

The Handbook of Business and Corruption

Cross-Sectoral Experiences

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INVESTOR IN PEOPLE

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Introduction

The aim of this handbook is to provide an overview of corrupt practices in general and, more particularly, in different industry sectors from an ethical perspective. Corruption will be considered in its broadest sense, including bribery and petty payments, nepotism, and cronyism, gift-giving, embezzlement of public property, or money laundering. In this vein, the range of activities which are seen as corruption differs in several countries depending on culture, traditions, or socialization. Thus, for example, certain sorts of gift-giving in some cultures are deeply embedded in custom and are seen as social mechanism for stabilizing relationships inside and outside the business context, whereas in other countries such acts of gift-giving are by and large uncommon. In the latter, gift giving is viewed as an illegitimate means of influencing the decision of the other party by creating a specific sort of obligation as well as imposing additional costs to the company. Although the intention of gift giving may not be to obtain a favor from the donee in return, one of its aims may nevertheless be to cast the giver in a favorable light. While this might be valued highly in some cultures, it is seen as illegitimate leverage in others.

The same cultural difference in attitude can be observed with obligations vis-à-vis family members or other social groups. To take the example of employee recruitment in western countries, it is estimated that recruitment principally depends on qualifications and work experience and only to a lesser extent on recommendations, while in some other countries family relationship is seen as a guarantee of loyalty and trustworthiness and might explain why “nepotism” happens.

Nevertheless, some elements of corruption are perceived as illicit in nearly all countries – irrespective of whether other corrupt practices are common in these countries or not. A very good indicator for this is the fact that most types of bribery payments are not made public and are illegal in most countries. In spite of this, even the most stringent legal regulations concerning corrupt

practices leave room for interpretation. On the other hand, for companies working in a corrupt environment it is not easy to figure out the family ties of their counterparts or whether costs charged for administrative handling are legal payments or hidden bribes for some groups of state officials. Thus, according to which industry a corporation belongs to, it might face specific problems related to corruption.

For most western countries corruption, especially in its forms of grease money or petty payments, have been seen as a cultural idiosyncrasy of African, South-American, or East-European countries. For years, corruption has been dismissed as a cultural phenomenon especially in less-developed or developing countries, mirroring low salaries, weak infrastructure, disorganized administration, and unstable political conditions. If corruption “happened” in Western countries at all, this has been downplayed as a kind of “some-bad-apples-theory” where a few ill-motivated actors jeopardize the honesty of the whole system. What this theory fails to explain, however, is why it is western multinational corporations that have been involved in contemporary corruption scandals in recent years. Even though most of these companies ostensibly had anticorruption programs and monitoring systems in place, such measures obviously did not prevent management from engaging in corrupt activities. It seems therefore that corruption is a widespread and common practice and a universally prevalent phenomenon, even if the practices and degree of corrupt behavior may be different in different sectors.

Although a number of books dealing with the topic of corruption have been published over the years, most books treat corruption either as a cultural phenomenon or focus on fraud prevention from a managerial perspective. Less attention is paid to the specifics of corruption and corruption related topics in different industries and economic sectors. Furthermore, previous work has tended to focus only on one or two aspects of corruption and there hasn't been an attempt to discuss corruption in the broad sense as intended in this book. In contrast, numerous articles in scientific journals describe corruption not only from a country perspective but also describe various manifestations of corruption as a problem of different industries. So far no compendium exists which analyzes corruption from the perspective of different industries. Thus it is the aim of this handbook to provide an overview of corrupt practices in general and in different industry sectors from an ethical perspective.

Section I starts with theoretical considerations on corruption. In the first chapter of this section (Chapter 1) Philip M. Nichols provides a thoughtful analysis of the “general definition” of corruption through history and considers the kaleidoscope of views of what exactly it is, both in terms of its legitimacy and in a legal sense. The importance of a clear definition is outlined: “The abundance of definitions presents scholars and policymakers with a problem similar to that presented by an overly broad definition; when interacting with one another on issues of corruption, scholars and policymakers might not be talking about the same thing.” He takes us through the generally known facets of corruption including bribery, extortion, theft, embezzlement, and nepotism with the accompanying abuse or betrayal of power and trust involved in these phenomena. Nichols further extends the traditional definition, suggesting the inclusion of the notion of undue influence, an inequitable use of power to affect an outcome or to engender a “burden of debt” through preferential access to powerful structures or institutions such as government.

Thomas Taro Lennefors then takes us deeper into the theory of corruption (Chapter 2), outlining different approaches to understanding corruption. He brings together four different strands of research to move away from the purely agent-based view – where the agent betrays the trust of the principal and acts in rational self-interest. He integrates an understanding of the socialization process of corruption, the philosophical consideration of corruption as degeneration from an ideal – and of what exactly that ideal is – together with a psychological consideration of why corruption is always deemed to be elsewhere rather than directly relevant to oneself.

Our contributing authors subsequently take us through some universally experienced forms of corruption, namely petty corruption (Antonio Argandoña, Chapter 3) and ways of combating it, gift-giving as disguised bribes, or bribery as a distortion of the gift-giving function (Michel Dion, Chapter 4), nepotism and cronyism (Sarah Hudson & Cyrlene Claasen, Chapter (see above) 5). These phenomena are ubiquitous throughout human societies and have existed since civilization began, when some individuals and groups began setting down rules and developing norms for societal behavior and, just as quickly, others (or they themselves!) began finding ways to subvert them for personal or group gain.

The overview of corruption concludes with a richly developed set of insights and analysis by Richard P. Nielsen

(Chapter 6) which compares and contrasts viable and nonviable means of reforming corruption. The author provides thought-provoking concepts and examples to illustrate a variety of approaches that can be used depending on contextual influences which can help or hinder the process of reforming corruption.

We see the broad themes developed in the first part of this handbook arising repeatedly in the cross-sectoral perspectives on corruption provided in Section II. The narratives and examples hark back again and again to cases of abuse of power for gain, extortion, theft, nepotism, cronyism and bribery. Despite the familiarity of the themes, there is rich variety in the individual details of the cases and the analytical viewpoints and approaches taken. These reflect the stance taken in Chapter 2 by Lennefors that the reality, nature, and perceptions of corruption are multiple and that different lenses may be useful for analyzing different corruption cases or environments. The authors of the sectoral perspectives on corruption breathe fresh life into the topics by uncovering and proposing new and context-specific ways to deal with the problems of corruption.

Some of the sectors covered in part II of this handbook, for example the financial and banking sectors, are rather to be expected, the *sine qua non* of any serious discussion of corruption in today's world.

In the first chapter of this section Peter Rodriguez (Chapter 7) searches for answers as to why corruption persists in the government sector. Similarly to Sarah Hudson and Cyrlene Claasen in Chapter 5, he rejects the idea that there is some simplistic national or cultural characteristic that can explain corruption in government. He suggests that not all corruption is the same, and so empirical understanding of the actual economic effects of different types of corruption would help policy-makers and scholars understand which had the most impact and thus where to focus their attention. In an echo of Lennefors's discussion around being socialized into corruption, Peter Rodriguez notes that corrupt industrial practices travel with those who cannot escape them, and are diffused from individual to individual and place to place.

The resource curse is discussed in an informative chapter (Chapter 8) by Eleanor R. E. O'Higgins on the extractive industry in a context of a "vicious cycle of extractive resource dependency and corruption which reinforce each other." The author thoroughly analyses the competitive landscape of these industries and concludes with some suggestions for scenarios where anti-corruption transparency initiatives might be able to take root.

Michael S. Abländer (Chapter 9) unpicks the IT industry using the case of corruption in Siemens. He offers an intriguing insight into the processes involved in creating, maintaining, and deepening an organizational culture of corruption, as well as the redressive processes in the aftermath of public exposure, and the suggestion that the corruption cycle is set to start again.

David Chaikin (Chapter 10) examines the empirical evidence around the facilitating activities of the banks in money laundering and tax evasion. He concludes with a rejection of the “one bad apple” thesis, finding that the banking sector is a “systemic offender facilitating financial crimes, despite the enactment of international and national anti-financial crime standards and criminal prosecutions of financial institutions.” Bonnie Buchanan and Craig Anthony Zabala (Chapter 11) analyze the case of the New York Department of Financial Services investigation into and action against Standard Chartered Bank’s alleged money laundering violations involving Iran. They reveal in detail the difficulties encountered by governments and law enforcement agencies in fighting financial fraud and money laundering in particular. Chapter 12, written by Jay Youngdahl, concludes the trio of contributions on the financial and banking sectors with a thoughtful analysis of the role of the investment consulting and the financial auditing industries, with the problem of “who is watching the watchmen?” clearly emerging from the detailed depictions of these sectors. The author ends on an upbeat note, proposing that a shift in narrative around this sector could change the attitudes and practices of actors within.

Corrupt practices in the health-care and pharmaceutical sectors are the subjects treated by Tetiana Stepurko, Milena Pavlova, and Wim Groot (Chapter 13) and by Martha Gabriela Martinez, Jillian Clare Kohler, and Heather McAlister (Chapter 14) investigating radically different issues within these related sectors. Tetiana Stepurko et al. carry out a multilevel analysis of the widespread phenomenon of informal payments in the health-care sector and compare its prevalence and nature in different contexts. Based on a literature review Martha Gabriela Martinez et al. then provide an overview of the most prevalent structural and policy issues that make this sector susceptible to corruption and address the ways in which these vulnerabilities can be addressed. This analysis generates a useful and practical set of guidelines for dealing with the challenges.

Asif Reza Anik and Siegfried Bauer (Chapter 15) paint a detailed and troubling picture of corruption in the agricultural

sector in Bangladesh. This chapter stands out from the rest in that it involves corruption at the bottom of the pyramid, its victims coming from the poorest sections of society. The particular forms corruption takes in the fertilizer market in Bangladesh, the processes it follows and its daunting effects are all described here, providing valuable information on this little-known sector.

In Chapter 16, authors Peter J. Edwards, Paul A. Bowen, and Keith S. Cattell use the construction industry in South Africa to illustrate and develop a four-dimensional risk-based model of corruption allowing identification of appropriate action needed to combat corruption in this industry along the four axes proposed: eliminating and reducing opportunities; relieving the pressures to commit; rebutting the rationales and arguments used to excuse; and improving and innovating more forensic methods of detection of corruption. They place the problem of corruption in this sector firmly as a societal challenge.

The sports industry, as elucidated by Fausto Martin De Sanctis (Chapter 17), holds a mirror to society and all the sectors discussed in the handbook. This one sector runs the entire gamut of corrupt behavior, illustrated effectively with current examples and recent scandals. Equally of current interest (in the aftermath of the 2016 U.S. elections and the agonizing of the media over the “post-truth” phenomenon) is Edward H. Spence’s examination of corruption in the media (Chapter 18). His cases and analysis of cash-for-comment scandals, advertorials, infomercials and infotainment, and public relations media releases disseminated misleadingly as journalistic opinion show that “truth” in the media has always remained elusive, and that these practices are well-embedded in the media sector.

The cross-sectoral analysis concludes with an analysis of the retail sector by Michael S. Abländer and Maxim A. Storchevoy (Chapter 19). While some forms of corruption in the retail sector are similar to the form corruption takes also in other industries, the practice of charging slotting fees as up-front payments for shelf-space in supermarkets is a unique practice in the retail sector. Since such payments are made in cash and are paid for bogus services they are bribery-like payments which particularly disadvantage smaller manufacturers which are not able to pay for shelf-space and are thus forced out of the market.

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