frequent interaction with various local government offices (Hill et al., 1990). Therefore, in corrupt environments MNCs prefer non-equity based entry modes rather than equity based market entries.

Smarzynska and Wei (2000) observe, when entering highly corrupt markets firms are rather unfamiliar with the business practices and thus prefer to cooperate with local business partners, who might be better acquainted with local (corrupt) practices. International firms prefer Joint Ventures with local

¹⁵ Dissemination risk refers to the possibility that firm specific know-how can be expropriated by local Joint Venture or licensing partners (Hill et al., 1990).

¹⁶ Since corruption is a factor of uncertainty it depicts a form of environmental risk to companies (Lambsdorff, 2007).

partners to wholly owned subsidiaries. Uhlenbruck et al. (2006) investigated market entries of firms in the telecommunication sector in 64 countries and reveal that companies respond to the pressure of corruption via short-term contracting and avoid the holding of equity. Contrarily to Smarzynska and Wei (2000) they did not find significant differences between Joint Ventures and wholly owned subsidiaries. But when applying the Eclectic Theory of Hill et al. (1990) one can conclude that the telecommunication sector is characterized by sophisticated technology, which has to be protected from expropriation by opportunistic business partners.

The more widespread corruption is, the more likely foreign subsidiaries are faced with uncertain situations. Given this, a non-equity approach provides a volatile type of investment to avoid the uncertainty of corruption and result in a reduction of FDI (Lambsdorff, 2007, Uhlenbruck et al., 2006).

3.5.3 Corruption and economic growth

When a negative correlation between FDI and corruption is assumed (Javorcik and Wei, 2009, Habib and Zurawicki, 2001, De Jong and Udo, 2006) it is inevitable to analyze the interrelation of corruption and economic growth.

In the previous part on causes of corruption it was already discussed that low economic growth, measured in GDP, could lead to higher corruption. On the other side of the coin, low GDP can stem from corruption and consequently deter economic growth.

The literature clearly agrees on a linkage between corruption and economic development. Mauro (1995) carried out the first study that could provide empirical evidence for the effect of corruption on economic growth. He investigated data collected by Business International on 68 countries about country risk, such as political stability, corruption and bureaucratic efficiency. This index is based on standardized questionnaires filled in by business people and country experts and captures data from over three years. Mauro compared those factors of country risk with economic factors. His results

clearly show a statistical significant and negative correlation of corruption and investment, and a significant positive correlation of institutional efficiency and economic growth.

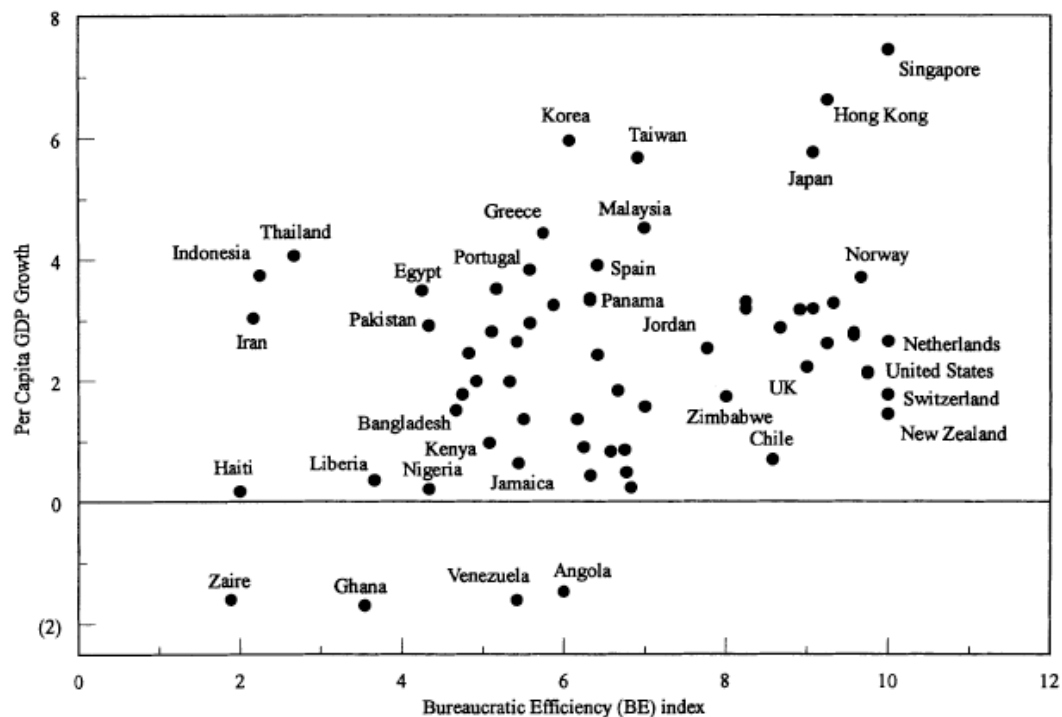


Figure 6: Bureaucratic efficiency¹⁷ and GDP growth (Source: Mauro, 1995)

He finds that corruption is strongly negatively related to investment rate, regardless of red tape. According to Levine and Renelt (1992) investment rate (measured in GDP) is a robust determinant of economic growth. Hence, if corruption decreases investment it also decreases economic growth, *“Corruption is found to lower investment, thereby lowering economic growth”* (Mauro, 1995, p. 681). As an example he states *“if Bangladesh were to improve the integrity and efficiency of its bureaucracy to the level of Uruguay (corresponding to a one-standard-deviation increase in the bureaucratic efficiency index), its investment rate would rise by almost five percentage points, and its yearly GDP growth rate would rise by over half a percentage point”* (Mauro, 1995, p. 705).

¹⁷ Mauro's bureaucratic efficiency index is computed by the average of three Business International indices, namely judiciary system, red tape, and corruption. A high value of the BE index means that the country's institutions are good (Mauro, 1995).

Likewise, Tanzi and Davoodi (1997) show that corruption lowers economic growth through four channels, namely high corruption results in lower government revenues, lower government expenditures on operations and maintenance, higher public investment in corrupt prone sectors, and lower quality of public infrastructure. In particular, these consequences occur when essential controlling or auditing mechanism are weak, hence when institutional quality is low. The decrease in government expenditures stems from a redistribution of public funds for civil services, such as education and health care, to corruption prone industries, such as military and construction; thus public investment increases. The authors used data from two indices, Business International Index (the same index as Mauro worked with) that includes data on 68 countries for the period 1980-83. The second index is published by the International Country Risk Guide and covers the time period of 1982-95, for 42-95 countries, depending on the year (Tanzi and Davoodi, 1997).

In 2000 Treisman (2000) found that by far the most important determinant of corruption is economic development, measured by real GDP per head. Moreover he discovered another interesting correlation between corruption and economic growth. He figured out that economic growth reduces corruption significantly, by enhancing education and by the rationalization of public and private roles. Economic growth lowers the acceptance of corruption in society. Treisman states, *"Policies that boost growth, if consistently and successfully implemented, are likely in the long run to reduce corruption"* (Treisman, 2000, p. 440) since high corruption restrains investment and growth.

Paldam (2002) finds supporting evidence, by using the CPI by Transparency International and notes that economic development of transitional countries from poor and traditional to wealthy and liberal brings along dramatic reduction in the corruption level.

3.5.4 Corruption and national competitiveness

Closely interlinked with the consequence of low economic development is the issue of national competitiveness, which is of great importance to attract international investors. National competitiveness is defined as *“the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people”* (Samanta and Sanyal, 2010, p. 90).

Due to globalization and free trade agreements *“potential investors now have a wider range of countries to choose from to locate their business facilities or to put in their resources for profit. Not all countries are equally attractive to foreign investors; some are more than others. Increasingly, countries are being calibrated on the basis of how competitive they are as places to do business in”* (Samanta and Sanyal, 2010, p. 89). Sanyal (2005) finds significant evidence that bribery retards national competitiveness and hence, economic growth. Given this, the more a country is attractive for companies, the higher will be its level of FDI, resulting in higher economic growth.

Samanta and Sanyal (2010) investigated whether a nation's economic attractiveness is associated with how it is perceived in terms of bribe taking. Their results indicate a significant negative correlation of the perceived level of corruption and the economic competitiveness of a country. A highly competitive country is less likely to have an economic system where corrupt business practices are widespread. Similarly, a country ranked low on competitiveness is likely to be perceived as a corrupt environment to do business. This holds also for developing and developed countries. However they suggest that this finding does not necessarily imply that wealthier countries are more competitive, and vice versa. They conclude that if bribery is part of the prevailing culture of doing business in one country, investors are likely to avoid such markets, in favor of those that are perceived to have a more ethical business climate (Samanta and Sanyal, 2010).

Certainly there are many other factors determining national competitiveness. Nevertheless, high levels of perceived corruption do harm the country's competitive positioning in international business.

3.5.5 Corruption and the theory of positive effects

This theory implies that corruption can improve economic efficiency and that fighting bribery would be counterproductive. In particular it argues that corruption might help companies to overcome sluggish and time-consuming bureaucracies, also called 'red tape'¹⁸ (Doh et al., 2003), and *"bribes might serve as lubricants in an otherwise stagnant economy"* (De Jong and Udo, 2006, p. 3).

During 1970's this assumption was quite accepted by society, especially regarding business in developing countries. The most quoted representative of this ideology is Samuel P. Huntington, who stated 1968 *"in terms of economic growth, the only thing worse than a society with a rigid, over-centralized, dishonest bureaucracy is one with rigid, over-centralized and honest bureaucracy"* (Kaufmann and Wei, 2000, p. 3). According to his point of view corruption is a necessary vehicle to make the economy work efficiently.

In 1985 the theory of positive effects was supported by Lui, who examined the efficiency of bribery in the context of a queue where customers with different values of time are ranked by the size of their bribe payments to the responsible manager of the queue. The size of their payments is an expression of the time the customer is expected to spend in the queue. With this model he could prove that corrupt payments can minimize the waiting time and hence, increase the efficiency of the process because those customers to whom time is most important are willing to bribe (Lui, 1985).

¹⁸ Red tape = regulatory burden, such as tax licenses, delays and so on, especially in public business; Named after the red or pink tape used to bind and secure official documents (Kaufmann and Wei, 1999).

Beck and Maher (1986) come to a similar conclusion. They show that in third world countries public procurements are often decided by bribery and further that the most efficient companies are paying the highest amount of bribe (Beck and Maher, 1986). Hence, Beck and Maher stress that an equilibrium model of bribery is comparable with a competitive bidding model. In fact, in both cases the same company, which was the most efficient, won the contract and the client, here the government, paid the same purchase price. *“These results imply, that in the absence of penalties for bribery, supplier firms would be indifferent between bribery and bidding institutions. If all suppliers face the same penalty, then the equilibrium bribe would be reduced by the amount of the penalty, and the isomorphism between bribery and bidding would be retained”* (Beck and Maher, 1986, p. 5).

The model of Lui (1985) and Beck and Maher (1986) assume that the size of the bribe payment is the only significant factor for the awarding of the contract. They neglect the possibility of favoritism and nepotism, which means that customers with connections to family and friends are preferred irrespective of the bribe payments of other participants (Beck and Maher, 1986).

Bardhan (1997) criticizes Lui's model and remarks that the possible behavior of moral hazard has not been considered. Lui (1985) assumes the reliability of the participants, meaning that both sides, customers and the responsible manager are honest in the sense that they stick to the deal, and that the other customers do not increase their first bribe offer and so on. Hence, Lui's assumption that corruption is perfectly organized, does not hold against factors such as unpredictability (Bardhan, 1997).

Kaufmann and Wei (2000) found empirical evidence for the rejection of the theory of positive effects. They used data from three large and international surveys conducted with managers asking them about the time they spend on dealing with bureaucratic obstacles. According to the theory of positive effects

this fruitless time should decrease when making use of illicit payments and accelerate bureaucratic procedures. However, surprisingly corruption increased the time they spend on transactions significantly. *“Contrary to the efficient [grease] theory, we find out that firms that pay more bribes are also likely to spend more, not less, management time with bureaucrats negotiating regulations, and face higher, not lower, cost of capital”* (Kaufmann and Wei, 2000, p. 1).

So why do firms still engage in corruption? From a macroeconomic point of view it is difficult to find a positive aspect of corruption. Nevertheless, when observing corruption from a private business perspective, corruption certainly might have some efficiency improving effects, especially in transition economies with weak governments.

Shleifer and Vishny (1993) argue that it enables entrepreneurs to overcome cumbersome regulations and to avoid red tape in countries with weak governments. They give the example of post-Communist Russia where it is inevitable for a foreign investor to bribe all public agencies that are involved in the FDI, such as local government, the foreign investment office, the central bank and so on. From an economic point of view, these practices are detrimental to foreign investment, but from the foreign investor's perspective corruption allows to overcome such trade barriers.

Houston (2007) views that corruption can have positive economic effects and work as useful substitutes in economies with weak or missing legal protection of exchange and property rights. Graeff and Mehlkop (2003) argue that when indicators of economic freedom, such as legal security of private ownership rights, the viability of contracts, are not given, corruption can work as an informal buffer which mediates business interests.

The likelihood that corruption is beneficial, in terms of speeding up transactions, only holds for countries where bureaucratic regulations are excessive and cumbersome (Mauro, 1995). But in fact, those distortions and

excessive bureaucracy is caused by corruption itself. This conclusion is supported in the literature which states that corrupt officials may, instead of speeding up the transaction, actually cause administrative delays and impose additional burdens in order to attract more bribes (Rose-Ackerman, 1997, Bardhan, 1997).

In some cases, paying bribes to avoid burdens may be more efficient than struggling with cumbersome regulations, but nonetheless corruption is always a second best response to government failure (Rose-Ackerman, 1997). Bardhan (1997) concludes in his survey paper, *“in the second best case, it is presumed that a given set of distortions are mitigated or circumvented by the effects of corruption; but quite often these distortions and corruption are caused or at least preserved or aggravated by the same common factors. The distortions are not exogenous to the system and are instead often part of the built-in corrupt practices of a patron-client political system”* (Bardhan, 1997, p. 1323).

To summarize, even if there are cases, where corruption can improve efficiency, the necessity is artificially created by corruption itself. However, researchers emphasize that the institutionalization of bribery is detrimental to the economic wealth of a country in the long run (Sung, 2005). Further the literature agrees that the negative aspects of corruption outweigh the advantages. Corruption does not decrease bureaucratic burdens, but actually creates excessive bureaucracy (Rose-Ackerman, 1997).

4 PART II: Corruption and MNCs

Despite the fact that corruption is illegal almost everywhere (De Jong and Udo, 2006), corruption indices reveal that it is as prevalent as ever in most countries (Collins et al., 2009). Corruption is still regarded as “the way things are done“. Globally operating businesses very often have to face bribery in foreign countries (Beets, 2005). A survey of the World Bank including 3600 companies in 69 countries has discovered that 40% of those companies made illegal payments to facilitate international business (Beets, 2005).

The increasing attention by media on corruption scandals in international business caused a higher public awareness on ethics and transparency. Hence, the behavior of multinational companies in foreign countries is being observed more than ever before. International anti-bribery conventions and the efforts of non-governmental organizations played a significant role in creating awareness of corruption, also on behalf of business practitioners. On the one hand it increased corporate ethics in the business world, but on the other hand it caused multinational firms to find better ways to hide corrupt transactions from prosecutors (OECD, 2009, TI, 2009).

In general, this chapter discusses how multinational corporations deal with corruption in foreign markets. First it takes a look on the behavior of MNCs in corrupt environments and how this behavior is determined by the firms' country of origin. The second part treats the issue why firms engage in corruption and how managers justify their illegitimate actions. Later on, the topic of lower moral standards in foreign markets is addressed in order to answer the question of double standards of MNCs.

4.1 Behavior of MNCs in corrupt business environments

This section takes a look on how multinational firms respond to corruption in foreign markets. Do multinational firms reject corruption or do they adopt their business practices to foreign market conditions and involve in corruption?

Does the level of corruption in the home market influence firms' behavior in international trade?

Several studies that have analyzed the behavior of international firms regarding corruption showed that the way international firms cope with it, is strongly determined by the acceptance of corruption in their home countries (Baughn et al., 2010, Sung, 2005, Sanyal and Samanta, 2004). This implies that firms from countries where corruption is tolerated are more prone to behave corrupt in international markets, than are firms from countries where corrupt practices are highly condemned.

Sung (2005) reveals, that the behavior of multinational corporations in bribe paying is mainly affected by the extent of corruption in the firms' home market (Sung, 2005). Multinational firms are influenced by the business environment of their headquartered country. They carry on with the business practices they are familiar with in international business. Consequently, if corruption is tolerated in the firm's home country, the firm tends to pay bribes in foreign markets as well (Sanyal and Samanta, 2004).

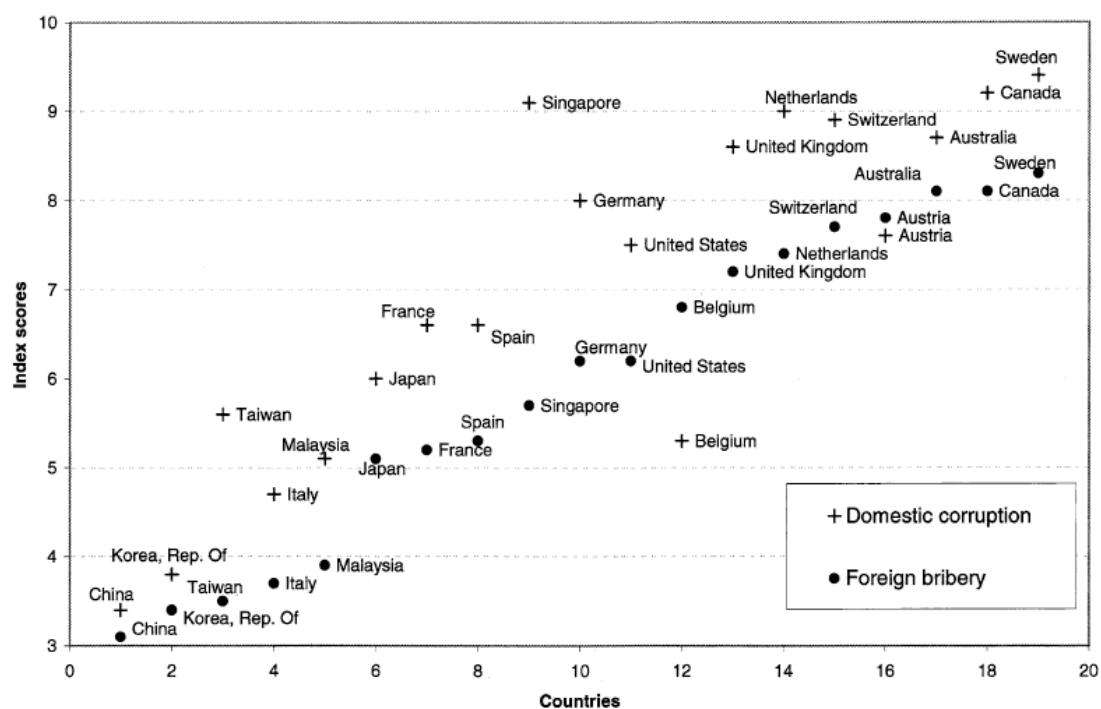


Figure 7: Domestic corruption and foreign bribery (Source: Sung, 2005)

Figure 7 illustrates the relation between domestic corruption and foreign bribery. The CPI was used to depict domestic corruption and the BPI scores were used to depict foreign bribery. The relationship is a positive linear function and states the higher a country is perceived to be corrupt within its borders, the higher it is also perceived to pay bribes abroad (Sung, 2005).

Baughn et al. (2010) come to the same conclusion. In fact they state that bribe paying is the lowest when corruption is not tolerated in the multinational firms' home country, and further when the home country has signed international conventions against corruption (such as the OECD Anti-Bribery Convention, UN Convention Against Corruption).

A problematic issue in foreign bribery is the use of intermediaries¹⁹. Due to the consequences of a disclosure of bribe paying, in particular in fear of a bad public reputation, some companies try to avoid being directly involved in corruption (Fleming and Zyglidopoulos, 2009, Lambsdorff, 2007). Instead companies hire intermediaries in order to avoid a direct trace leading from the multinational company to the bribed official (OECD, 2009, Bose and Gangopadhyay, 2009, Hasker and Okten, 2008, Bayar, 2005, Lambsdorff, 2002). Intermediaries or middlemen carry out the 'dirty work' of bribery; they make the actual bribe payment. Intermediaries play a key role in foreign bribery of public officials because they are involved in most cases of foreign bribery.

The intermediary might engage in corruption of his/her own free will, without informing the multinational firm. More serious, from an ethical point of view, is when the multinational firm intentionally wants to commit foreign bribery and asks the intermediary to do so, in order to distance itself from the crime and to decrease the chance of being detected (OECD, 2009). The intermediating person can be a friend or family member from the bribed official, or can be another third person such as a business consultant or even another company

¹⁹ The OECD defines an intermediary as a person who acts as a link with or in between two or more trading parties. In the context of corruption, an intermediary can carry out legitimate business activities but also illegitimate bribery payments (OECD, 2009).

(TI, 2009). This was the case in the Siemens scandal in 2001-2007, when a Nigerian official was bribed to conclude a telecommunication contract. The bribe payment was channeled through a consultant who was the wife of a former Nigerian Vice President, living in the USA (OECD, 2009).

When international conventions against foreign bribery came into force, the use of intermediaries has been increased tremendously because companies are more concerned of prosecution. However the use of an intermediary for bribery can also take place without knowledge of the company. For instance a foreign official requires hiring a specific agent, who in turn charges a commission fee to the firm, which in fact includes a hidden payment for the official (OECD, 2009).

Foreign bribes with intermediaries are difficult to discover and to prosecute. Different strategies such as transferring the payment to foreign accounts, using several intermediaries, intermediaries located in other countries and so on cause low transparency. Further the firm argues that it did not know about the engagement by the intermediate in bribery (OECD, 2009). Such international offences also raise the question which jurisdiction is responsible for the prosecution. Hence, foreign bribery through intermediaries makes the combat of corruption in international business a big challenge.

4.2 Justifications of corruption by business professionals

Only few companies explicitly condemn corruption and give clear advice to their employees how to report suspected cases of corruption (The Economist, 2002). Firms are concerned that the report of corrupt behavior could displease corrupt public officials without changing the behavior of others (Doh et al., 2003). Besides, employees of multinational corporations are often expected by top management to tolerate and ignore corruption abroad (Sung, 2005). High executives implicitly tolerate corruption, but neither want to be involved in the crime directly, nor do they want to know any details of it (Sung, 2005).

For this reason the bribery is carried out by employees, foreign subsidiaries or by local Joint Venture partners (OECD, 2009).

A firm's engagement in corrupt transactions is fundamentally driven by executives' decision (Collins et al., 2009). So far the focus was on firm-level and country-level factors explaining corruption. This section analyzes the engagement in corruption from a manager's point of view.

Even though managers share the view that corruption harms the society, businesses frequently engage in corruption. Business people justify their corrupt behavior first on business necessity and claim that it is the way of doing business in those countries (Sanyal and Samanta, 2004). They argue that in some countries public officials are unscrupulous and have set up well organized corrupt systems which makes doing business without bribe paying impossible. For that reason they see those payments as acceptable payoffs and everyday business in certain countries (Rose-Ackerman, 2002). A second justification of bribery is to overcome red tape. Business people indicate that some bureaucratic systems are so chaotically organized and exploitative, that firms need to bribe in order to deal with sluggish and overregulated public offices (Rose-Ackerman, 2002, Doh et al., 2003).

Indeed some businesses indicate that corruption creates an opportunity for international firms to overcome problems when entering new markets (Doh et al., 2003, The Economist, 2002). Some companies striving for new business make use of unethical practices to obtain it (Sanyal and Samanta, 2004). *"In general, firms, both domestic and foreign, justify their behavior as a means to their greater goal of the creation of economic value and as a necessary, if unpleasant, response to the weakness and venality of governments"* (Rose-Ackerman, 2002, p. 1891).

Although managers recognize that bribery is morally wrong they find ways to institutionalize corrupt practices and thus corruption receives legitimacy and

becomes accepted within the organization and its members (Collins et al., 2009, Rabl and Kühlmann, 2009). These are rationalizing strategies, mental tactics that help employees to offset negative concerns and guilt that arise from participation in unethical activities (Anand et al., 2005). Rationalizing strategies gives corruption a touch of normality (Rabl and Kühlmann, 2009).

Collins et al. (2009) figured out that the probability of a firm to participate in corruption increases with the degree of its executives and top managers to rationalize corruption as a necessity for being competitive. However their study was conducted on a survey of top-level executives limited to only one country, namely India.

Nevertheless, other studies give support to this view as well. Rabl and Kühlmann (2009) analyzed frequently used rationalizing strategies to justify corruption and present eight types of rational justifications, based on the work of Ashforth and Anand (2003). These are:

(1) *Legality*, participants of corrupt transactions argue that corruption is not explicitly forbidden by law (Rabl and Kühlmann, 2009). Especially corruption conducted abroad does not violate national laws in most countries (Pieth, 1999). (2) *Denial of responsibility*, the participants refuse their responsibility for the illegal action and claim that they had no other choice (Rabl and Kühlmann, 2009). The triggering circumstances, which forced them to behave illegal, are beyond their control. For instance bribe paying is a business necessity in some countries, or the competition is making use of bribery as well, or for economic value creation as an obligation to the firm (Rose-Ackerman, 2002, Sanyal and Samanta, 2004, Doh et al., 2003). (3) *Denial of injury*, the participant does not admit any harmful consequences from the corrupt action to anyone (Rabl and Kühlmann, 2009). (4) The *denial of victim*, the corrupt actor denies that there are victims of his behavior because either the other side voluntarily agreed to participate, or other competitors deserved it due to former unfair practices (Ashforth and Anand, 2003). (5) *Social weighting* refers to selective social comparison; in particular those who blame the corrupt act are downward criticized. For example it is claimed that there are participants who are more corrupt and unscrupulous (Ashforth and Anand, 2003). (6) The *appeal to higher loyalties* applies when ethical norms are

sacrificed for more important goals, such as profit maximization (Ashforth and Anand, 2003, Rose-Ackerman, 2002). (7) *Metaphor of the ledger*, this rationalization implies that former good behavior at the workplace offsets minor corrupt acts (Rabl and Kühlmann, 2009). (8) *Refocusing attention*, corrupt actors fade out unethical activities in order to perceive normality (Rabl and Kühlmann, 2009).

Rabl and Kühlmann (2009) found that the most frequently used justification for corrupt behavior is the metaphor of the ledger (7), arguing that apart from this the actor did a good job in the past and thus, earned good credit. “*Why shouldn’t I take advantage of the good business relationship I developed over several years?*” (Rabl and Kühlmann, 2009, p. 277) was the most popular argumentation among the participants of the experiment. Further the argument of appealing to higher loyalties (6) is used very often, claiming that other organizational goals are of greater importance; “*I only did everything to increase the order situation and the income of our company*” (Rabl and Kühlmann, 2009, p. 277).

The findings correspond with the results of former studies (Rosenberg, 1987, Vitell and Festervand, 1987), which examined managers’ value systems in the context of bribe payments to foreign officials. According to those studies, business professionals who are faced with an ethical conflict, tend to opt for the more profitable strategy rather than choosing the ethical one. Hence, managers’ first responsibility is to pursue economic goals, and ethical values are only subordinated.

These observations show that the organizational culture plays a pivotal role in shaping the attitude towards corruption. Corrupt business people have otherwise law-abiding character and have moral standards, but through rationalizing and reinforcement within a group, ethical norms and practices are overrun (Fleming and Zyglidopoulos, 2009, Rabl and Kühlmann, 2009). Instead of creating a culture of dishonesty and corruption within the organization (Lambsdorff, 2007), top management can influence the ethical

behavior of employees by transmitting a business philosophy of ethical standards and social responsibility (Vitell and Festervand, 1987). Hiring honest employees is not sufficient enough to avoid corruption. Companies should introduce norms of loyalty, corporate codes of conduct and monitoring and incentive systems to direct the behavior of employees (Rose-Ackerman, 1997).

4.3 MNCs and corruption in developing countries

Indeed, the Bribe Payers Index shows that almost all major exporting countries are more likely to provide bribes in low-income countries than in high-income countries (Baughn et al., 2010). Many MNCs from industrial countries routinely engage in bribery in developing countries with the intention of landing new business deals (Glynn et al., 1997). Glynn et al. (1997) interpret this practice as a result of the tax deductibility of foreign bribes, which allows companies from mainly industrial nations to deduct their bribe payments as costs of doing business²⁰.

Peter Eigen, founder of Transparency International, highlights, *“Our new survey leaves no doubt that large numbers of multinational corporations from the richest nations are pursuing a criminal course to win contracts in the leading emerging market economies in the world”* (Transparency International, IS 8).

Given the fact that less developed and undemocratic economies have higher corruption rates, many business people consider bribery of foreign civil servants in developing countries as a business necessity to do business (Sung, 2005, Sanyal and Samanta, 2004).

²⁰ More on tax deductibility of foreign bribery, see chapter “International and transnational anti-corruption laws”, p. 53

Are multinational corporations responsible for corruption in developing countries? According to some researchers, MNCs have introduced and disseminate corruption in developing countries, due to their better financial positioning compared to local firms. This argument perceives developing nations as victims of globalization (Moran, 2006, Heimann and Mohn, 1999).

Corruption is a two-sided phenomenon and always requires two willing parties – the demand side, describing the recipient of the bribe, and the supply side, describing the payer of the bribe. In general, the crime can be driven by the supply side or the demand side. There is no one to blame for introducing corruption. Corruption violates ethical standards, regardless where it takes place, whether in Africa, Asia, Europe or in the United States (Rose-Ackerman, 2002, Heimann and Mohn, 1999). Probably, poor countries have a higher degree of “traditional” corruption, such as facilitation payments. Rich countries have developed new forms of corruption, “sophisticated” practices, such as lobbying²¹ or financing of political campaigns. This kind of grand corruption is not included in most corruption indices and puts industrialized countries in an apparently better situation (Graeff and Mehlkop, 2003).

4.4 Double standards of MNCs in foreign markets

This section of the paper addresses the ethical dilemma of MNCs that comes up when engaging in corruption in international business. In particular it accuses MNCs of double standards when operating in foreign countries. Double standard is defined as *“moral code or standard that applies more rigorously to one group of people or circumstances than to another”* (Online

²¹ Lobbying refers to social and economic power of interest groups to directly impact the content and implementation of laws through influencing government representatives. In contrast to ordinary corruption, lobbying is legally allowed in most countries but when the interests of large corporations are involved, the line between lobbying and corruption can be crossed rapidly (Eicher, 2009).

Dictionary, IS 4). In the context of corruption, double standard describes the use of different standards of business ethics in different markets.

Some experts blame multinational enterprises for systematic bribery in foreign markets as a strategy to achieve access to new markets, which are otherwise closed to foreign investors (The Economist, 2002, Doh et al., 2003). Baughn et al. (2010) compared the scores of the Briber Payers Index and the Corruption Perception Index and found that the BPI scores of the major exporting countries are significantly lower than their CPI scores. Those countries are perceived significantly more corrupt in foreign markets than in their home markets. Considering these findings, the question comes up if firms' willingness to bribe is higher in foreign markets than in home markets?

In the context of international business, the literature represents two theories, namely first multinational firms are forced to bribe because of a demand driven and corrupt environment. It claims multinational firms being victims of corruption in foreign markets (Houston, 2007, Shleifer and Vishny, 1993, Lui, 1985). The second theory views multinational firms actively engaging in corruption and introducing corruption to developing countries by their willingness and ability to bribe. Therefore the theory describes supply driven corruption (Sung, 2005, The Economist, 2002, Vogl, 1998).

Sung (2005) comes to an interesting conclusion in his study about bribery in international trade. With data from the Bribe Payers Survey in 1999 by TI on 19 leading exporting countries, Sung tested two hypotheses - the demand-pull hypothesis and the supply-push hypothesis. The demand-pull hypothesis tests a positive relationship between the corruption level in the foreign market and bribery by guest businesses. The theory predicts the higher the corruption in the foreign country, the higher will be the rate of bribery by foreign businesses. Whereas the supply-push thesis argues, *"bribe paying behavior is largely determined by the extent of corruption and tolerance of foreign bribery in exporting countries. Multinational corporations based in pro- bribery*

exporting countries practice systematic bribery as a business strategy to acquire overseas markets" (Sung, 2005, p. 115). Sung finds strong empirical evidence for the supply-push hypothesis and confirms a positive relationship between the acceptance of corruption of exporting countries and the bribe paying behavior of its multinational companies. Furthermore he states, *"exporting countries not formally committed to enact anti-bribery laws, act as main exporters of bribes in international trade"* (2005, p. 122). Countries that had not signed the OECD Anti-bribery Convention are perceived as the most serious foreign bribe payers in international business (Baughn et al., 2010, Sung, 2005). Hence the behavior of multinational corporations is strongly influenced by its home country. Whether corruption is tolerated or not, whether corrupt cases are successfully prosecuted and sentenced and whether governments of home countries enforce international anti-bribery laws or not. Sung backs up his findings with robust empirical evidences.

Sung's findings imply, rather than being innocent victims of excessive bureaucracy and ruthless public officials, many multinational firms headquartered in the major exporting countries are proactive participants in corruption. Illegal payments and special favors are provided in order to receive foreign permissions and procurements. (Sung, 2005, Vogl, 1998). Rose-Ackerman (2002) describes that for the purpose of ethically legitimate corruption, companies invoke a double standard in which laws in foreign countries are taken as irrelevant, even though high ethical norms and values are met in their home markets.

Another paradox is that upper management of MNCs expects their subordinated management to tolerate bribery and to ignore details of questionable actions (Sung, 2005, Rose-Ackerman, 2002). Moran (2006, p.1) highlights, *"Multinational corporations from the US, Europe, and Japan have devised sophisticated payment mechanisms [...] to evade home country anti-corruption laws"*. Sung (2005) accuse exporting countries of double standards when putting pressure on developing countries to curb corruption while at the

same time allowing their own multinationals to deduct their foreign bribes from corporate tax. The governments of exporting countries and the leaders of MNCs are aware of those unethical business practices (Vogl, 1998). Peter Eigen comments, *“Politicians and public officials from the world’s leading industrial countries are ignoring the rot in their own backyards and the criminal bribe-paying activities of multinational firms headquartered in their countries. The governments of the richest nations continue to fail to recognize the rampant undermining of fair global trade by bribe-paying multinational enterprises”* (Transparency International, IS 8).

The findings conclude that MNCs operate with different standards of business ethics and demonstrates a contradicting behavior of many multinationals that follow the trend of communicating high social responsibility in industrialized markets (Eicher, 2009, Keinert, 2008, Rondinelli and Berry, 2000), but when it comes to business in foreign markets, in particular developing markets, MNCs operate with different standards. When employing the definition of double standards it can be argued that MNCs apply double standards regarding corruption. Ethical norms, which hold for industrial markets are no longer abided in international business (Fleming and Zyglidopoulos, 2009) and justified as ‘the way of doing business in other countries’ (Rabl and Kühlmann, 2009, Sanyal and Samanta, 2004, Doh et al., 2003, Rose-Ackerman, 2002).

From a behavioral scientist’s point of view, Rose- Ackerman (2002) argues that multinationals have the obligation to take a broader perspective than profit maximization and that it is their moral responsibility they owe to their stakeholders. This holds especially for global corporations due to their superior knowledge. Thus, organizations are compelled to establish clear and well-enforced corporate guidelines.

5 PART III: Anti-corruption and MNCs

The main prerequisite to limit corruption in international business is to legally criminalize corruption, within and beyond a countries border.

This chapter discusses international and national actions against corruption, in particular regarding foreign bribery. First it gives a brief overview on the most important international conventions of the World Bank, OECD and the UN, but also takes a look on national laws, such as the US American FCPA. On this basis the effectiveness and compliance of anti corruption laws by multinationals are examined. The chapter is then concluded with a discussion on business ethics and corruption and the impact of code of conducts on ethical behavior.

5.1 International and transnational anti-corruption laws

In the last 40 years a remarkable number of governmental and non-governmental international institutions have called for legal actions against international corruption. It started in the early 1970s when the American Watergate scandal became public and exposed a series of corrupt practices by US American multinationals, including bribe payments to foreign public officials (Glynn et al., 1997). This was the driving force for the passing of the first transnational anti-bribery law, the Foreign Corrupt Practice Act (FCPA), which was approved by the U.S. Congress in 1977. This act made it illegal for U.S. businesses and individuals to pay or offer to pay foreign government officials to obtain business (McKinney and Moore, 2007). The U.S. business community complained about serious losses due to the FCPA and disadvantages in competing abroad since their international competitors did not face such penalties for bribery (McKinney and Moore, 2008, Pieth, 1999, Glynn et al., 1997). Therefore it was in the interest of the U.S. government to

accelerate the implementation of international agreements on combating foreign bribery (Burger and Holland, 2006, Pieth, 1999).

The FCPA was the first national legislation that addressed bribery from the supply side (McKinney and Moore, 2008). In 1999, nearly two decades later, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was signed by 37 countries and came into force. The main goal was to criminalize foreign bribery by requiring countries to implement laws on a national level. In addition, the convention was designed to abolish the tax deductibility of foreign bribery (Sanyal and Samanta, 2004).

The most substantial deterrent of anti-corruption efforts is the tax deductibility of foreign bribery. Many countries, mostly developed nations, do not criminalize foreign bribery and even permit companies to deduct such bribes as a legitimate business expense. Consequently, many MNCs from industrial countries routinely engage in corruption outside their home countries (McKinney and Moore, 2008, Sanyal and Samanta, 2004, Glynn et al., 1997). An interpretation of the legal situation, is that bribing someone in the home market is illegal but bribing someone in a foreign market is legally correct. This brings companies in a contradictable situation, where on the one hand corruption is unethical within the borders, but on the other hand the legal framework encourages them to do so abroad (Vogl, 1998, Heimann, 1997).

Sanyal and Samanta (2004) found that companies from countries with tax deductibility of foreign bribery are perceived more corrupt in international business than companies that cannot deduct their bribe payments as costs of doing business. As long as these legal frameworks exist, governments will send the message that they support foreign bribery. The abolishment of the deductibility of foreign bribes can have a notable effect on corporate behavior (Heimann, 1997).

For quite a long time the United States was the only exceptional country that criminalizes overseas bribery since 1977 when the FCPA came into force (Burger and Holland, 2006). The U.S. has been the most active country in the prosecution of overseas bribery. The main reason for the reluctance of exporting governments to abolish the tax deductibility is that they “*seek to boost the competitiveness of their industries abroad [...] and so reject external requests to ban foreign bribery*” (Sung, 2005, p. 114).

The first agreement with truly global character was the United Nations Convention against Corruption with 140 signatories and came into effect in 2005. It calls the participating countries for the criminalization and law enforcement of corruption and the denial of tax deductibility of bribes (United Nations, 2004). Due to its focus on international bribery and its well-established monitoring system, the UN Convention is regarded as the most significant of the three international conventions (Burger and Holland, 2006).

However, the effectiveness of all three conventions is strongly criticized. During 1995 and 2000 the U.S. government reported an average of 0.8 prosecutions of foreign bribery cases per year. Between 2001 and 2005 it was 3.8 cases in average per year (Burger and Holland, 2006). The main criticism on the OECD Convention is that it lacks enforcement mechanism in the form of implementation in national legislation (Burger and Holland, 2006). Transparency International emphasizes that 2/3 of the signatories considerably lag behind in implementation. This evokes the suspicion that OECD members have no substantial interest to meet the conventions obligation (Heimann and Dell, 2010).

Another weakness of the FCPA and the OECD Convention is the exception of facilitation payments, which is often called “grease” money (Heimann and Dell, 2010, Glynn et al., 1997). These are payments to lower-level officials to accelerate administrative processes, for instance to speed up the installation of telephones or the loading and unloading of cargo (Sanyal and Samanta, 2004).

A positive aspect of the UN Convention is the international character of the agreement, which incorporates industrialized countries and developing countries as well. On the other hand the high number of member states makes it difficult to come to an agreement, e.g. the member countries failed in defining corruption, since activities regarded as illegal in some countries might be legal in other countries (Burger and Holland, 2006).

Nonetheless, international conventions are extremely important to set a legal foundation for the criminalization of corruption and to put a further step in condemning unethical practices in international business. It is necessary that civil societies, governments and business professionals pull in the same direction. The establishment of international agreements is designed to address the problem from the supply side. Now it's the turn of governments to enforce those laws and the role of multinational corporations to comply with these rules.

5.2 National enforcement of international conventions

While all countries prohibit and punish bribery of their own public officials, the prosecution of their home-based multinationals for bribery of foreign public officials is rather exceptional. Many countries tolerate corrupt practices as long as it takes place outside their national borders. Most governments are not concerned about corruption taking place abroad, which is obviously evident in the tax deductibility of overseas bribes (Burger and Holland, 2006, Sung, 2005, Glynn et al., 1997). However, in a global economy it is difficult to distinguish between international and national economy.

When the OECD first raised the issue of prohibiting bribery of foreign public officials, the main European governments first refused the proposal, arguing that only bribe accepting countries can effectively reduce corruption (Sung, 2005). The background for this negative attitude towards criminalizing foreign bribery is the lack of interest to penalize their exporting companies (Sacerdoti,

1999, Glynn et al., 1997). Hence, although the OECD Convention was adopted in 1977, it took 22 years until it came into force. By the official accounts the delay was caused due to disagreement among member countries on the definition of corruption, but there is no doubt that the commitment of the countries to address the problem of foreign corruption was paradoxical (Burger and Holland, 2006). Burger and Holland commented, *“This 22 year exercise in delay provides some window into governments’ incentives to investigate and criminally prosecute their own Nations’ bribes to foreign officials to obtain or maintain business”* (2006, p. 54). The real cause may be that such countries and their officials are having interest in expanding their export markets (Burger and Holland, 2006).

37 countries have ensured the abolishment of tax deductibility of bribes by signing the OECD Convention. Until 2007, only three countries- U.S., South Korea, Sweden- have introduced penalties for international bribery in their legislation, while four of them- Canada, Italy, Norway, UK- have begun with investigations regarding the introduction of such penalties (McKinney and Moore, 2008). Governments fear that they would disadvantage their corporations in international bidding contracts (Sung, 2005). This evokes the feeling that international and national programs and written rules have a deterrent effect in practice.

In the last few years a change in governments’ policy regarding foreign bribery is noticeable. In 1999 the South Korean Act on Preventing Bribery of Foreign Public Officials in International Business Transactions (FBPA) came into force. Under this law it is prohibited to directly or indirectly bribe Korean or foreign public officials. The law covers also job opportunities, gifts and lavish meals but excludes facilitation payments (Choi and McDaniel, 2010). In Sweden the Penal Code of 1962, which penalizes bribery but with a relatively vague definition, set the legal prerequisite for the substantial amendment of Swedish anti-bribery law in 2010 (OECD, IS 9). The United Kingdom passed the Anti-Bribery Act 2010, which is planned to come into force in July 2011. This act criminalizes the offering or giving of domestic and foreign bribery of public officials by UK citizens or enterprises (UK Ministry of Justice, IS 10). So

far the effective enforcement of the Act is difficult to assess from today's point of view and it has to be observed in the future.

Mark Pieth, the chairman of the OECD Working Group on Bribery in International Business Transactions has recently commented *"the further pursuit of corporate bribery will require prosecutors to take a fresh look at the behavior of their highly respected local companies when operating outside their home markets"* (The Economist, 2002).

Rose-Ackerman (2002) sees an observable worldwide norm change in the anti-corruption policy promoted by non-governmental organizations, such as Transparency International, which has given more visibility towards the problem of overseas bribery. The increasing pressure from civil society and international reputation makes governments more conscious about international corruption.

5.3 Compliance with anti-corruption laws by MNCs

While there are signals for a change in the global recognition of corruption, namely in the ratification of international conventions, it remains questionable how far companies will comply with it.

Transparency International (BPI Report, 2008) investigated the familiarity of anti-corruption laws by business executives and found some unexpected results. In particular, the knowledge about the OECD Anti-Bribery Convention was observed in the participating countries of the Bribe Payers Survey in 2008. It revealed that 75% of the participating senior business executives were not familiar with the convention at all. Further, business executives from higher income countries are less informed about the OECD Convention than those from lower income countries. Figure 8 demonstrates respondents' knowledge on the OECD Convention. Respondents from Western Europe and the United States regions have had the lowest knowledge (TI, 2008).

	Not at all	Slightly	Moderately	Very	Extremely
Africa and Middle East	68%	15%	7%	6%	3%
Asia Pacific	74%	16%	8%	2%	0%
Central and Eastern Europe	79%	16%	5%	0%	0%
Latin America	73%	12%	8%	5%	1%
Western Europe and the United States	85%	10%	3%	1%	1%

Figure 8: Degree of familiarity with OECD Convention (Source: TI, Bribe Payers Survey, 2008)

This illustrates firstly the insufficient enforcement of international anti-bribery laws and secondly, the inconsistent enforcement policies among regions.

Moran (2006) criticizes MNCs for evading home country anti-corruption laws, by relabeling bribes as commissions. Instead of directly handing out bribes, firms cover illegal payments as loans, distributing shares or making use of intermediaries. Vogl (1998) comments that leaders of many MNCs unofficially acknowledge the payment of bribes by their subsidiaries and further confirms the knowledge of governments about these activities.

Nevertheless, it can be said that global firms are beginning to accept the benefits of anti-corruption for their international reputation. The trend in anti corruption campaigns is to highlight the role of the private sector (Rose-Ackerman, 2002).

5.4 The role of MNCs in anti-corruption

International and national anti-corruption laws provide the basis for the combat of corruption. However an effective curb of corruption can only be reached, if the private sector takes a more active role in creating meaningful deterrents to international bribery. In a way that would be a great leap forward to promote ethical standards in the whole world (Burger and Holland, 2006).

One tool to tackle corruption in business from inside is the implementation of corporate codes of conduct. A Code of conduct is defined as *“a written, distinct, and formal document which consists of moral standards used to guide employee and/or corporate behavior”* (McKinney and Moore, 2008, p.

105). Heimann (1997) regards corporate codes of conduct as essential parts of far-reaching anti corruption programs but emphasizes that it cannot act as a substitute for governmental enforcement. Governmental regulations and self-regulations by businesses themselves reinforce each other.

The opinions about the effectiveness of corporate codes of conduct are controversial. Recent research indicates heavy dependency of the effectiveness of codes of conduct on whether the codes are communicated in the corporation top down, so that it permeates the entire organization, or the codes are just a useless fig leaf (Hülsberg and Scheben, 2010, McKinney and Moore, 2008, Heimann, 1997). Compliance programs of firms need to integrate the code of ethics into their business philosophy. Heimann (1997, p. 153) points out *“individual companies must formulate codes specifically tailored to their own circumstances, including type of business, system of organization, and applicable legal rules”*.

One of the few studies on effectiveness of written codes of conduct in the particular context of international bribery, was carried out by McKinney and Moore (2008). Their findings indicate that business professionals of firms with written codes of conduct are significantly less likely to accept international bribery. The study is based on a mailing survey with a sample of 1210 U.S. business professionals.

A successful code of conduct, regarding corruption, should contain a clear statement that prohibits its employees and third parties, representing the company, to offer directly or indirectly bribes in order to influence the behavior of public officials. Further it should give detailed guidelines on gift giving, political contributions, facilitation payments²² and reporting mechanism (Hülsberg and Scheben, 2010, Heimann, 1997).

²² Small payments to low-level officials to speed up routine services (TI, 2009, Heimann, 1997).

When owners and top managers want to prevent their companies from unethical behavior they must spell out their position clearly rather than merely relying on their employees' moral conscience. Employees being faced with the conflict between profitability and morality are likely to decide on profitability unless owners and top managers give strong signals to prevent them. They should function as role models for the organization and set clear and well-enforced guidelines (Rose-Ackerman, 2002).

In the 21st century modern corporations have to face the challenge of social responsibility. The trend for the increasing demand for fairer trade does not stop at national or regional boundaries (Keinert, 2008). Firms should be wise to combat corruption and realize the benefits of reduced corruption in the long run: a clear positioning will enforce company's reputation and credibility, and strengthen business relations with customers and suppliers (Rose-Ackerman, 2002).

The enforcement of anti-corruption laws and codes of conducts is a major step forward in anti-corruption and will have a significant effect on MNCs' behavior (Heimann, 1977).

6 Conclusion

The goal of this diploma thesis was to analyze the role of multinational corporations regarding corruption in international business and to critically assess their behavior in foreign markets.

The findings reveal that corruption is detrimental to international trade. In particular, the most significant characteristic impacting international business is the unpredictability of corruption. It is chaotic and non-transparent to foreign investors and has therefore a substantial impact on Foreign Direct Investment.

Corruption still remains tolerated by many exporting companies in international business. Firms, headquartered in countries with high corruption, are the main supplier of illegal payments in international business. This includes firms from developing countries but as well from industrialized countries. Indeed, MNCs from industrialized countries have sophisticated payment mechanism to evade home country anti-corruption laws in foreign markets.

MNCs operate with contradicting ethical standards in foreign countries, especially in developing countries. Ethical norms, which hold for industrial markets are no longer abided in international business. Globally operating companies meet high ethical norms in their home markets, but when it comes to business abroad, foreign laws of anti-corruption are taken as irrelevant. This implies that MNCs operate with different standards of business ethics.

The higher the acceptance within the organization, the more likely are employees to engage in corruption. This implies, that representatives of firms can have an influence on the ethical behavior of their employees by transmitting a business philosophy of ethical standards and social

responsibility, for instance with the implementation of corporate codes of conduct.

The major reason for large companies being more corrupt in foreign countries is the legal framework in their home countries, which does not explicitly declare foreign corruption as a criminal offence with the only exception of the United States, South Korea and Sweden. Additionally, many exporting countries permit their international firms to deduct foreign bribes as a legitimate business expense. Consequently, many MNCs from industrial countries routinely engage in corruption outside their home countries. Companies from countries with tax deductibility of foreign bribery are perceived to be more corrupt in international business.

Nevertheless, the business community is witnessing a change of norms regarding corruption due to the efforts of international organizations and NGO's. Transnational anti-bribery conventions were signed by developing and developed countries. The effective enforcement of those anti- corruption laws on national-level will significantly determine multinationals' attitude towards this concern. However, under realistic conditions it will be impossible to entirely erase corruption, and a single-minded focus on corruption prevention will not be sufficient. The private sector, especially international firms have to take a more active role in anti-corruption, in order to curb unethical practices in business and that should in all likelihood be a gradual process.

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8 Appendix

Figure A: Corruption Perception Index 2010 (Source: Transparency International, IS 11)

Country Rank	Country / Territory	CPI 2010 Score	Surveys Used	Standard Deviation
1	Denmark	9.3	6	0.2
1	New Zealand	9.3	6	0.2
1	Singapore	9.3	9	0.2
4	Finland	9.2	6	0.2
4	Sweden	9.2	6	0.2
6	Canada	8.9	6	0.3
7	Netherlands	8.8	6	0.3
8	Australia	8.7	8	0.6
8	Switzerland	8.7	6	0.7
10	Norway	8.6	6	0.7
11	Iceland	8.5	5	1.1
11	Luxembourg	8.5	5	0.6
13	Hong Kong	8.4	8	0.5
14	Ireland	8.0	6	0.5
15	Austria	7.9	6	0.7
15	Germany	7.9	6	0.6
17	Barbados	7.8	4	0.9
17	Japan	7.8	8	0.6
19	Qatar	7.7	7	1.6
20	United Kingdom	7.6	6	0.5
21	Chile	7.2	7	0.3
22	Belgium	7.1	6	0.2
22	United States	7.1	8	1.1
24	Uruguay	6.9	5	0.4
25	France	6.8	6	0.6
26	Estonia	6.5	8	0.7
27	Slovenia	6.4	8	0.9
28	Cyprus	6.3	4	0.4
28	United Arab Emirates	6.3	5	1.3
30	Israel	6.1	6	0.7
30	Spain	6.1	6	0.6
32	Portugal	6.0	6	0.9
33	Botswana	5.8	6	0.6
33	Puerto Rico	5.8	4	0.7
33	Taiwan	5.8	9	0.7
36	Bhutan	5.7	4	0.7
37	Malta	5.6	3	0.3
38	Brunei	5.5	3	0.7
39	Korea (South)	5.4	9	0.5
39	Mauritius	5.4	6	0.8
41	Costa Rica	5.3	5	1.0
41	Oman	5.3	5	1.6

Figure A (Cont.): Corruption Perception Index 2010

41	Poland	5.3	8	0.4
44	Dominica	5.2	3	0.6
45	Cape Verde	5.1	4	1.3
46	Lithuania	5.0	8	1.0
46	Macau	5.0	3	1.4
48	Bahrain	4.9	5	1.2
49	Seychelles	4.8	3	1.9
50	Hungary	4.7	8	1.4
50	Jordan	4.7	7	1.3
50	Saudi Arabia	4.7	5	2.0
53	Czech Republic	4.6	8	0.9
54	Kuwait	4.5	5	1.8
54	South Africa	4.5	8	0.6
56	Malaysia	4.4	9	0.9
56	Namibia	4.4	6	0.8
56	Turkey	4.4	7	0.7
59	Latvia	4.3	6	0.8
59	Slovakia	4.3	8	1.0
59	Tunisia	4.3	6	2.0
62	Croatia	4.1	8	0.8
62	FYR Macedonia	4.1	5	0.5
62	Ghana	4.1	7	1.0
62	Samoa	4.1	3	0.7
66	Rwanda	4.0	5	1.6
67	Italy	3.9	6	0.7
68	Georgia	3.8	7	1.4
69	Brazil	3.7	7	0.9
69	Cuba	3.7	3	1.3
69	Montenegro	3.7	5	0.8
69	Romania	3.7	8	0.8
73	Bulgaria	3.6	8	0.7
73	El Salvador	3.6	5	0.3
73	Panama	3.6	5	0.7
73	Trinidad and Tobago	3.6	4	0.8
73	Vanuatu	3.6	3	1.9
78	China	3.5	9	0.9
78	Colombia	3.5	7	0.8
78	Greece	3.5	6	0.6
78	Lesotho	3.5	6	1.2
78	Peru	3.5	7	0.2
78	Serbia	3.5	6	0.6
78	Thailand	3.5	9	0.7
85	Malawi	3.4	7	0.9
85	Morocco	3.4	6	0.8
87	Albania	3.3	6	0.5
87	India	3.3	10	0.4
87	Jamaica	3.3	5	0.3
87	Liberia	3.3	4	0.8
91	Bosnia and Herzegovina	3.2	7	0.6

Figure A (Cont.): Corruption Perception Index 2010

91	Djibouti	3.2	3	1.3
91	Gambia	3.2	5	1.7
91	Guatemala	3.2	5	0.3
91	Kiribati	3.2	3	1.3
91	Sri Lanka	3.2	7	0.6
91	Swaziland	3.2	4	0.2
98	Burkina Faso	3.1	6	1.0
98	Egypt	3.1	6	0.4
98	Mexico	3.1	7	0.3
101	Dominican Republic	3.0	5	0.4
101	Sao Tome and Principe	3.0	3	0.3
101	Tonga	3.0	3	0.3
101	Zambia	3.0	7	0.5
105	Algeria	2.9	6	0.4
105	Argentina	2.9	7	0.5
105	Kazakhstan	2.9	8	1.3
105	Moldova	2.9	6	0.4
105	Senegal	2.9	7	0.4
110	Benin	2.8	6	0.8
110	Bolivia	2.8	6	0.5
110	Gabon	2.8	3	0.6
110	Indonesia	2.8	9	0.8
110	Kosovo	2.8	3	0.2
110	Solomon Islands	2.8	3	0.5
116	Ethiopia	2.7	7	0.4
116	Guyana	2.7	4	0.2
116	Mali	2.7	6	0.8
116	Mongolia	2.7	6	0.5
116	Mozambique	2.7	7	0.5
116	Tanzania	2.7	7	0.5
116	Vietnam	2.7	9	0.7
123	Armenia	2.6	7	0.2
123	Eritrea	2.6	4	1.4
123	Madagascar	2.6	6	0.5
123	Niger	2.6	4	0.4
127	Belarus	2.5	3	0.5
127	Ecuador	2.5	5	0.4
127	Lebanon	2.5	4	0.6
127	Nicaragua	2.5	6	0.4
127	Syria	2.5	5	0.6
127	Timor-Leste	2.5	5	0.6
127	Uganda	2.5	7	0.6
134	Azerbaijan	2.4	7	0.5
134	Bangladesh	2.4	7	0.9

Figure A (Cont.): Corruption Perception Index 2010

134	Honduras	2.4	6	0.4
134	Nigeria	2.4	7	0.4
134	Philippines	2.4	9	0.5
134	Sierra Leone	2.4	5	0.4
134	Togo	2.4	4	0.7
134	Ukraine	2.4	8	0.5
134	Zimbabwe	2.4	7	1.0
143	Maldives	2.3	3	0.5
143	Mauritania	2.3	6	0.6
143	Pakistan	2.3	7	0.5
146	Cameroon	2.2	7	0.4
146	Côte d'Ivoire	2.2	7	0.5
146	Haiti	2.2	3	0.1
146	Iran	2.2	4	1.0
146	Libya	2.2	6	0.3
146	Nepal	2.2	6	0.5
146	Paraguay	2.2	5	0.5
146	Yemen	2.2	4	0.3
154	Cambodia	2.1	9	0.3
154	Central African Republic	2.1	4	0.2
154	Comoros	2.1	3	0.5
154	Congo-Brazzaville	2.1	5	0.3
154	Guinea-Bissau	2.1	3	0.0
154	Kenya	2.1	7	0.3
154	Laos	2.1	4	0.6
154	Papua New Guinea	2.1	5	0.5
154	Russia	2.1	8	0.4
154	Tajikistan	2.1	7	0.7
164	Democratic Republic of Congo	2.0	4	0.3
164	Guinea	2.0	5	0.3
164	Kyrgyzstan	2.0	7	0.3
164	Venezuela	2.0	7	0.2
168	Angola	1.9	6	0.2
168	Equatorial Guinea	1.9	3	0.2
170	Burundi	1.8	6	0.3
171	Chad	1.7	6	0.2
172	Sudan	1.6	5	0.4
172	Turkmenistan	1.6	3	0.2
172	Uzbekistan	1.6	6	0.2
175	Iraq	1.5	3	0.4
176	Afghanistan	1.4	4	0.3
176	Myanmar	1.4	3	0.5
178	Somalia	1.1	3	0.3

Zusammenfassung

Korruption ist ein vielschichtiges und weitreichendes Phänomen, das im internationalen Geschäftsverkehr eine bedeutende und einflussreiche Rolle spielt. So verringert sie zum Beispiel die wirtschaftliche Attraktivität eines Landes für ausländische Investoren, und hemmt damit das Wirtschaftswachstum. Diese Diplomarbeit beschäftigt sich mit Korruption in der internationalen Wirtschaftswelt und untersucht das Verhalten von multinationalen Unternehmen in korrupten Märkten. Ziel ist eine kritische Auseinandersetzung des Umgangs multinationaler Unternehmen mit Korruption sowohl im Ursprungsland als auch auf internationalem Boden.

Die volkswirtschaftlichen Ursachen und Auswirkungen von Korruption unterliegen bereits zahlreichen empirischen Studien, jedoch ist dieses Forschungsfeld im Zusammenhang mit Unternehmensethik aus (privat-) wirtschaftlicher Perspektive ein relativ unerschlossenes Gebiet. Daher soll im Folgenden die Frage inwieweit die Geschäftstätigkeit internationaler Unternehmen einer doppelten Moral unterliegen, beantwortet werden.

Die Forschungsarbeit basiert auf einer ausführlichen Literaturrecherche und besteht aus Publikationen in Fachzeitschriften, Arbeitsmaterialien, die von internationalen Organisationen und NGO's veröffentlicht wurden und schließlich aus Abhandlungen bedeutender Autoren im Feld der Korruptionsforschung.

Die Ergebnisse zeigen auf, dass multinationale Unternehmen in ausländischen Märkten mit hoher Korruption- oft sind dies Entwicklungsländer- eine geringere Unternehmensethik vorweisen als in ihrem Ursprungsland. Widersprüchlich dazu kommunizieren viele dieser Unternehmen in industrialisierten Ländern hohe moralische und ethische Werte und Normen, aktuell im Zeichen des Trends nach Corporate Social Responsibility. Multinationale Unternehmen mit Sitz in Industrieländern kennen komplexe Mechanismen um Antikorruptionsgesetze in ihren

Auslandsgeschäften raffiniert zu umgehen, was eine moralische Doppelbödigkeit seitens multinationaler Unternehmen im Umgang mit Korruption impliziert. Diese Forschungsarbeit soll als Basis für weitere Studien, womöglich auch empirischen Untersuchungen, dienen.

Curriculum Vitae

Personal Data

Name: Jimmy Perumadan
Birth Date: January 1986
Nationality: Austria
Email: jimyp@gmx.at

Education

1996-2004	Secondary School (Wirtschaftskundliches Realgymnasium Mater Salvatoris), Vienna
2005-2011	Studies of International Business Administration, University of Vienna
Fall 2008	Exchange Semester, Concordia University, John Molson School of Business
Since 2011	Studies of Law, University of Vienna