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## Reducing corruption in international business decisions

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Item Type	Conference proceedings
Authors	Roy, Achinto;Singer, Alan
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Download date	2026-07-11 04:01:27
Link to Item	<a href="http://hdl.handle.net/20.500.12424/174057">http://hdl.handle.net/20.500.12424/174057</a>

**Submission to  
The Third ISBEE World Congress  
July 2004, Melbourne Australia**

**Reducing Corruption in International Business Decisions:  
Prospects, Frameworks & Techniques**

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# **Reducing Corruption in International Business Decisions: Prospects, Frameworks & Techniques**

## **Abstract**

*This paper reports the results of a rare interview/questionnaire survey of 41 multinational business managers in India regarding their personal experiences of corrupt practices. Despite current trends and traditional scepticism, quite favourable prospects for reducing corruption are indicated, provided that multifaceted approaches are adopted that appeal to intrinsic and extrinsic motives. Accordingly, a corruption related decision-making model is proposed, for use as an heuristic guide in circumstances involving corrupt business practices.*

## **[1] Introduction**

Historically, all societies have harboured an element of corruption. For example, in India, Kautilya's *Artsashstra* sets out 40 different ways in which public officials made illegitimate gain from public office. Recently, corruption has become almost an expected aspect of international business (e.g. Pieth 1999) whilst a series of major corporate scandals have reinforced a general perception that it is spreading.

At the same time there has been a steady growth of the Business Ethics movement in practice, consulting and education. This has taken place at the global-institutional level with the expansion of activities by non-governmental organisations such as Transparency International; but also at the micro level where executives, consultants, institutes and educators have developed and promoted management techniques including codes of ethics, mission statements, stakeholder-oriented strategy and investment models and Ethical decision-making (EDM) models.

Given the vast sums that are at stake, sums dwarfing most strategic business investment decisions, it is noteworthy that there have been very few attempts to develop management techniques that specifically relate to corrupt practices, such as bribery. Furthermore, due to the obvious difficulty of obtaining any micro-level empirical data about participation in corrupt acts (e.g. Klitgaard 1988) there are neither behavioural models nor heuristic guides tailored to the CRDM (Corruption-related decision-making) context.

Following an identification of distinct forms of bribery, the paper reports some results of an interview/questionnaire survey of 41 multinational business

managers in India (made possible by a long established personal network) regarding their personal experiences of corrupt practices. The survey was conducted at Mumbai, the financial capital of India, between 2002 and 2003. A sample of 70 major multinational companies located in Mumbai was drawn from diverse industries such as banks, airlines, pharmaceuticals, information technology and electronics, consumer goods, oil companies, automobiles and heavy electrical. These seventy companies represent market leaders in their respective industry segments with a minimum turnover of at least Indian rupees 10 billion each. Besides, all of them command premium brand names and substantial market shares in the Indian market. Out of the 70 companies, 41 responded. Company Executives responding/interviewed were at the levels of Chief executive officer or senior managers dealing with public relations or senior managers involved in business promotion. The questionnaires were administered in person and interviews conducted to ensure clarity of responses. The findings are interpreted (sections 4 and 5) with reference to the general prospects for reducing corruption and fostering ethical decision-making in business. In contrast with some traditional viewpoints and current trends (section 7) quite favourable prospects are indicated, provided that multi-faceted approaches are adopted that take into account both the extrinsic and intrinsic motivations for behaviour. Accordingly, a simple Corruption-related decision-making model (CDRM model) is proposed, as a practical heuristic guide (refer figure 5) for multinational business managers.

## [2] Bribery

“Corruption” can refer to a state of affairs (e.g. within *Enron*) but it can also be a transitive verb: to make someone corrupt. It is this latter notion of engagement and transformation of other actors that is quite central to the present study. One can further classify acts of corruption by context, purpose and magnitude; each form becoming amenable to a distinctive ethical analysis. Examples include:

- (i) a bribe to secure competitive advantage, in an otherwise legal transaction (e.g. Lockheed in Japan, in the 1970s)
- (ii) a facilitating payment to secure preferential treatment from a public servant (e.g. Motorola in Russia, described in Donaldson *et al*, 2003 p429))
- (iii) a bribe to have an illegal activity performed in (a) a legitimate regime (e.g. bribing a jailer to free a convicted murderer), or (b) an oppressive regime (e.g. to free a political prisoner under torture)

There are also distinct analytic perspectives: that of an observer of an act of corruption *versus* that of a participant in a corrupt process or in corruption-related decisions (CRD’s). For participants who are bribe-givers, there is a clear

distinction between active and passive corruption (Table 1), the former denoting an active role, the later a role of compliance. A multinational business manager can initiate a process of corruption (offering bribes to others, or soliciting bribes for oneself), or can face a demand to give someone a payment

**Table 1 Active and passive corruption**

		Bribe giver..	
		<i>Initiates</i>	<i>Complies</i>
Bribe Receiver..	<i>Initiates</i>		Giver is <b>passive</b> Receiver is <b>active</b>
	<i>Complies</i>	Giver is <b>active</b> Receiver is <b>passive</b>	

### Prevalence

Passive bribe situations are very common. According to the survey no fewer than 37 out of 41 multinational business managers reported that bribes had been asked for sometimes or frequently in the host country (i.e. India). Multinational business managers in the survey represent the company’s country of origin (home country) operating in India being the host country where the business operations are conducted.

**Table 2. Frequency of passive bribes, domestic and foreign**

	Never / rarely	Sometimes / frequently
<b>At Home</b>	<b>40</b>	<b>1</b>
<b>In Host</b>	<b>4</b>	<b>37</b>

This finding is consistent with the standard analysis that predicts that outsiders are “easy pickings”. First it is known that the bribe-giver is unlikely to face a penalty at home (although the FCPA and its equivalents must be considered). Second concerns for reputation and collective shadow of the future might be expected to

play a small role, to the extent that the presence in the host is temporary. In the home country (Table 2 column 1), the situation or the willingness to confess are different, in these respects.

### **Prevention**

Many researchers have studied corruption internationally (e.g. Scott 1972; Klitgaard 1988; Rose-Ackerman 1999; Sen 1999, to mention a few) yet most publications that discuss corruption control have focussed on the **public** official with related legal accountability and control mechanisms, including increasing their pay to reduce demand pressure. In contrast, the supply side (i.e. the **business** managers who normally pay) has not been so thoroughly studied. Furthermore, all studies that are concerned with remedial action have cast officials and managers into the role of *homo oeconomicus* (one exception is Sen's discussion of mafia-like deontological codes that guarantee some illicit contracts). That is, multinational business managers are assumed to be performing their historical trading role, with guile as necessary.

As a result, the proposed remedies all emphasise "accountability" and the extrinsic consequences of corrupt acts. These consequences, including prosecution, are then assumed to be framed in managers' minds as part of operating risk. To date, actual CRDM (corruption-related decision-making) processes at the level of individual managers have not been very fully considered. In particular, there has been no attempt to provide decision support (guides, heuristic methods) to business managers in specific situations of corruption. This is surprising, given the frequency and importance of CRDM, not to mention the many other tools and techniques that have been designed for guiding decision-making in business.

### **[3] Consequences**

At the aggregate level, corruption has been identified as "a major stumbling block in the path to successful economic progress" (Sen 1999 p 275-8). For example, corruption is known to make many public policies ineffective, to draw investment away from productive pursuits and to foster the growth of violent organisations.

#### **Business Consequences**

As infamously displayed in Carl Kitchian's testimony for Lockheed Corporation, the typical actual consequence of non-payment of any solicited or demanded bribe is a serious loss of business, with the associated harms to the various stakeholders. The present study of multinational business managers in India, shows just how

“typical” that really is (Table 3). A clear majority (35/41 or 85%) revealed that non-payment of a solicited bribe had indeed resulted in a loss of business, for them. Put differently, non-compliance with bribery demands generally leads to *utility*-losses for decision makers and for all others who fall within their scope of moral concern (e.g. employees, suppliers, family).

**Table 3. Frequency of lost business consequent upon non-payment of solicited bribe**

Never / rarely	Sometimes / usually
6	35

### **Moral and psychological effects**

The data also indicates that despite these business experiences, there remains a sense and an understanding that the locus of corruption and the corresponding focus of any truly remedial action lies “beyond the boundary of the skin” at the level of psychic utilities, or hearts and minds (to borrow from economic-psychology and political theory, respectively)

**Table 4. Experienced managers’ beliefs about corruption and the human condition**

	No / rarely	To an extent +
Are humans non-corrupt?	4	37
Can legislation prevent C?	11	29
Can C be eliminated?	27	14

Of the 41 multinational business managers, almost all having direct personal experience of corruption, 37 of them still believed that “to an extent, humans are non-corrupt”. Taking into account the cultural context of the survey, the thrust of this response seems to be that, despite the prevalence of corruption, there remains a robust faith in ultimate human potential and fundamental goodness (similar to theological perfectibility). Thus, the question becomes one of how to realise more of that potential in the here and now. Legislation (i.e. extrinsic utility-based measures) is also seen by these managers as effective to some extent but incapable of eliminating corruption. Furthermore (Table 4 last row) in the absence of any specific proposed measures directed towards transforming behaviour from within, there is a pervasive sense of resignation and acceptance that a certain level of corruption seems inevitable.

To the extent that the relevant “consequences” of bribery encompass both (i) the business consequences (for all stakeholders) *and* (ii) substantial moral and psychological effects, it follows that attempts at intervention and reduction, including the design and use of incentives, codes, decision-guides and so on should be based upon these richer assumptions about the players. Put differently, participants in corrupt acts are not only *homo-oeconomicus*, they are also *homo-cogitans* and *homo-civicus* (rational-moral agents). Regimes and techniques to reduce corruption might be more effective if they are designed accordingly. Indeed this belief lies behind almost all of the currently available Business Ethics (BE) frameworks, models and techniques.

#### **[4] CONCEPTUAL FRAMEWORKS**

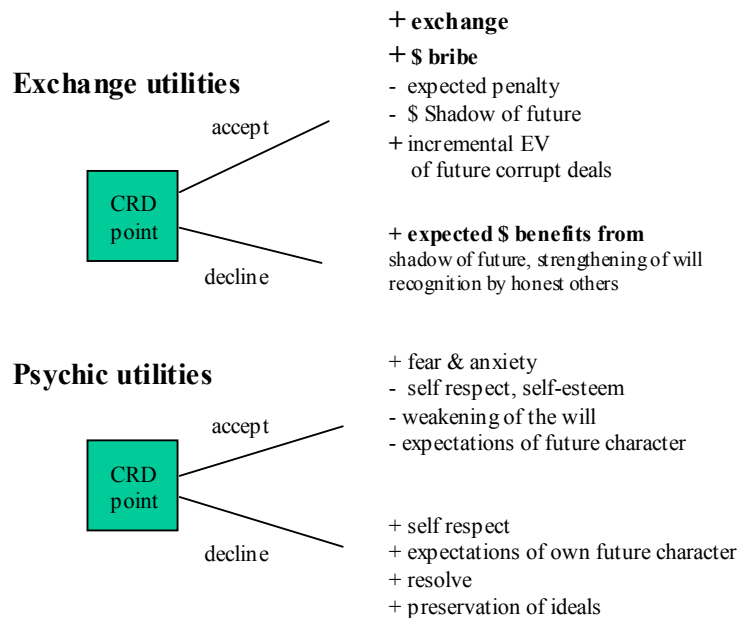
In this section, existing frameworks in Business Ethics are applied to CRDM (Corruption-related decision-making). The first elaborates the above mentioned distinction between business consequences and moral-psychological effects, the second places CRDM relative to legal, ethical and social norms. Both frameworks inform the subsequent analysis of behavioural change.

##### **Exchange utility and psychic utility**

The distinction between “business consequences” and “moral-psychological effects” is significant for CRD’s (corruption-related decisions) and for attempts at intervention, where one can “take note of each” (e.g. Sen 1987).

In an utility-based analysis of CRD’s (corruption-related decisions) (Figure 2) the relevant business consequences of acceptance of a demand (passive corruption) include (i) the near-certainty of the net business benefits from the completed deal, (ii) the increased likelihood of net benefits from future business deals (net of bribe payments) with similar entities. Against this, there is (i) the expected legal penalties and reputation effects associated with discovery of the bribe, together with (iv) any negative expected business consequences of weakening of the will, or the strengthening of habits of compliance with bribe demands. There is also (v) a marginal (2<sup>nd</sup> order) “shadow of the future” effect implying increased future systemic costs. In the case of rejection of a demand (non-compliance), relevant utility-based consequences can be identified under similar categories, whereupon the net overall utility becomes (hypothetically) apparent to a (narrow) utility-maximiser.

**Figure 2. Economic and psychological consequences of CRDM**

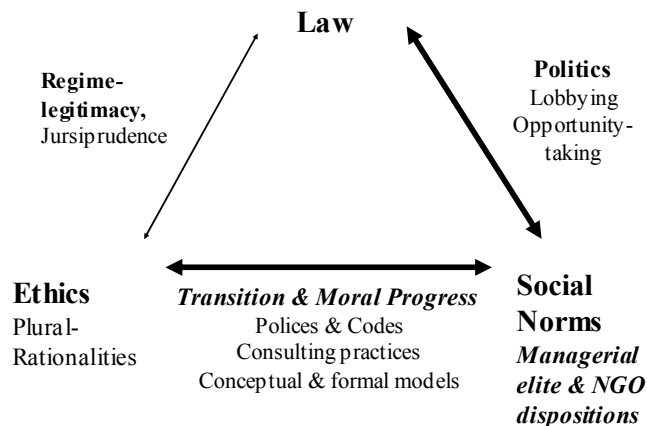


An extended analysis of CRD's (corruption-related decisions) that incorporates psychic utility (Figure 2) expands the categories of consequences to include (i) an individuals' long-term anxieties about possible discovery and prosecution, (ii) anticipated loss of self esteem, and other effects on individuals' own characters, as well as (iii) a generalised resignation, or loss of humane ideals. These in turn have foreseeable flow-on consequences for psychic utilities.

### **Legal, Ethical and Social Norms**

The analysis can be further extended with reference to the standard distinction between law, morality and social acceptability; or as Scott (1972) put it: legal norms, public interest and public opinion. Legal anti-corruption regimes provide the extrinsic (utility-based) constraints, but they also express and communicate principles that might be internalised (influencing psychic utilities). "Ethics" refers here to utilitarian consequences, deontological codes and sense of identity, each extended to incorporate intrinsic values or psychic utilities. Both are relevant to political attempts at creating conditions for ethical business and to the design and uptake by managers of "tools" of ethical analysis.

**Figure 3. Legal ethical and social norms influencing CRDM**



The relationship between the legal and ethical norms that influence CRD's is mediated by the nature of the relevant home and host political regimes. As mentioned earlier, it can be ethical to actively bribe in order to free a tortured political prisoner. Similarly it can be considered ethical to offer facilitating payments (gifts) to public officers in cases where (a) their salary placed them below the poverty line (possibly in anticipation of receipt of these same "gifts"), or (b) where such small payments are clearly expected to lead to overall benefits.

The notion of social acceptability (SA) is also pertinent. In this context it refers to the actual (empirical) pre-dispositions, attitudes, policies and capabilities of key entities within "societies", such as managerial-political elites, the media and non-governmental organisations such as Transparency International, OECD (Organisation for Economic Co-operation and Development) and the United Nations. The political dynamics mediating between SA (social acceptability) and law include (i) lobbying activities and (ii) the exploitation of temporary opportunities for influencing others. Both are significant in the context of corruption reduction efforts.

With regard to lobbying, corporations that have internationally competitive market offerings stand to benefit most from lobbying for stronger anti-corruption regimes, but everyone can benefit from the decreased costs of doing business. With regard to timing of moves against corruption, the Fabian doctrine (e.g. Geoghegan 2003, p84) seems highly relevant: for the right moment you must wait "as Fabius did most patiently, when warring against Hannibal". That is, historical

moments exists (such as post-Enron) when behavioural and social change can be effectively facilitated.

## **[5] Transitions**

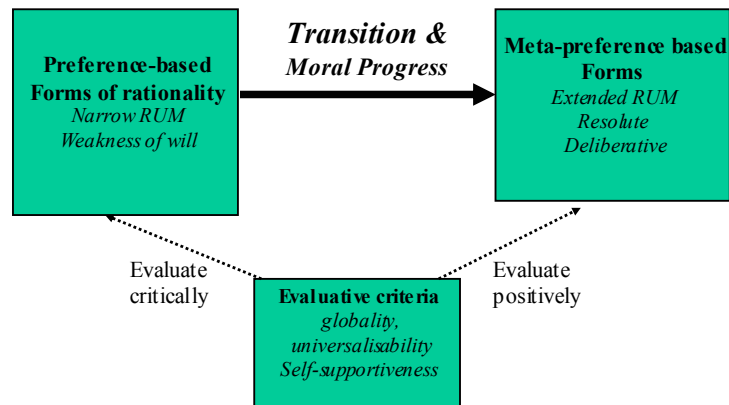
Anti-corruption policies implicitly aim to foster changes in business behaviour and social wellbeing. The Fabian doctrine continues to inform in this regard, as they believed that gradual evolution towards a more just society would take place under the guidance of experts. Under contemporary conditions these must include business managers, consultants, educators and non-governmental organisations. The Ethical Socialists (another British movement) further believed that “fundamental transformations had to occur in the hearts of individuals” (2003: p79). Furthermore, some saw the political arena (government, electorate) as the main site for the necessary “transformation”, others focussed upon the industrial arena (i.e. business managers, business policies). Almost all contemporary Business Ethics research and consulting practice follows the latter tradition. As Donaldson & Dunfee (1999 p25) put it: “Business has the power to uplift, business can also corrupt and damage”.

### **Rationalities**

At a more abstract and theoretical level, transitions towards a “more just society” with reduced levels of corruption can be cast in terms of distinctive forms of rationality (Singer 1994, 1997). The “transition” depicted in Figure 4 is from narrow rational utility maximisation (RUM) and an associated weakness of will, towards an extended RUM, involving resoluteness, meta-preference, deliberative and reflective forms. The latter forms incorporate psychic utilities, as well as utility from exchanges (Figure 2). To the extent these satisfy several evaluative *meta*-rational criteria (e.g. globality, universalisability, self-support) the transition amounts to a betterment of the human condition.

Sen (1999 p28) mentioned an historical example. When agricultural slavery was replaced with labour contracts, the consumption levels of the remaining slaves compared favourably with those of the “free” agricultural workers; yet most chose freedom. Thus, not only do social transitions generally involve utility-based motives *and* intrinsic (expressive) motives, but there also remains a real possibility of transition and change, when the timing is right. Furthermore, Sen (1999) has repeatedly emphasised that progressive social and economic development requires a multi-faceted approach, indicating a role for managerial decision techniques and guides.

**Figure 4. Transition amongst rationalities**



## [6] Techniques

There are several techniques available for reducing corruption. They include straightforward moral suasion (persuasion with words, not money), acting as a role model, or setting an example. The effect of the latter is prone to being underestimated (e.g. Axelrod 1983). To these, one can add a variety of ethics policies, codes, ethical decision-making models (EDM), strategy-stakeholder models and related systems models. Specific corruption-related decision-making models (CRDM models) can also be designed. Of course, all such techniques can be treated with a mixture of cynicism and good faith.

### Policies and codes

The survey indicated that written business policies on corruption are very common (Table 5). However, only 3 of 41 respondents (7%) knew of any company codes (including their own) that mentioned any of the consequences of corrupt practice. Policies were simply a list of “do-nots”, without concurrent attempts to influence hearts and minds.

**Table 5. Existence and contents of company policies**

	Yes	No / n.a.
<b>Policy exists ?</b>	<b>33</b>	<b>8</b>
<b>Mentions impact?</b>	<b>3</b>	<b>38</b>

However (Table 6) it is also common practice to actually refer to these policies when faced with corruption situations (passive bribery). It thus appears that there is ample scope for augmenting corporate policies, so that they provide richer descriptions of the economic and psychological consequences of corrupt acts, as depicted earlier (in Figure 2)

**Table 6. Managerial responses to passive corruption,**

<i>Facing passive corruption, manager refers to...</i>	
<b>Company policy</b>	<b>33</b>
<b>Discretion, discussion</b>	<b>6</b>
<b>Combination of above</b>	<b>12</b>

### **Strategic decision-making models / Ethical decision-making models**

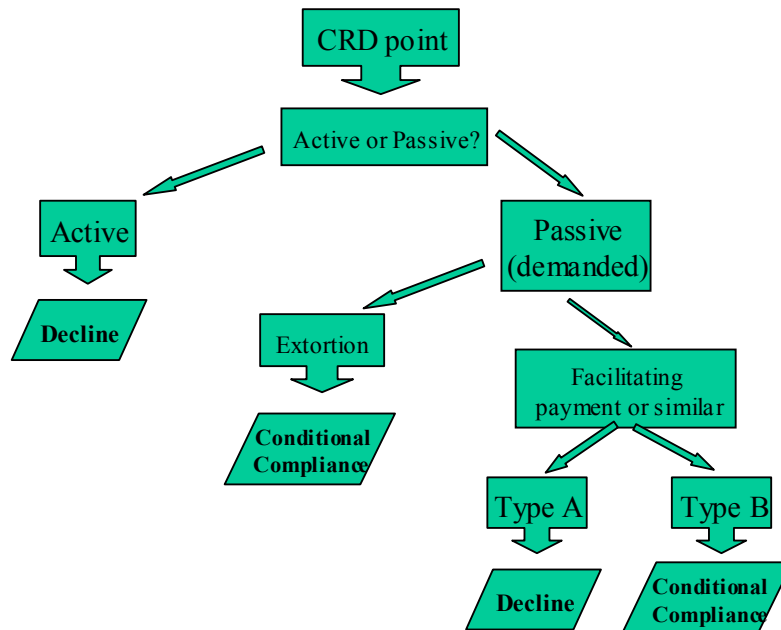
Strategic and ethical decision-making models commonly used by consultants and educators can also foster changes in the managerial mindset. One can readily distinguish between those that incorporate social/ethical issues explicitly (e.g. stakeholder model, Ethical decision-making (EDM) flowchart) *versus* those that are narrowly instrumental. Such models can in turn be depicted (Appendix 1) as market-offerings or as knowledge-products designed and deployed with the specific intention of fostering transitions. For example, models of competitive strategy and hyper-competition tend to foster a narrow utility-based culture in which resistance to financial temptation is difficult, whereas ethical models (Stakeholder, EDM) tend to foster a more reflective and humanistic culture.

### **A Corruption-related decision model**

The CRDM model (Roy 2001) is in the latter category. As with the standard EDM flowchart, it sets out a simple framework for systematically appraising alternatives in corruption-related contexts, where a manager is often under considerable economic and psychological pressure. The distinction between active and passive corruption is first made explicit, along with the further distinction between extortion payments, facilitating payments and other types. A further classification (Type A /Type B) depends on whether or not the payment in question carries a significant risk of violating stakeholders' fundamental human rights, or blocking sustainable development. Type A payments carry with it the risk of such violation while Type B does not.

The CRDM model is based on the following heuristic: (i) In cases of *active* corruption decisions the model simply prescribes “do not proceed”.

**Figure 5. A Corruption-Related Decision-making Model**



In passive corruption decisions, ethical reasoning (by the bribe payer) still has a chance to perform its part. Accordingly, where there is reasonable expectation of human right violations consequent upon payment, the prescription is, again, “do-not proceed”. In cases of extortion and Type B facilitating payments, payments are endorsed by the model, provided that they are essentially unavoidable, under the circumstances. However, at the same time, broader strategic actions are prescribed, in order to support anti-bribery initiatives and non-governmental organisations, such as Transparency International. In endorsing these practical moral choices, it is recognised that the bribe-giver often has to give in, as a matter of commercial prudence, or that the initiator might be in poverty, or that the overall consequences for oppression and human rights might be benevolent. Thus the model implicitly combines act-utilitarianism with an observance of moral-minima or hyper-norms.

## **[7] Trends**

Despite the availability of such techniques and the continuing growth of the Business Ethics movement, some casual and formal evidence indicates a current adverse trend towards narrow utility maximisation in the business and managerial

mindset (opposite of that depicted in Figure 4 and similar to that in Appendix 1b). For example, in the present survey of multinational business managers in India, it was found (Table 4) that many of the managers who had actually lost business due to their resisting bribery on previous occasions, subsequently *offered* bribes (active corruption). Put differently, they learned from their experience, or they adapted, as they are so often encouraged to do in the conventional managerial discourse.

**Table 4. Frequency of *offering* bribes due to previous lost business**

Never / rarely	Sometimes / usually
14	29

A similar trend was also found in a recent study in the USA (Saiia, Carroll & Buchholtz 2003, p169). Corporate managers in charge of philanthropy programs were becoming increasingly “strategic” in their activities, over time. Put simply, their mindset has been moving *away* from moral commitments, towards the strategic-rationality of game models. Furthermore, according to the study “institutional, firm and individual-level influences (have combined) to precipitate” the current trend.

## **[8] Conclusion**

Despite the evidence and the traditional doubts about the effectiveness of moral suasion, there remains a robust sense that attempts at promoting a more ethical business climate and culture remain worthwhile, if not urgent. The regulatory / accountability approach and the ethical approach share the same goal: both are driven by a commitment to gradual moral progress. What is perhaps needed now is a much stronger appeal to intrinsic motives and psychic utilities with their consequences for human wellbeing. Historically, the alternative appeal to strategic rationality combined with the will to power has almost always culminated in a state of oppression, often with violence aimed at challenging or overthrowing the identified elite of the day.

Finally, it is perhaps worth remembering that all ideologies are flexible and dynamic. For example, Karl Marx himself wrote *favourably* about capitalism, as compared with bonded labour (Sen 1999 p29). Accordingly, the political quest to link production and distribution processes more directly to social justice and human rights is far from over. As Sen also noted (p279), the success of capitalism

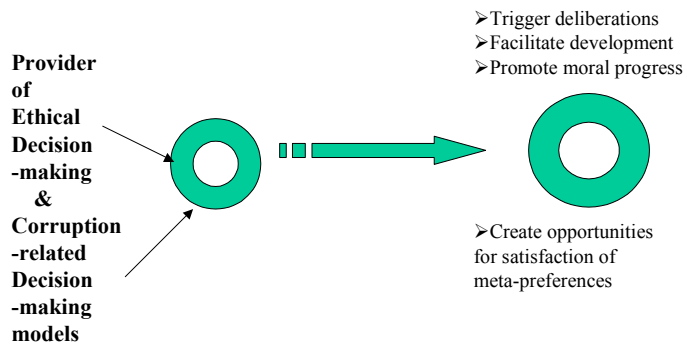
depends in part on “business honesty (in the face of contrary temptations)”. It is hoped that the CRDM model (figure 5) with its associated analysis of corruption can foster success by making that type of honesty more practical, appealing and common.

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## Appendix 1.

### (b) Transition intended by provision of ethical decision models



### (a) Trend fostered by strategy game models

