

14.7: Reading- Ethics and Corruption

Ethics and Corruption

To begin our discussion of corruption, let's first define it in a business context. Corruption is "giving or obtaining advantage through means which are illegitimate, immoral, and/or inconsistent with one's duty or the rights of others."

Our modern understanding of business ethics notes that following culturally accepted norms is not always the ethical choice. What may be acceptable at certain points in history, such as racism or sexism, became unacceptable with the further development of society's mind-set. What happens when cultures change but business practices don't? Does that behavior become unethical, and is the person engaged in the behavior unethical? In some cultures, there may be conflicts with global business practices, such as in the area of gift giving, which has evolved into bribery—a form of corruption.

Paying bribes is relatively common in many countries, and bribes often take the form of *grease payments*, which are small inducements intended to expedite decisions and transactions. In India and Mexico, for example, a grease payment may help get your phones installed faster—at home or at work. Transparency International tracks illicit behavior, such as bribery and embezzlement, in the public sector in 180 countries by surveying international business executives. It assigns a CPI (Corruption Perceptions Index) rating to each country. New Zealand, Denmark, Singapore, and Sweden have the lowest levels of corruption, while the highest levels of corruption are seen in most African nations, Russia, Myanmar, and Afghanistan.

Even the most respected of global companies has found itself on the wrong side of the ethics issue and the law. In 2008, after years of investigation, Siemens agreed to pay more than 1.34 billion euros in fines to American and European authorities to settle charges that it routinely used bribes and slush funds to secure huge public-works contracts around the world. "Officials said that Siemens, beginning in the mid-1990s, used bribes and kickbacks to foreign officials to secure government contracts for projects like a national identity card project in Argentina, mass transit work in Venezuela, a nationwide cell phone network in Bangladesh, and a United Nations oil-for-food program in Iraq under Saddam Hussein. 'Their actions were not an anomaly,' said Joseph Persichini Jr., the head of the Washington office of the Federal Bureau of Investigation. 'They were standard operating procedures for corporate executives, who viewed bribery as a business strategy.'"

Ethics in Action

Each year Transparency International analyzes trends in global corruption. The following is an excerpt from their 2010 Global Corruption Barometer report, which captures the experiences and views of 91,500 people in 86 countries and territories:

"Corruption has increased over the last three years," say six out of ten people around the world. One in four people report paying bribes in the last year.

Views on corruption were most negative in Western Europe and North America, where 73 percent and 67 percent of people, respectively, thought corruption had increased over the last three years.

"The fallout of the financial crises continues to affect people's opinions of corruption, particular in North America and Western Europe. Institutions everywhere must be resolute in their efforts to restore good governance and trust," said Huguette Labelle, Chair of Transparency International.

In the past twelve months one in four people reported paying a bribe to one of nine institutions and services, from health to education to tax authorities. The police are cited as being the most frequent recipient of bribes, according to those surveyed. About 30 percent of those who had contact with the police reported having paid a bribe.

More than twenty countries have reported significant increases in petty bribery since 2006. The biggest increases were in Chile, Colombia, Kenya, FYR Macedonia, Nigeria, Poland, Russia, Senegal and Thailand. More than one in two people in Sub-Saharan Africa reported paying a bribe—more than anywhere else in the world.

Poorer people are twice as likely to pay bribes for basic services, such as education, than wealthier people. A third of all people under the age of thirty reported paying a bribe in the past twelve months, compared to less than one in five people aged fifty-one years and over.

Most worrying is the fact that bribes to the police have almost doubled since 2006, and more people report paying bribes to the judiciary and for registry and permit services than five years ago.

Sadly, few people trust their governments or politicians. Eight out of ten say political parties are corrupt or extremely corrupt, while half the people questioned say their government's action to stop corruption is ineffective.

"The message from the 2010 Barometer is that corruption is insidious. It makes people lose faith. The good news is that people are ready to act," said Labelle. "Public engagement in the fight against corruption will force those in authority to act—and will give people further courage to speak out and stand up for a cleaner, more transparent world."^[1]

Gift giving in the global business world is used to establish or pay respects to a relationship. Bribery, on the other hand, is more commonly considered the practice in which an individual would benefit with little or no benefit to the company. It's usually paid in relation to winning a business deal, whereas gift giving is more likely to be ingrained in the culture and not associated with winning a specific piece of business. Bribery, usually in the form of a cash payment, has reached such high proportions in some countries that even locals express disgust with the corruption and its impact on daily life for businesses and consumers.

The practice of using connections to advance business interests exists in just about every country in the world. However, the extent and manner in which it is institutionalized differs from culture to culture.

In Western countries, connections are viewed informally and sometimes even with a negative connotation. In the United States and other similar countries, professionals prefer to imply that they have achieved success on their own merits and without any connections. Gift giving is not routine in the United States except during the winter holidays, and even then gift giving involves a modest expression. Businesses operating in the United States send modest gifts or cards to their customers to thank them for business loyalty in the previous year. Certain industries, such as finance, even set clear legal guidelines restricting the value of gifts, typically a maximum of \$100.

In contrast, Asian, Latin American, and Middle Eastern cultures are quick to value connections and relationships and view gifts quite positively. Connections are considered essential for success. In Asia, gift giving is so ingrained in the culture, particularly in Japan and China, that it is formalized and structured.

For example, gift giving in Japan was for centuries an established practice in society and is still taken seriously. There are specific guidelines for gift giving depending on the identity of the giver or recipient, the length of the business relationship, and the number of gifts exchanged. The Japanese may give gifts out of a sense of obligation and duty as well as to convey feelings such as gratitude and regret. Therefore, much care is given to the appropriateness of the gift as well as to its aesthetic beauty.

Today there are still business gift-giving occasions in Japan, specifically *oseibo* (year's end) and *ochugen* (midsummer). These are must-give occasions for Japanese businesses. *Oseibo* gifts are presented in the first half of December as a token of gratitude for earlier favors and loyalty. This is a good opportunity to thank clients for their business. *Ochugen* usually occurs in mid-July in Tokyo and mid-August in some other regions. Originally an occasion to provide consolation to the families of those who had died in the first half of the year, *ochugen* falls two weeks before *obon*, a holiday honoring the dead.

Businesses operating in Japan at these times routinely exchange *oseibo* and *ochugen* gifts. While a professional is not obligated to participate, it clearly earns goodwill. At the most senior levels, it is not uncommon for people to exchange gifts worth \$300 or \$400. There is an established price level that one should pay for each corporate level.

Despite these guidelines, gift giving in Japan has occasionally crossed over into bribery. This level of corruption became more apparent in the 1980s as transparency in global business gained media attention. Asians tend to take a very different view of accountability than most Westerners. In the 1980s and 1990s, several Japanese CEOs resigned in order to apologize and take responsibility for their companies' practices, even when they did not personally engage in the offending practices. This has become an accepted managerial practice in an effort to preserve the honor of the company. While Japanese CEOs may not step down as quickly as in the past, the notion of honor remains an important business characteristic.

Long an established form of relationship development in all business conducted in Asia, the Arab world, and Africa, gift giving was clearly tipping over into outright bribery. In the past two decades, many countries have placed limits on the types and value of gifts while simultaneously banning bribery in any form. In the United States, companies must adhere to the Foreign Corrupt Practices Act, a federal law that specifically bans any form of bribery. Even foreign companies that are either listed on an American stock exchange or conduct business with the U.S. government come under the purview of this law.

There are still global firms that engage in questionable business gift giving; when caught, they face fines and sanctions. But for the most part, firms continue with business as usual. Changing the cultural practices of gift giving is an evolving process that will take time, government attention, and more transparency in the awarding of global business contracts.

Companies and their employees routinely try to balance ethical behavior with business interests. While corruption is now widely viewed as unethical, firms still lose business to companies that may be less diligent in adhering to this principle. While the media covers stories of firms that have breached this ethical conduct, the misconduct of many more companies goes undetected. Businesses, business schools, and governments are increasingly making efforts to deter firms and professionals from making and taking bribes. There are still countless less visible gestures that some would argue are also unethical.

For example, imagine that an employee works at a firm that wants to land a contract in China. A key government official in China finds out that you went to the business school that his daughter really wants to attend. He asks you to help her in the admission process. Do you? Should you? Is this just a nice thing to do, or is it a potential conflict of interest if you think the official will view your company more favorably? This is a gray area of global business ethics. Interestingly, a professional's answer to this situation may depend on his or her culture. Cultures that have clear guidelines for right and wrong behavior may see this situation differently than a culture in which doing favors is part of the normal practice. A company may declare this inappropriate behavior, but employees may still do what they think is best for their jobs. Cultures that have a higher tolerance for ambiguity, as this module discusses, may find it easier to navigate the gray areas of ethics—when it is not so clear.

Most people agree that bribery in any form only increases the cost of doing business—a cost that is either absorbed by the company or eventually passed on to the buyer or consumer in some form. While businesses agree that corruption is costly and undesirable, losing profitable business opportunities to firms that are less ethically motivated can be just as devastating to the bottom line. Until governments in every country consistently monitor and enforce anticorruption laws, bribery will remain a real and very challenging issue for global businesses.

1. Source: *Transparency International*, “[Global Corruption Barometer 2010](#),” accessed February 22, 2011.↵

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