Paying the Price

A Study into the Corruption of the Multinational Corporation

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Abstract

Contemporary research universally shows that corruption is an alarming issue, hindering socio-economic development across the globe. Realizing this, the international community fights a constant battle to prevent companies from engaging in bribery with foreign governments. Even so, new scandals surface each year, involving corporations from countries all over the world. This thesis examines the underlying motives of managers of multinational companies choosing to break the law in this way. Are these simply corrupt individuals, is the related legislation wanting, or is in fact the corrupted environment to blame? Looking at some of the larger public scandals of recent years, we try to identify what in the encounter between a global MNC and a foreign government that allows this issue to persist, despite the compelling proof that it should not. Analyzing these cases, we find that the search for profits in the less developed world often puts the manager in an impossible situation, wedged between moral expectations, and those of the employer. We therefore argue that companies need to change their policies when internationalizing to countries that are known to be pervasively corrupted, providing all employees with clear frameworks for the likely encounters with corrupt government officials. We also argue that caution should be exercised when allowing local adaptation of overseas business units, ensuring that the corrupted culture of a country does not infect the corporation.

Keywords: Corruption, Driving Forces, MNC, Bribery, FCPA

Acknowledgements

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Abbreviations

BPI – Bribe Payer Index

CPI – Corruption Perception Index

FCPA - Foreign Corrupt Practices Act

GDP – Gross Domestic Product

MNC – Multinational Corporation

NGO – Non Governmental Organization

OECD – Organization for Economic Co-operation and Development

SEC - U.S. Securities and Exchange Commission

SFO – serious fraud office

TI – Transparency International

UN – United Nations

UNCAC – United Nations Convention against Corruption

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1. Introduction

The introductory chapter will clarify the aim of this thesis and the main research question will be revealed, which is "What drives MNCs to corrupt behaviour abroad?". Furthermore, delimitations will be made and definitions will be given to some ambiguous terms in this field such as corruption and bribery.

"A senior British civil servant was visiting a government in a West African country when he suddenly became puzzled by his guide's habit of calling out sums of money as they passed each official's office. Puzzlement turned to outrage when he discovered the amounts represented the going rate for bribing each official. Accustomed to the impeccable standards of British civil service, the visitor exclaimed: 'Good God! Are there no honest men left in this department?' His guide though on this for a moment, and then replied: 'one or two, but they're very expensive." - (Edevbaro, 1998)

The above story has certainly been adapted for comedic effect, but it nonetheless carries a profound message. It is an example of what is modernly referred to as pervasive corruption; a phenomenon where misuse of political power for private gain has been so deeply institutionalized in a country that it is no longer questioned, but rather accepted and adapted to. The West African country that the story refers to can be one out of many, for this is a region where the most basic of public services are crippled by corrupt behavior. In the poorest nations of the world, this is a problem that is especially dangerous. But, as this paper will show, no part of the world is spared the hazards of corruption today.

Though public servants are typically on the receiving end of a corrupt transaction, those that willingly pay them for special treatment are diverse. The MNCs of the world are becoming omnipresent in a global marketplace. As globalization eases the access to foreign markets for companies, the competition between them intensifies more and more. Different players rush to the developing economies, each hoping to profit on the vast amount of unsatisfied demand that exists there. Among the larger firms, this is often a rat race than can have very few winners in each case. In such a hectic time, it is perhaps no surprise that some corporations have taken to rather questionable means of establishing a competitive edge.

1.1 The aim of the thesis and the research questions

The aim of this thesis is to provide a new understanding of corporate corruption when MNCs internationalize. When speaking of internationalizing, all new business relations with foreign partners will be considered as such, which can be everything from a new filial in the foreign country to an order agreement. We would like to identify the factors that drive MNCs to corrupt actions when establishing new business relations abroad, hence the main research question;

- What drives MNCs to corrupt behaviour abroad?

We will use existing information on public corruption to see if it can give us a deeper understanding of the driving forces behind corrupt activities of MNCs. Perhaps the MNCs see opportunity to bend the rules once being abroad, or maybe they just become victims to the systematic corruption in the foreign country. However the situation may be, we believe that it is necessary to examine external factors which can lead to the decision of acting corruptly. Since corruption levels vary between countries, we find it to be important to study both the country's corruption levels and situation, also the entity of the MNC – to see in which way they influence each other.

The second research question is whether these corrupt activities can diminish when internationalizing, and if so, how? I.e.:

- How can corporate corruption be fought when MNC's internationalize?

The possibilities of cleaner ways of conducting business abroad will be briefly explored under Recommendation. Despite of the importance of this second research question, it is the prior research question that is the aim of this thesis. It is our opinion that this research area of why MNCs are corrupt when internationalizing is less developed and not updated to current corporate corruption scandals, e.g. theories developed by Trevino (1986) and Haney and Zimbardo (1973-1974). Furthermore, enable to diminish corporate corruption one must seek answers beyond the reaches of quick fixes; go to the bottom of this corrupt behaviour and ask why in the first place they arise.

1.2 Delimitations of the study

Some theories imply that corruption can be beneficial to some governments because it oils bureaucracy, making public processes more pragmatic and effective (Leff, 1964). However, little empiric evidence supports these theories. Theories and empirics which imply the contrary are overwhelming and almost all governments and international organization acknowledge the danger of corruption (Mauro,1995; Triesman,1998; Hellman, Jones and Kaufmann, 2000). Without further discussion, we declare corruption to be destructive for society, without exceptions. The consequences of corruption on the country and the corporation will be elaborated under Background.

Despite of the importance small businesses have on the world economy, all attention will be given MNCs. MNCs attract greater global attention than small businesses, translating into frequent media flows and a great availability of information. We do not dispute the encounters small businesses have with corruption; corruption is with all certainty a reality for them as well. However, the information is so scarce that it would jeopardize the integrity of this thesis. Including small businesses in this thesis would produce a different conclusion as well; they do not react to corruption the same way as MNC's do, due to reasons which will be discussed under Background.

When describing possible causes to governmental corruption, no consideration will be given to the long-term history of the country. These factors are certainly explanatory to the situation of the country; however, we believe it to be irrelevant for the thesis. The causes of corruption chosen for this thesis are of such nature, that they give opportunity for improvement and are receptive to change. They are also more current and directly linked to corruption levels. For instance, if colonialism is believed to have weakened the institutions of a country and that has led to a vulnerability to corruption, then the weak institutions are treated as the cause of corruption.

Furthermore, the geography of our cases is not restricted to any specific region or continent. The origin and size of the MNC were the main criteria for the selection of cases. We deliberately chose corruption scandals that affected many countries in the world and involved large MNCs - giving us both width and depth to the thesis.

1.3 Definitions

Corruption is a very ambiguous term given its relativism around the world. A general definition will however be useful throughout the thesis and applied to various situations. Most organization such as the TI (2009a), UN (2004), and OECD (1997) interpret corruption as abuse of entrusted power for private gain. OECD (1997) finds this general definition to be rather useful for awareness-raising purposes and the development of anti-corruption strategies and policies. The international community however, including the OECD (1997) and the UN (2004), prefer establishing a range of corrupt offences and behaviour rather than giving a generic definition of corruption. The OECD considers bribing foreign public officials an example of an offence. The UN also includes misappropriation, embezzlement and other diversion of property by public officials in their conventions. The Council of Europe (1998: pp. 10-11) considers trading in influence as a criminal activity as well, condemning the offering, promising and the paying of a bribe requiring their signatories to criminalize all three types of conduct. The UNCAC (2004) makes the similar statements.

Trading in influence takes place when public officials or other people in power, trade their influence for money to someone seeking this influence (Council of Europe, 1998; 10-11).

Bribery is when one party offers or promises advantages such as money for instance, in order to influence their decisions and acts. Active bribery is when giving or promising a bribe, and passive bribery is receiving one (OECD, 1997).

Fraud is basically corrupt payments that can be conducted in endlessly many ways. It can manifest as everything from a bribe in the form of an overpriced payment to providing an inferior quality than promised to (Business Anti-corruption Portal, n.d).

Embezzlement and misappropriation of public funds or resources is generally the transfer of public funds to private accounts, most commonly conducted in countries with autocracy where rulers systematically feed off from the wealth of the country (Business Anti-corruption Portal, n.d).

MNC " A firm that owns business operations in more than one country" (Hill, 2010; p.687)

2. Background

The background is divided into three categories, each explaining corruption in a different matter. The first one gives an overall picture of corruption around the world, comparing corruption levels across nations. Three indexes are presented as relevant tools when conducting comparisons, tools that will be used in the analysis when studying the host countries of the MNC activities. The second category is an effort to explain why corruption varies between countries and why some countries are more affected by corruption than others. The last category speaks of the consequences and gives reasons to why governments and enterprises should fight corruption.

2.1 Corruption around the world

Cross-national comparisons of corruption are a complicated matter given the elusive and hidden nature of corruption. The definition, perception and penalties vary between countries hindering common ground for any cross-national empirical study (Treisman, 1998; Transparency International, 2010a). Furthermore, one cannot compare the amount of trials held or conduct any efficient legal comparison due to the risk of corrupted legal systems. In addition, measuring scandals alone fail to reflect the true level of corruption given that it depends on other factors such as freedom of press (Transparency International, 2010a). Perception however has overtime proven to be reliable estimation of corruption, which is why TI (2010a) conducts the CPI every year. It measures how local experts, business people and analysts from around the world perceive corruption in the public sector of each country. 178 countries were included in the 2010 CPI. The surveys include questions relating to bribery of public officials, embezzlement and kickbacks in public funds respective public procurement. When surveys are accumulated and assessed, countries score on a scale from ten - very clean to zero - highly corrupt. The cleanest countries in 2010 were Denmark, Singapore, New Zealand, Finland and Sweden. The most corrupt countries in the world were Somalia, Iraq, Afghanistan, Sudan and Somalia (Figure 1).

The largest cross-national survey is however the Global Corruption Barometer (Transparency International, 2010b), also conducted by TI. The Barometer explores the views of the general public, interviewing local people about their experiences and opinions of corruption in their country and the government's effort to fight it. In 2010, 91,500 people were interviewed in 86 different countries making it the broadest edition of the barometer since 2003. The findings

suggested that global corruption levels had been rising during the last three years (Figure 2). Furthermore, one in every four people worldwide had bribed an employee in one of the nine public services during the last 12 months.[1] The rate was the highest in countries such as Afghanistan, Liberia, Nigeria, Cambodia and Uganda; where over 50 per cent answered that they had indeed offered bribes. The reason most frequently given was that they wanted to avoid getting into trouble with the authorities (Barometer, 2010). Out of all the services, the police is the institution that has received the most bribes. Three out of ten people worldwide have paid a bribe to the police when coming in contact with them. Regarding anti-corruption efforts, 50 per cent of the general public consider their government's anti-corruption efforts to be ineffective while seven out of ten believe that the public can make a difference in the fight against corruption.

Lastly, the BPI (Transparency International, 2008) is a unique measurement for corruption in the international marketplace. It too is conducted by TI. The latest BPI included 26[2] countries in the survey; chosen due to their foreign direct investment inflows, import and their general effect on trade patterns. 2,742 senior business executives were interviewed; each country was represented by a minimum of 100 senior business executives, with consideration taken to their firms' location, size and industry. They were asked to give their views on the foreign firms they had conducted business with, in particular, the likelihood of them engaging in corruption when doing business in the country of the interviewee. This question would be answered with a five-point response scale which later on would be converted into a ten-point scale system that makes up the BPI; ranked on the basis of the national mean scores. The higher a country scores, the lower the likelihood of companies from the country to engage in bribery when doing business abroad. The countries that scored the highest and lowest scores were Canada, Belgium and the Netherlands respective Mexico, China and Russia. In the Asia Pacific region[3], Latin America, Europe and the United States; China was the country perceived to be most likely to bribe in these regions. It was however India that was perceived to be the most likely to bribe in Africa and the Middle East, closely followed by South African companies. Out of the European companies, Italy scored the lowest in the BPI and was perceived to be more likely to bribe in Europe and the United States. The same data was used to rank the likelihood of bribing public officials in each industry sectors, although this time within the

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[1] Customs, education, judiciary, land, medical, police, registry & permit, tax authority-, and utility services (Transparency International,
[2] Argentina, Brazil, Chile, the Czech Republic, Egypt, France, Germany, Ghana, Hungary, India, Indonesia, Japan, Malaysia, Mexico, Morocco, Nigeria, Pakistan, the Philippines, Poland, Russia, Senegal, Singapore, South Africa, South Korea, the United Kingdom and the United States (Transparency International, 2008)
[3] India, Indonesia, Japan, Malaysia, Pakistan, the Philippines, Singapore and South Korea (Transparency International, 2008).

industry sector and not foreign bribery. The industries that scored the highest (most corrupt) were the construction, real estate and property development industries (Figure 3). The senior business executives were asked to judge the public institutions most affected by corruption in their respective countries. Political parties were seen to be the most corrupt in all regions of the world, except for the African and Middle East region where the police scored to lowest (most corrupt).

2. 2 Why is corruption higher in some countries than others?

When trying to identify the roots of corruption, the answer may seem simple at first glance, the incentive is money and for that reason people are corrupt. However, if one were to accept this assumption and apply it to all known cases of corruption, dilemmas soon arise. If A and B work for the same company, why is A corrupt and B is not? Also, why is corruption the standard in country A and not in country B?

Corruption is in fact a much complex dilemma, and for that reason it is sound to dissect this dilemma into layers and see it from different perspectives. On a national level, culture, economic and social development and legal systems are all factors that contribute to the many forms of corruption. We do however raise caution to the fact that corruption may vary between the regions of a country as well. Fleming and Zyglidopoulos (2009; 8-9) explain that a common corruption theory that can be applied to every cultural situation does not exist. Since business practices and organizational cultures vary between countries, so does the interpretation of corruption. What is considered to be a corrupt offence in one country may be considered to be normal business practice in another. This cultural relativism can create a dilemma when internationalizing to countries where corruption is norm, a key issue in this thesis. Moreover, when it comes to the cultural relativism, much confusion is created by the difference in the division of public and private. A big gap between public and private behaviour is characteristic to Western democratic societies, meaning that it is norm to separate work and private life and not letting these combine. The boundaries are less lucid in countries such as China and Greece for example, where exchanging gifts is a common part of conducting business. However, TI (2009b) clearly state in their Business Principles, a set of guidelines aimed at helping companies with dealing with a corrupt environment, that:

" The enterprise should prohibit the offer or reception of gifts, hospitality or expenses whenever they could affect or be perceived to affect the outcome of business transactions and are not reasonable and bona fide. " *(Transparency International, 2009b; 4.5.1)*

Despite the relativism of corruption, some generalizations can be made. There are for instance many common denominators in the so-called transition countries; Eastern Europe and the former Soviet Union. Three factors in particular are lifted in the World Bank (2000) report, which are identified to create a vulnerability to corruption in these regions. These factors are; i) The writing of new laws, regulations and policies, ii) the redistribution of state wealth and property to the private sector and citizens, iii) the absence of institutions or organizations that could effectively oversee potential abuse of public office during transition. These factors result in people trying to encode advantages in the new system for their own benefit and by doing so distort a legible development in the country.

Another factor that causes of corruption is the so-called 'state capture', meaning the concentration of economic power. The problem with state capture is that economic power is often concentrated to a few key areas with bountiful assets and resources. These areas are not only rich in natural resources but also serve as important transport routes, making them strategically important to gain power and therefore a potential target for corruption. Countries with high state capture include Russia, Azerbaijan, Kazakhstan and Turkmenistan (World Bank, 2000).

Corruption thrives in countries with weak institutions and where governments fail to support the rule of law and protect property and contractual rights. For this reason corruption is more widespread in transition- and less developed countries, which are becoming increasingly attractive to MNCs (Hellman, Jones, Kaufmann and Schankerman, 2000). Many factors contribute to the actual quality of bureaucracy, some of them being the pride associated with working for the government, and the hiring process. According to Rauch and Evans (2000) corruption is likely to be higher in governments where recruitment and promotion is based on other factors than merit, for example nepotism. There is also believed to be a negative correlation between corruption and the wages of the public sector. The higher the wages of public officials are, the lower the corruption. Public wages have been raised in attempt of reducing corruption in countries such as Singapore, Argentina and Peru. However, an unwanted side-effect of raising wages in the public sector is that officials will expect bigger bribes to compensate for the risk of losing a more significant wage (Tanzi, 1998).

2.3 The consequences of corruption

"Corruption is an insidious plague that has a wide range of corrosive effects on societies. It undermines democracy and the rule of law, leads to violations of human rights, distorts markets, erodes the quality of life and allows organized crime, terrorism and other threats to human security to flourish." (UNCAC, 2004)

It is safe to say that corruption is considered to be a malicious phenomenon by the international community. As earlier stated, NGOs and the majority of the governments share the statement that prefaces the UNCAC. It affects society in an immediate and long termed matter, hindering its economic and social development. It is known to weaken the institutional foundation of a country, fundamental for economic growth (World Bank, 2000). It is also concluded by Mauro (1995) via regression analyses that the level of corruption, the level of investment and economic growth of a country are negatively correlated to one another, meaning that the higher the corruption level is, the lower the investment level and the economic growth will be. So if a country should improve by one standard deviation (variation from mean) in the CPI than the investment rate and the annual growth rate of per capita GDP will increase by more than four percentage points respective over a half percentage point. The statistical analysis indicates also a negative correlation between corruption and government spending on education. If the country in question were to move up from six to eight standard deviations on the CPI, then the spending on education would increase by circa half a per cent of GDP. In addition, Mauro (1995) explains that another danger brought by corruption is the indifference it may cause when investing in a project as a government. When it comes to deciding between a project that is beneficial for the citizens and one that is not (the example of a dam and jet fighter is given), if the bribe is equally lucrative for the official, the consequences of the project for the citizens will not be considered.

In addition to the economic effects of corruption, corruption is known to distort the role of the government and its ability to impose the needed enforcement and protection of property rights, contracts and inspect and regulate the fundamental institutions such as hospitals, banks and schools. Corruption can also reduce the legitimacy of market economy and even democracy, this being the case in transition countries (Tanzi, 1998). Although no country is immune to corruption and is affected to some extent, it is as earlier mentioned the developing world that suffers the most. It diverts development funds and undermines the government efforts to provide its citizens with the most basic service (UN, 2004; Macrae, 1982). People in

poverty are the most reliant on social security and the least capable of paying the extra costs that are needed for bribery and fraud – making them the most affected victims of corruption (World Bank, 2000). Strong indications suggest that the changes in income distribution in transition countries have partly occurred due to corruption (Tanzi, 1998).

According to the World Bank (2000), corruption affects the entire society including the private sector and the actors within. When doing business in a more corrupt country, the costs will be much higher for enterprise than doing business in a "clean" country. In addition to the expensive of the bribes, additional costs arise when monitoring performances, minimizing risks and ensuring property rights. The Global Corruption Report states that half of the business executives interviewed estimated corruption to increase project costs with ten per cent and in some cases up to 25 per cent. In addition to the financial costs and lost business opportunities; the brand of the company, the morale of its staff and its external relations suffer as well (Transparency International, 2009a). It is also stated in the Global Corruption Report that small enterprises suffer from corruption to a higher extent than large enterprises. Small enterprises are often under great pressure from local government officials who impose costs for licenses and permissions that may be illegal or unnecessary. They do not have the same financial conditions as large enterprises do nor do they possess the same political power that comes with being a large enterprise (Transparency International, 2009a). MNC's have also the ability to let a team of employees deal with such bureaucrats, hindering corruption from interfering with the business (Tanzi, 1998).

Taking a stand in the matter of corruption and intentionally condemning it, the enterprise will show signs of responsible citizenships; and it does not go unnoticed. Clean responsible management gives way for brand differentiation and marketing, which can boost company valuations and sales. Having an anti-corruption program in the business strategy or incorporating similar ethical guidelines, have showed to lower the risk of suffering from a corruption incident with 50 per cent (Transparency International, 2009a). Companies spend large sums on reforms and CSR programs on child labor and environmental issues – fighting corruption however remains a neglected social issue for companies. The Merck Foundation suggests anti-corruption efforts to be integrated with existing business models, considering it as strategic CSR (Hills, Fiske and Mahmud, 2009).

3. Theoretical framework

This chapter assembles all theories that have been used in the thesis, starting with the Bad Apple Perspective. The Bad Apple Perspective is a theory that explains corrupt behaviour on an individual level and from an ethical point of view. The bad barrel perspective is of a social psychological nature that widens the focus and includes the organization, seeing the organization as a driving force behind the actions of the individual. These theories will be used as tools when analysing the MNC and its actions.

The pervasiveness and arbitrariness theory categorizes the corruption in a country. We have included this theory in the thesis, believing it will clarify some of the challenges an MNC may face when internationalizing. It categorizes the national corruption in two, each requiring different approaches.

The Philosophy of Ethics is an additional theory that consists of four extreme scenarios. It will be used as a scale that the empirical case will be compared to in the Conclusion.

Lastly, International Law lists the most important existing international regulations and guidelines against corruption – they include the FCPA, the OECD Anti-Bribery Convention, the UNCAC and Transparency International's Business Principles.

3.1 The bad apple perspective

Fleming and Zyglidopoulos (2009, pp. 17-34) state that when corporate corruption is exposed in the business press and media, the fault is often directed to one or a few key perpetrators making them the sole culprit in the scandal. The assumption is that the organization is a harmonious social system made up by people who always act within the boundaries of law and accepted norms. When corrupt activities do take place, it is the doing of a "bad apple" that taints and spoils the rest of the organization – giving name to the so-called *Bad Apple Perspective*. The argument does not consider the perpetrator to be a result of the environment, but rather an ethical agent responsible for his or her own actions – an argument typical of political liberalism. The conduct of a corrupt activity is divided by Fleming and Zyglidopoulos, (2009; 17-34) into two stages where the following questions are relevant:

i)   Does one perceive the activity as morally incorrect?
ii)   How does one act in relation to this incorrectness?

How the individual answers the first question depends on his or her ethical dispositional make-up which can be explained by a model which consists of three stages which people pass through their lives. The first stage is the most primitive one – the *preconventional* stage. In this stage, people instrumentally follow ethical conduct and are obedient for the purpose of escaping punishment. The next stage is the *conventional* stage, where social norms and expectations are followed because people are now a part of the social guidelines and rules which are associated when engaging with other people. The third stage is the *principled* stage and it is characterized by people who freely choose their ethical ideals and stances even if the majority does not share them. It is stated that most people actually stay in the second stage.

Trevino (1986) regards three variables when answering the second question, the first one being the *ego strength*. The concept of ego strength relates to the relation between moral cognition and moral action, meaning how in-line an individual's actions are with their beliefs. An individual of high ego strength is more likely to resist impulses, follow their convictions and do what he or she thinks is right.

Trevino (1986) reviews the second variable *field dependence* and come to the conclusion that executives who are field dependent rely on the convictions and ideas of others, whenever making decisions in difficult and ambiguous ethical situations. This however makes executive vulnerable to succumbing to unethical opinions as well. The last variable is the *locus of control* that is an internal and external scale that measures how individuals perceive the control they have over the happenings in their lives. An executive with internal locus of control feels that his or hers decisions actually make a difference and have the ability to can change outcomes, contrary to an external locus of control which gives a sense of powerlessness. The executives who belong to the latter category are more likely to derail from their cognitive moral due to the conviction that their actions do not matter and therefore do not need to take responsibility.

3.2 The bad barrel perspective

Fleming and Zyglidopoulos (2009; 68-84) differentiate this perspective from the prior because the focus of the *Bad Barrel perspective* is not the individual corruption but the environment that surrounds the individual. The assumption is that people are capable of acting both ethical and unethical, depending on the circumstances and the situation they are in.

When discussing the Bad Barrel perspective, it is not uncommon to refer to Zimbardo's famous Stanford experiment. The psychology professor initiated a role-play where one group of college students was asked to play guards and the others prisoners. The environment turned out to have a tremendous effect on the

Figure A –Fleming and Zyglidopoulos (2009, p. 71)

individuals' behaviours; the guards showed sadistic tendencies within a week of the experiment (Haney and Zimbardo, 1973-1974). This came to show how the environment could change the behaviour of individuals and in this case turn ordinary people to sadistic guards. Fleming and Zyglidopoulos (2009) identify four factors that can drive an individual to unethical behaviour and corruption.

Firstly, *pressure for conformity* comes from the desire to be accepted and liked by others, making us act differently in a group than how we would act individually. We avoid going against the group, fearing alienation and instead we conform to the groups opinions even if they contradict with our own convictions. Many social psychological experiments confirm this theory, the most famous one being conducted by Ash (1956). Wanting to test the effect of peer pressure, he constructed a group of four which of three participants were directed to unanimously select the same incorrect answer. The experiment was to see how the forth participant, oblivion to the true purpose of the experiment, would answer. To Ash's surprise three of four participants chose the same wrong answer as the previous three participants despite the simplicity of the task. Another aspect to conformity is *authority* and what people are capable of doing when being instructed by an authoritarian figure. Milgram's (1963) noted experiment "obedience to authority" showed that the majority of the test persons obeyed authority (the scientists in the experiment) and went against their own ethical beliefs by electro shocking and hurting (so they thought) other human beings.

Fleming and Zyglidopoulos (2009) do state that the individual is capable of creating his or her own explanations and stories which rationalize corrupt behaviour and are self-deceptive. Much is however borrowed and inspired from the environment and already existing explanations -t*he availability of rationalization.* An example of this is extenuative language

that washes off the negative associations with certain words or diminishes the severity of them, the example of 'higher costs' turning to 'capitalizing excess capacity' illustrates this.

Ethical distance is the gap between an act and the consequence that follows. The correlation between them is that the more distant the consequences of a corrupt act are, the easier it gets for the individual to conduct them. Fleming and Zyglidopoulos (2009) divide this term into types; the first one being the temporal distance translating the gap into a time period and the further in the future the consequences appear the vaguer the unethical nature of an act will seem today. The second type of ethical distance is the structural distance. It is much easier to rationalize corruption if one breaks it down to just an action in one division of the organization, far away from the end-result.

The last factor is the *organizational complexity* which can contribute to conformism in the organization. Complex companies are characterized by specialization and this translates often to a homogenous group of employees which makes conformity all the more intense. Organizational complexity in general leaves more room for denial of responsibility, structural distance and eventually corruption (Fleming and Zyglidopoulos, 2009).

3.3 Pervasiveness and Arbitrariness

As we have seen, corruption is an issue that is omnipresent around the world. That does not, however, mean that it is the same kind of corruption we see in different regions. In order to deepen the understanding of the corruption faced by MNCs in host countries, Rodriguez, Uhlenbreck and Eden (2005) present the concept pervasiveness and arbitrariness.

Pervasiveness refers to the likelihood of encountering, or having to deal with, corrupt officials in a nation. A high pervasiveness means that companies in the country should expect to encounter corruption, while a low pervasiveness indicates the opposite. Further, a company that chooses to invest in a pervasive country can gain legitimacy by complying with the corrupt nature. By adapting to a corrupt culture, the company is seen as less alien and has an advantage on non-compliant firms. As such, a company that chooses to act in ways that are regarded as unethical in other countries can reap benefits from operating in a country characterized by pervasiveness. Pointed out is also, that such a country often suffers the typical social maladies caused by corruption in terms of infrastructure and economic growth. We would therefore like to stress the fact that even though a certain company can reap

benefits from such an environment, its population will suffer (Rodriguez, Uhlenbreck and Eden, 2005).

An example of a country where this type of corruption is prominent would be Indonesia or the Philippines. This means that corruption is heavily institutionalized in these countries and that there may be a "running rate" for bribing a certain official. Also, the institutional hierarchy is strong, and bribes are typically effective (Rodriguez, Uhlenbreck and Eden, 2005).

Arbitrariness is a slightly more complex term. Rather than describing the degree of corruption in a region, it relates to the complexity and uncertainty of the bureaucracy in a corrupt country. In a country characterized by high arbitrariness, there is no telling what effect a certain corrupt transaction or bribe will have. To illustrate; in a country characterized by high pervasiveness but low arbitrariness, it will be clear how much it costs to bribe a certain official, and what bribes are needed to gain a specific benefit. If it were the other way around, there would be no guarantee that a bribe would have the desired effect at all, or that additional bribes would not be necessary. As such, this type of environment is common when the laws and regulations of a country are liberally interpreted or when the internal structure of institutions is not clear (Rodriguez, Uhlenbreck and Eden, 2005).

The example of post-soviet Russia is lifted as a good illustration of an arbitrarily corrupted environment. When the super-state collapsed, many officials made overlapping claims of power all over the institutional map. The result was a corrupt state where it was not clear who had the power to do certain things, and who did not. Thus, a bribe to a certain official aimed at gaining a specific benefit would not necessarily yield results (Rodriguez, Uhlenbreck and Eden, 2005).

It is argued that even though international management scholars do appreciate that there are different forms of corruption, they are poorly categorized as the categorization is not based on the nature of the corrupt transaction in question. Using the model of arbitrariness and pervasiveness, we can not only understand the nature of a certain corrupt environment, but also the motivation of a company choosing to invest in said environment. We will therefore apply these terms in our analysis of the cases in our empirical section, and attempt to link them to the actions of the companies in question as well as the outcome of the situation (Rodriguez, Uhlenbreck and Eden, 2005).

3.4 Straw Men

Hill (2010; 136-138) refers to the four theories described below as straw men. This means that they are, by themselves, unsatisfactory in describing how companies "should" act when encountering unethicalness abroad. Instead, the straw men are usually presented by scholars as a means of providing a framework for more complex and complete theories. As such, they are not meant to contain solutions, but to express the complexity of the issue. Even so, they are not without their individual merits, and are sometimes adopted by companies in the real world.

In this thesis, as it is not concerned with offering philosophical theories on ethics, the straw men are used in a different way. Instead of moving on to offer more complex theories, these rather polarized examples are applied in the analysis of the cases to see if one describes those companies better than the other three. In that sense, the radical nature of the straw men can be very favorable.

3.4.1 Righteous Moralism

A theory that is typically associated with managers from the developed world, righteous moralism constitutes the belief that appropriate behavior abroad is the same as appropriate behavior in the home country. That is, that the morals and laws of the domestic country are to be assumed as appropriate no matter the location (Hill, 2010).

Immediately, two fatal flaws are identifiable with this theory. Firstly, it assumes that the morals of the home country are satisfactory, which is not necessarily the case. Secondly, it assumes that they would be culturally applicable in the host country. Clearly, this is rarely the case. Indeed, assuming that gift giving is as unacceptable as in most European countries might render one completely incapable of doing business in a country such as China, where such actions are expected (Hill, 2010).

3.4.2 Naïve Immoralism

This theory builds on the thought that two wrongs make a right. In essence, this means that a manager of an MNC that finds herself in a foreign country should look upon her environment

and assess the behavior of others. If she finds that they indeed violate some moral codes, then she should do the same. To illustrate this, the "drug lord" problem is used as a classic example. Say that companies in a South American country regularly pay off a local drug lord in exchange for being able to conduct their business in peace. Suddenly, an MNC from another country sets up operations in the same region. The manager is now faced with the choice of committing bribery and funding illegal business, or risking the drug lord's retribution, and thereby the security of her employees (Hill, 2010).

In stark contrast to righteous moralism, this theory must instead assume that the moral code of the host country is satisfactory for ethicalness to be maintained. The especially noteworthy aspect of this naïve immoralism, however, is the dilemma that is poses. In the case of the drug lord example, the only way to completely avoid problems is to withdraw the venture (Hill, 2010).

3.4.3 Cultural Relativism

Perhaps best defined by the age-old imperative "when in Rome, do as Romans do", cultural relativism describes ethics as a bi-product of culture. This means that an act is deemed just or not based entirely on the principles of the host-country (Hill, 2010).

At first glance, there may seem to be merit to this theory. After all, to adapt culturally to one's environment is an essential strategy for MNCs. However, as we have seen, ethical standards and legislation often leave much to be desired in the countries receiving the most FDI inflows in recent years. Further, cultural relativism can be used by companies as an excuse for corrupt behavior. British Petroleum is an example of a company that has rejected this strongly as a strategic measure. They have refused to make facilitating payments as they believe that bribes corrupt all involved parties. Another strong criticism against this view is that if one simply accepts low ethical standards as culture to adapt to, solving the severe socio-economic problems that corruption causes becomes impossible (Hill, 2010).

3.4.4. The Friedman Doctrine

Even though this doctrine does not specifically concern business ethics, it is included because of the strong link between ethical behavior and CSR policies.

Milton Friedman gained wide renown in the seventies for his economic scholarship. In contrast to modern CSR scholars such as Archie Carroll, Friedman argued that the only binding responsibility a company has is to act within the law. As long as no legislation is violated, the only responsibility of the company is to maximize its profits in any way possible, according to Friedman. The reason for this was that the company exists to satisfy the needs of its owners, the stockholders. The manager of a firm should therefore only be concerned with earning them money that they can then spend as they see fit. It is however not up to the manager to make a decision regarding social investments.

As this paper has shown, companies can be seen as having a responsibility to be economically responsible, but their relationship with society is not quite so simple. For one thing, it is now more than ever important for companies to be perceived as responsible in order to maintain profitability as well. Even so, the cold logic of the Friedman Doctrine can perhaps be used to explain the mentality behind many modern companies' behavior (Hill, 2010).

3.5 International Law

Though legislation regarding the corrupt practices of corporations varies in quality and clarity across the world, there is no mistaking that partaking in corrupt transactions is almost universally seen as illegal. When attempting to describe the dangers of corrupt activity, it is therefore important to realize that the most alarming of these is likely to be legal prosecution.

Even though each sovereign state has their own legislation on the subject, the globalized world has seen a rising need of international frameworks for when corruption is perpetrated in several countries at once, or across borders. In this paper, we have selected what we believe to be four major frameworks that are commonly used in such cases.

3.5.1 The Foreign Corrupt Practices Act

Passed in 1977, the FCPA is a national American law written to improve on the image of the American business system after a major investigation revealed that US companies were commonly making "facilitating payments" to foreign officials and political parties around the world. Even though this is not a law that can be applied to incidents completely isolated from the US, companies with partial activity in America have faced universal prosecution as a result of violation of this law. One such example is the investigation into German automaker Daimler AG, discussed later in this paper (US Department of Justice, n.d.).

The general purpose of the FCPA is to make it unlawful for certain American people to be willingly involved in corrupt payments. This includes not only making such payments, but also offering to make, promising to make and authorizing the making of them. A corrupt payment is defined as any transaction made to attain or retain business or establishing unfair advantages over competitors. This also includes any payment made to impact a foreign official in their official capacity, making them abandon their lawful duty or act in violation their responsibilities (US Department of Justice, n.d.).

As we see in a few of the cases presented in this paper, the FCPA is not used only to prosecute American companies acting abroad. Their jurisdiction has in fact grown with time; as of today, the FCPA applies to all companies that further a corrupt process with any action within the United States. This means that any form of presence, whether the enterprise has a subsidiary or filial in the US, will create jurisdiction. It also applies to all companies that have securities listed in the country. This is what has led to US courts prosecuting and fining non-American companies. It also means that any country can use its own legislation to pursue legal action against the same company (US Department of Justice, n.d.).

After the passing of the FCPA, American international business changed dramatically. Many firms were prosecuted and managers sent to jail. In the wake of this, congress became concerned that they were hampering the progress of American companies abroad compared to those that did not have to concern themselves with anti-corruption legislation. Therefore, the American parliament has since allowed tax deduction for so called "speed-money". This is especially noteworthy, since the payments allowed by the FCPA are those related to essential governmental functions abroad. Examples include receiving permits, licenses, receiving police protection and using the national mail service. In this paper, we have discussed the phenomenon of pervasive corruption and its toxic effects on the economy of some countries. This exception to the FCPA seems to permit the very pervasively corrupt transactions, further asserting the sense of hopelessness prominent in these regions (US Department of Justice, n.d.).

3.5.2 The OECD Anti-Bribery Convention

After the passing of the FCPA in the United States, the executive branch began negotiations with the OECD to encourage their major trade partners to pass legislation similar to their own (US Department of Justice, n.d.). Nine years after the negotiations began; the organization

presented OECD (1997) Convention on Combating Bribery of Foreign Officials in International Business. It was soon signed by all OECD member states, as well as a small selection of countries from outside. The aim of the convention was that all signing countries would pursue an effective legislation against any bribery-related crime committed within their jurisdiction.

The nations were called upon to not only criminalize the bribing or authorization of bribing of any government employee abroad, but also to implement a wide jurisdiction and certain sanctions against offenders (OECD, 1997).

As a support unit to the signing states, the OECD (1997) founded a working group on bribery, which provides resources in implementing the convention properly. Their work with governments is split into three phases. Phase one consists of evaluation of a country's legislation and how well it fulfills the goals of the convention. Phase two evaluates the implementation of before mentioned legislation, ensuring that implementation is both theoretical and practical. Phase three, active since 2010, is directly involved with enforcing the convention and all related recommendations. This process of evaluation has met positive criticism in the international community, being dubbed the "gold standard" by Transparency International, the world's leading NGO on corruption.

Since the convention was written, it has been amended with recommendations, the most recent in 2009. These recommendations emphasize the importance of international cooperation on combating bribery, and also of protecting the so called whistle blowers of the private sector. Another noteworthy amendment is that tax deduction for speed-money is no longer tolerated by the OECD (1997).

Failure by a member state to comply sufficiently with the convention is met with the criticism of the work group, which will publicly send a mission to the government in question.

In conclusion, the OECD (1997) Convention on Anti-Bribery has spread the principles of the FCPA to most of the industrialized countries of the world, leveling the playing field for MNCs from the member states.

3.5.3 The UNCAC

The United Nations, always a major player in monitoring international ethical behavior, have also adopted their own convention on bribery-related crime. In December of 2000, it was

decided in the General Assembly that in addition to the convention on transnational organized crime, a convention specifically targeting this type of crime was necessary – UNCAC (2004).

Signed and adopted in Mexico in 2002, the convention criminalizes a wide range of offences that can be seen as corruption-related. This includes bribery, but also money laundering and any kind of obstruction of justice related to bribery. Uniquely to the UNCAC (2004) is that it that it can be used to prosecute crime directly rather than just encouraging national legislation on the subject. Even so, the stated goal is to exist as a preventive measure. Hence, this convention, too, focuses heavily on advising governments in constructing their institutional mechanisms for crime prevention. This includes ethical policy models, legislation models, and disciplinary measures seen as appropriate

Another unique aspect to this particular convention is that is it reached agreements on asset recovery. This means that if, for example, a certain official were to embezzle public funds, the convention can be called upon to demand the funds be returned to the appropriate government. This is especially important in those regions of the world were resources are scarce and public functions fail. Coincidentally, these regions are typically crippled by pervasive corruption. (UNCAC, 2004)

3.5.4 Transparency International's Business Principles

Though not legislation per se, the business principles presented by transparency international are included because they provide a framework for companies to benchmark their own anti-bribery activities.

The Business Principles (Transparency International, 2009b) can be viewed as guidelines for constructing programs within the company to counter corruption. As we will see later in the empirical cases section, many companies have clear stands on bribery, but fail to implement them effectively. The principles have then been amended several times to adapt to the changing global environment, and the harsher legal prosecution of bribery.

In essence, the principles themselves are fairly simple. They are only twofold, and formulated as follows:

- The enterprise shall prohibit bribery in any form whether direct or indirect.
- The enterprise shall commit to implementing a program to counter bribery.

While the first of the principles basically explains what the goal is, it is the second that is elaborated on. TI has constructed an extensive toolkit to manage the implementation of anti-bribery policies.

To manage a successful implementation of no-bribery policies within a company, TI suggests their six step program, which has the following parts:

- Deciding on a Policy
- Planning the Implementation
- Develop Program Content
- Actual Implementation
- Monitoring the Effects
- Evaluating the Program

The suggested contents of such a program are elaborate. It is suggested that not only should principles formulated, but an extensive legal risk analysis should also be included. A company should also analyze the risk of it encountering bribery in its ventures, something that becomes especially important when internationalizing to a country that is known to be corrupt. Finally, the program should also contain a crisis management plan for when bribery surfaces, to mitigate the damage for the company and managing the reputational risk of being portrayed negatively in the media

4. Methodology

This section of the thesis will describe the measures taken to answer the research questions. That includes a description of how data was gathered and analyzed. It also includes a review of the source material used, and justification for the choices made when writing the thesis, such as what theories are used and which cases were chosen for the empirical data. The aim is to present a graspable description of how the work on the thesis was conducted and how it was motivated.

4.1 Justification of Theories

To answer the main questions of this thesis, it was apparent that a more substantial understanding of the global issue of corruption was necessary. The thesis therefore has a

substantial theoretical framework. The thesis assumes that when this rather heavy base is established, an analysis can be conducted.

The first theory explored is the Bad Apple and Bad Barrel perspectives. This choice is justified, as the thesis aims to answer the motivations behind corrupt behavior. These rather psychologically oriented perspectives can help describe human factor behind, which was hypothesized to be essential. The Bad Apple perspective however, requires extensive interviews which manage to reach a certain level of openness and sincerity. Analyzing a person's actions and ethical make-up, solely through this perspective could be a challenge, if information is scarce. This Bad Apple perspective was used in the case of Siemens, given the media attention of and the in-depth interviews with Reinhard Siekaczek. The Bad Apple perspective was not used as generously in the remaining cases.

Next, the thesis explores the theory of the arbitrariness and pervasiveness of corruption. This contemporary view on corruption was chosen as it exemplifies the varied nature of corruption. It was believed to be important to show that corruption is by no means homogenous because it is omnipresent. This also enabled the thesis to examine the nature of the corruption in the specific nations in the mini-cases.

When investigating theories on business ethics it was decided to include four straw men as described by Hill (2009; 136-138). This was because their blunt simplification serves to portray the difficulty a manager may face in a corrupt nation. Although none of the straw men are designed to present a complete perspective on ethicalness, it would be valuable if one of them could be more strongly attributed to the cases than others.

Finally, much space is given in the thesis to describe the international laws and regulations regarding corruption. Although these are not used extensively in the analysis of the cases, they are necessary in order to fully grasp the issues at hand and to understand how the companies in the cases were persecuted. As this thesis also aims to offer recommendations for managers of companies combating corruption, it is important that the global efforts of preventing corruption are understood. This is why they are included even though they do not see real implication in the analysis.

4.2 Gathering of Empirical Data

This thesis relies mainly on secondary data. Saunders, Lewis and Thornhill (2009) describe the three types of secondary data that can be used in business research. Out of these, this

thesis relies almost exclusively on *multiple resources* and *surveys* for its theoretical framework, as it is constructed from books, governmental publications and organizational websites. Governmental information was necessary to gather information on legislation, and secondary surveys comprised the corruption indexes applied to the cases in the analysis.

The cases themselves however were built entirely on *documentaries*, i.e. data collected from the media such as newspapers and TV. When investigating the complex matter of corporate corruption, a chronic problem exists in procuring "reliable" data. Since no corrupt entity is likely to admit to being so, conducting a survey to answer the research questions was not an option, as the survey would have to be posed to potentially corrupted respondents. It was therefore decided that *qualitative* information would be necessary. This means that at the loss of narrowing down the scope of the thesis, it instead tries to analyze the issues in-depth (Saunders, Lewis and Thornhill, 2009).

To accomplish this, extensive research was done into the largest public corruption scandals of recent years. Information was taken from reputable, journalistic media such as newspapers because it contains the only readily available source of objective research on the scandals. The cases that presented the most diversified and interesting perspectives on the issue were then chosen and consolidated into mini-cases, each put to a separate case analysis. Ultimately, eight cases remained that all contained some unique aspects.

4.3 Case Analysis Method

Based on the theoretical framework established, the eight cases were analyzed with the same model. The questions that were applied to every case were the following:

- In what country were the crimes committed?
    - What factors in local, national situation contributed in this case?
        - Is the country pervasively/arbitrarily corrupted?
        - What do the statistical indexes indicate about the country?
- Which was the host country of the MNC?
    - What factors in the company's/domestic country's situation contributed in this case?
        - What was the key motivation of the company?
- What were the consequences for the company?

The knowledge gathered from each separate analysis were then consolidated into one concluding analysis were the findings were presented. It was based on this analysis that the thesis could then conclude with recommendations on solutions to combating unwanted corporate corruption.

4.4 Literature Review

The source material used to construct this thesis has all been subject to scrutiny to maintain the credibility of its findings. The two primary forms of material were written publications and internet websites. What follows if a brief justification of the sources chosen.

4.4.1 Written Publications

All written materials used to build the thesis are scientific in origin and written by researchers into the subject. Most of these are thesis' themselves, but written on a higher academic level than that of this one. It is therefore our belief that they have an inherent credibility; they would simply not serve their own purpose otherwise. This thesis has however not put the sources of the written publications, in turn, under scrutiny.

The remaining written publications are educational books published on the subject of international business or business ethics, several of which are used by our own institution. These are therefore assumed to be credible. Even so, all facts taken from any publication are cross-referenced with a secondary source.

4.4.2 Internet Websites

As noted earlier, this thesis relies heavily on the credible nature of investigative journalism. The primary data is exclusively taken from articles published online. To ensure credibility in these, only major and reputable bureaus were chosen. These include, but are not limited to; Reuters, The Guardian, BusinessWeek and Bloomberg. All journalistic sources have, too, been cross-referenced with at least one secondary source.

Another kind of website commonly used were those of major NGOs such as the UN and Transparency International, as well as some governmental ones, such as the US Department of Justice. The former are all reputable for their objectivity and legitimacy. The latter were only used for legislative text and not information used in any analysis.

Finally, company websites were occasionally used. As the most questionable source used, the application of the information found on these sites have been the most limited. They were mainly used to gather company accounts, such as the specific CSR policy of a corporation, Merck specifically.

5. Empirical framework

The empirical framework consists of eight cases, each elaborating on a scandal where an MNC has been corrupt abroad. Firstly, the happening is described: the crime, the motive behind the crime and the consequences. Secondly, an analysis is conducted on the case, taking relevant theories and background into consideration. Lastly, a cross-case analysis will be provided, concluding all case analysis.

5.1 Kellog Brown & Root

Halliburton Watch (n.d.) states that in 1998, one of the world's major contractors of major construction projects M.W. Kellogg, was acquired by Halliburton, an American oil giant. The new entity, renamed Kellogg Brown & Root (KBR), was initially highly successful. One of their projects involved building natural gas plants in Nigeria for the local government. In 2004, these associated contracts had already generated some $8 billion. Even so, Halliburton abruptly put KBR up for sale in 2005. The reason was not to reap profit, but rather that Halliburton no longer wanted to be associated with KBR. This was due to a series of scandals and accusations of corrupt behavior suffered by KBR. Not only had they allegedly been embezzling funds from the pentagon itself, but a major bribery scandal regarding the Nigerian gas plants had surfaced.

The Nigerian scandal had actually started long before the acquisition of M.W. Kellogg, in 1994. At the time, the company was competing with another company over a contract for construction of two new gas plants. M.W. Kellogg offered the lower of the two bids, and deep negotiations on the construction ensued. Before any consensus was reached, a conflict erupted within the Nigerian government, and the minister responsible for the gas plant deal was replaced by the far less hospitable Dan Etete. Analysts have since claimed that Etete was a very corrupt individual who soon used his influence over the Nigerian energy sector for

personal gain. Not surprisingly, M.W. Kellogg was nervous that the deal would not go through, and this is where their actions start to become shrouded in obscurity (Halliburton Watch, n.d.).

M.W. Kellog hired a British lawyer by the name of Jeffrey Tesler. His job was to maintain good relations with Nigerian officials and make sure that the deals regarding the gas plant construction went through. Since Tesler had very good relations with the Nigerian government, hiring him was in itself not strange. His substantial salary, $60 million annually, on the other hand, raised a few eyebrows (Halliburton Watch, n.d.).

During the subsequent internal investigations by Halliburton, notes surfaced that suggested that $40 million out of Tesler's salary was actually meant for the Nigerian president. Whenever KBR needed to secure a contract in Nigeria during the following years, Tesler was rehired. Between the years 1994 and 2004, he was paid a total $132.3 for his services, and every contract negotiation he was involved in was won by KBR. His involvement might not have surfaced at all, had it not been for another public scandal that occurred in France (Halliburton Watch, n.d.).

Georges Krammer, an employee of Technip, one of the major stakeholder companies of KBR, was accused of embezzlement. When the company chose not to back up his plea of innocence, Krammer, an employee since 35 years, extracted this vengeance by making public Tesler's role in landing the Nigerian contracts (Halliburton Watch, n.d.).

Since Halliburton was already under heavy scrutiny after their involvement in the Iraqi war and U.S. vice president Dick Cheney, it did not take long before the scandal became very public. Since then, the company has been the subject of investigation in several countries, and has confessed to some of the allegations against them. As of 2011, the full scope of the corruption is not known, and no convictions have yet been carried out. Certain is, however, that Halliburton (n.d.) have been banned from ever making a bid on a Nigerian construction contract ever again.

Analysis of Kellog Brown & Root

Nigeria is easily one of the worst cases of a corrupt nation in the world. The statistical indexes put together by TI, show that over 56% of the population willingly state that they have at some point engaged in bribery. This figure varies slightly between the countries in West

Africa, but it is clear that according to this statistic, the region is the most corrupt in the world. One should keep in mind that since such a portion of the Nigerian population state in an open survey that they have solicited or paid bribes, it indicates a level of cultural acclimatization to the issue. As we have seen, the most common reason to engage in bribery in the region is not for personal gain, but rather to avoid confrontation with authorities. This is the case in countries where the general population rather than only corporate managers or government officials engage in bribery.

TI's perception index give Nigeria a score of 2,4 out of 10, meaning the perception of Nigeria's transparency in the global community is exceptionally low. We can thereby conclude that managers of MNCs know that Nigeria is a corrupt country, and choose to do business there anyway, as in many of the cases in this thesis. This is relatable to the concept of pervasive corruption; managers are more likely to engage in corruption when they know it will work. Noteworthy is that any large company that launches a venture in Nigeria should realize that they sooner or later will encounter its corrupt culture. If they have no clear stands on business ethics that they implement successfully, and no plan of action for dealing with corruption, it is perhaps naïve to think that controversial situations will not arise eventually. It is likely that if it is not made very clear to employees exactly how they should act when encountering a corrupt official, crimes will be committed no matter the intentions of the company.

There is also an example of arbitrariness in this case: the volatility of a corrupt government. Even though a government can be pervasively corrupted to the point that offices have going rates, there is an uncertainty regarding the stability of those offices. When, as in this case, a minister overseeing a business venture is suddenly replaced, the rules of the game can change completely. In, say, a northern European government, the replacing of an official should not affect a business deal since the person is a representative of a government first, and an individual second. The European official is also bound by strict moral principles. It goes to show that even though there can be such a thing as pervasive corruption, there is no real certainty when doing business in corrupt environments.

5.2. Siemens

As the New York Times (2008) conclude, German electronics company Siemens agreed to pay a $1.6 billion fine for bribery in the United States and Germany, also an additional $1

billion fine was paid for internal investigations and reforms; making this the most expensive penalty for bribery in modern corporate history.

The former midlevel executive Reinhard Siekaczek says in an interview with the New York Post that between 2002 and 2006, he used to oversee an annual bribery budget of about $40-50 million at Siemens. Since 1999, the accumulated value of all the bribes paid by Siemens globally was an estimated $1.4 billion. In Nigeria for example, Mr. Siekaczek's unit had paid $12.7 million to government officials to win a government telecommunications contract. For a similar purpose, $5 million had been paid in bribes to the son of the Bangladeshi prime minister enable to win a mobile phone contract. Siemens has also paid $40 million in bribes to win a $I billion contract in Argentina and $14 million to government officials in China in order to win a contract to supply medical equipment. Other cases which have been revealed include Iraq, Venezuela and Israel where similar bribes worth millions of dollars have been paid by Siemens (The New York Times, 2008).

Mr. Siekaczek explains to the New York Times (2008) that his team was well aware of the illegal nature of their actions but felt that it had to be done, otherwise Siemens would lose contracts and jobs would be jeopardized. The payments that were made were considered by the team to be crucial to keep their international competitive advantage and basically keeping the business unit afloat. Mr. Siekaczek had expected the top management's support once the scandal hit the press, instead he explains, they tried to make him the scapegoat since his signature was on all the receipts. Mr. Siekaczek responded that the public would see through the smokescreen and realize that no person could be solely responsible for an operation of this scale. He also makes the following predicament of the general reaction; "People will only say about Siemens that they were unlucky and that they broke the 11th Commandment - 'Don't get caught.'

The spokesman for the association of federal criminal investigators in Germany Uwe Dolat draws attention to the country's long history of corruption. Bribing government officials was legal in Germany until 1999 and it was normality when conducting business. Bribery was Siemens' business model he says, so bribery was embedded in Siemens's culture long before Mr. Siekaczek. Mr. Siekaczek was sentenced to two years of probation in Germany and received a $150,000 fine (The New York Times, 2008).

Analysis of Siemens

The Siemens scandal had an obvious culprit, the midlevel executive Reinhard Siekaczek. According to his interview with the New York Post, the board made him the scapegoat due to his signatures on numerous receipts – conveniently connecting him directly to the corrupt activities. This is a classic case of the Bad Apple perspective where one person is considered to be the wrongdoer and responsible for the disgrace brought upon the company. Siekaczek did indeed perceive his actions to be legally incorrect, however not entirely morally incorrect. He did not seem to be remorseful during his interview, especially when referring to the 11th Commandment. It is difficult to determine his ethical disposition and even more difficult to change it - somewhat of a limitation for the bad apple perspective. Siekaczek justified his actions by saying that he did not want to jeopardize jobs and that the bribes were to vital to his business unit's existence. This could be a possible sign of field dependency – acting as an advocate for his employees and letting himself be influenced by his surroundings.

According to the Bad Barrel perspective however, the environment and culture of Siemens is to blame for Siekaczek's behavior. Bribing foreign officials was a part of the corporate culture in Germany and for Siemens it formed its business model. It is likely that the culture lingered on after that bribery was illegalized in Germany, still perceived to be acceptable by the organization. If the general view of bribery was positive, than conformity to this culture and general behavior is much likely to be a motive behind corrupt behavior.

An additional driving force behind the corrupt acts could have been pressure possibly from stakeholders and other executives which led to enhancing results via illegal payments. Actual orders to conduct these acts could have also directly come from executives in higher positions, making it difficult for Siekaczek to protest.

5.3 Daimler AG

At this point we would like to present one of the largest investigated cases of corporate corruption in modern history. The Germany based car manufacturer Daimler AG is a giant company that produces trucks and cars for Mercedes-Benz among many others. The case of their corrupt past caught wide attention in the media in early 2010, when the US department of justice, which had been conducting their investigation into Daimler AG for over 5 years,

made public their findings. As in many cases, the ordeal had started with a disgruntled associate "blowing the whistle" on the company.(Clark, 2010)

In 2004, an auditor of Mercedes-Benz named David Bazetta was abruptly fired after questioning the nature of a series of bank accounts managed by the company, all of which were located in South America. Angered, Bazetta accused Daimler AG of corruption, referring to several past occasions when executives had hinted that they kept bank accounts meant specifically for funneling money to foreign government employees. He filed a suit of wrongful dismissal against the company. In a desperate attempt to silence Bazetta, Daimler offered a settlement regarding his termination. Even though the accountant received a substantial severance package in exchange for his silence, the gears had already been set in motion, and the US government opened their investigation shortly after (The Guardian, 2010a).

Though many have conducted their own research into the corruption of Daimler AG, most reports agree that the corrupt transactions were made between the years 1998 and 2008. This was also the conclusion reached by the US department of justice. The scale of the affair was unprecedented, with confirmed cases of corrupt transactions in over 22 countries, many of which were among the most corrupt in the world (e.g. Vietnam, Indonesia, China, Russia and Nigeria). It was also discovered that the company had bribed officials in some of the most controversial governments on Earth, including Iraq (at the time under the reign of Saddam Hussein) and North Korea. A high-ranking official of totalitarian Turkmenistan was even given a custom made, heavily armored Mercedes-Benz car as a birthday gift along with help to translate his propaganda into German (The Guardian, 2010a).

In most cases, the investigation showed, the money was being used to secure contracts all over the world. This was often done through the usage of hollow scale companies based in the US. It should be noted that even though the US department of justice ended up pursuing the matter the furthest, Daimler AG had broken not only the laws of the US but also the conventions of the UN. By kicking back money to officials in Iraq, they were in violation of the UN Oil for Food Program, a mechanism put into place to force the Iraqi government to provide food and medical care for their people in exchange for access to the global oil market(The Guardian, 2010a).

It has also been speculated that Daimler AG has been in violation of German law. Even so, the German government has yet to pursue the matter legally. According to some, this is because the German standpoint on corruption is questionable. Even though the country signed the UNCAC in 2003, parliament has not ratified the agreement. It is worth noting that ratification would mean that the members of that same parliament would be prevented from accepting bribes. (Deutsche Welle, 2010)

One employee of Daimler AG goes further in criticizing the German government. Christoph Stuermer worked for the company at the turn of the century. He was often involved in dealing with foreign officials, especially across Asia. Stuermer argues that in such a country, doing business is impossible without the favor of the individuals in charge. Even so, the domestic government offers no diplomatic support in the matter. Perhaps this can be seen as an explanation to why that favor had to be gained by other means. (Deutsche Welle, 2010)

Since the US department of justice filed their report in 2010, Daimler AG has agreed to pay a total of $185 million dollars in fines and fees to quell the investigation. American FBI agents are currently assigned to monitoring the actions of Daimler AG over a two year trial period, making sure they do not fall back into bad habits (U.S Securities and Exchange Commission, 2010).

Analysis of Daimler AG

Firstly, the scope of this particular case is so wide that no in-depth analysis can be offered on the countries it concerns. Noteworthy is however, that some of governments which Daimler AG chose to bribe were clearly controversial. Turkmenistan for instance, is one of the most corrupted countries in existence, scoring an abysmal 1,6 on the CPI. There is no question that Daimler AG knew that they were dealing with a totalitarian dictatorship, and that helping to translate the propaganda of its government is clearly not ethically defendable. Corruption seems to have been widespread and accepted throughout the Daimler AG corporation. Perhaps the explanation for this can be found in the host country, Germany.

As the Siemens case explains, bribery was legal in Germany until recently. Even though this is no longer so, the previous legality will no doubt have affected the corporate culture of Daimler (note that the alleged bribes started a year before the law against bribery was passed). Further, there still seems to be some controversy as to where the German parliament really stands on corruption. These factors can easily have contributed to German companies having

a higher tolerance for bribery. It seems clear that internally, Daimler is best seen from a bad barrel perspective, as no select few individuals were the instigators in this case. Bribery was rather a corporate strategy.

It is also interesting that the former employee points to the cleft between the western view on personal relationships business and that of eastern or less developed countries. This is definitely an issue that can cause much confusion for multinational actors. Even so, Daimler learned the hard way that the international community will no longer stand for corrupt behavior, no matter the explanation.

The notion of the domestic government offering diplomatic support for its overseas companies also interesting. It is true that without this support, a company must act as its own ambassador, hence increasing the pressure to win the liking of local, individual officials.

5.4 Johnson & Johnson

The allegations towards the American pharmaceutical company Johnson & Johnson include according to Reuters (2011), bribes and sham contracts which have been paid to government officials and doctors in Poland, Romania, Iraq and Greece. The allegations started in 1998, but it is not until recently, April 8th 2011 that Johnson & Johnson were charged for their actions. The company will pay $78 million in total to the American Justice Department, the Securities and Exchange Commission's and also the United Kingdom Serious Fraud Office for corruption conducted by Johnson & Johnson's subsidiary DePuy. The penalty would have been more severe if the company had not cooperated with the US authorities and turned themselves in.

Johnson & Johnson were accused of bribing hospitals in Poland in order to win contracts and public doctors in Greece and Romania to make them favor their products when proscribing – helping the company to earn millions in profit. Moreover, Johnson & Johnson came forward with the information that they had to pay a 10 percent fee in Iraq if they wanted to do business with the Saddam regime and win 19 contracts (Reuters, 2011).

When the news hit the public, the Johnson & Johnson shares took a turn and went down with 4 percent to $59.44 on the New York Stock Exchange. It is possible that the recalls of some of the company's products contributed to the downfall of share price as well. Today (April 20th 18.35) the share price of the Johnson & Johnson is $64.39 (Reuters, 2011).

Analysis of Johnson & Johnson

The majority of the countries bribed by Johnson & Johnson are in fact European, differentiating this case from the rest. The effected countries were Poland, Romania and Greece – all with CPI score lower than US's 7.1 and also the average European score. Although Greece is not usually considered to be a transition country, it did indeed go through a democratizing transition in 1974 – 15 years earlier than the democratization wave in Europe (Kassimeris, 2005). As earlier mentioned, the transition from a socialist state to market economy makes these countries vulnerable to corruption and often results to higher corruption levels. Romania for instance, has a CPI score 3.7 – lowest of the three European countries. The private sector in Romania has been considered to be most corrupt due to exacerbated bureaucracy, technological shortcomings and political intrusions in the private sector (Global Corruption Report, 2009). However, public corruption is considered to have slightly diminished due to effective governmental efforts in relation to the EU-membership in 2007.

We would classify the corruption is these countries as arbitrary. Corruption is indeed an issue in these transition countries, although not in the same systematic way as one would find in a pervasive environment. Uncertainty may have arisen from the early stages of the transitional period, from the rewriting of laws and policies for instance, typicality for arbitrary corruption.

Taking the nature of corruption in Greece, Poland and Romania and the actions of Johnson & Johnson into consideration – one cannot easily justify the company's motives. Johnson & Johnson bribed for making their products favoured by doctors, enable to earn extra profit and not because a requirement the doctors in question.

The case of Iraq however, would suggest that corruption was pervasive. The CPI score of Iraq is the second lowest in the world, at 1.5. Johnson & Johnson claim that giving in to corruption was a necessity for doing business in Iraq, the question is however, if doing business with a country under military dictatorship is ethical and how the general public, the customers would perceive this.

5.5 BAE Systems

The British based defense, security and aerospace company BAE Systems has been under the scrutiny of the press since the mid 80's – since the company signed the al-Yamamah deal that was a large arms agreement with Saudi Arabia. The agreement aloud BAE to sell expensive

military hardware to Saudi Arabia; BAE sold over 132 planes in the first tranche alone. The agreement would generate £43bn of revenue and keep the company alive for more than 20 years. Given the importance of the deal, BAE bribed Saudi officials to ensure continuity of the deal and keep the counterpart content. Whistle blowers revealed how huge sums were being transferred and substantial treats were being given to and favours were done for Saudi officials. Secret payments were being made though a global system of offshore anonymous companies and undeclared subsidiaries of BAE. 'Red Diamond' was such a subsidiary for laundry and 'Poseidon' was a unit that was created specifically for Saudi payments. Certain advisors of BAE were put in charge of concealing the payments to Saudi Arabia and disguising their origins (Guardian, 2010b).

In 2004, still denying any allegations of corruption, the SFO uncovered evidence of indirect transfers from BAE to the Saudi royal family via Swiss bank accounts. The investigation was however stopped as a response to the Saudi threat of not cooperating with the British government and stop supplying intelligence about al-Qaida terrorists. Prime Minister Tony had personally written a letter demanding that the investigation would stop. Furthermore, in 2007 it was revealed that BAE had paid £1bn to Saudi prince Bandar and gifted him a commercial aeroplane (Guardian, 2010b).

On the 5th of February 2010, BAE admitted after more than 20 years that the al-Yamamah deal was not entirely clean. The company pleaded guilty to the charges of false accounting and making misleading statements, but not bribery – for this reason, BAE is not internationally blacklisted from future contracts. The simultaneous negotiations with the SFO and the department of justice in Washington resulted in a £300 million penalty fee which was agreed to be paid by BAE and an additional £257 million penalty fee would be paid to the US authorities. The US admissions not only covered the deal with Saudi Arabia but also smaller deals with the Central European countries such as Czech Republic and also Tanzania which were conducted in an unethical way (Guardian, 2010b).

Analysis of BAE Systems

As mentioned, BAE nurtured a long relationship filled with corrupt payments and gifts with Saudi Arabia. The way this was gone about is not uncommon in the world of corporate corruption; the payments are done from anonymous or scam units. This is done for the obvious reasons of concealing payments and taking precautions against getting caught. This

could however be linked to the Bad Barrel perspective's ethical structural distance as well. Having a dispersed organizational structure with many entities around the world and delegating corrupt payments – would make it ethically easier to be corrupt than actually making the payment yourself. The existence of 'Poseidon' served likely an additional purpose to just concealing payments; also clearing the conscious of many executives.

Saudi Arabia has 4.7 in CPI, which is relatively high compared to the host countries of the other cases, however it is still lower than the United Kingdom's score of 7.6. Although not implemented effectively, the Saudi law does provide criminal penalties regarding corruption. For instance, government officials who accept bribes face ten years in prison or are fined with as much as $267,000. Despite punishment, corruption is perceived to be a problem in Saudi Arabia especially regarding high positioned government officials and members of the royal family. The law relieves the government and royal family from providing public access of their revenues and assets – leaving the population in uncertainty. (GlobalSecurity,n.d)

Oil money and beneficial laws, which allow corruption havens, make Saudi Arabia the perfect partner in crime. We do not believe corruption to be pervasive in Saudi Arabia, only opportunistic. The relation between BAE and Saudi Arabia has been on-going since the 80's leaving no reason other than profit to explain the actions of BAE Systems.

5.6 Bridgestone Corporation

According to Reuters (2008), the Japanese tyre producer Bridgestone Corp. admitted in 2008 that their overseas subsidiaries had paid bribes to sell marine hoses, which are used to transport oil between tankers and shore. In December that same year the former general manager of the company's Engineered Products division Misao Hioki, was sentenced to two years in prison and fined to pay $80,000, charged under the FCPA. The reason for this coming to the US jurisdiction is that meetings on the topic of bribery had taken place in Bridgestone's offices in Houston, Texas. The allegations suggest that he had bribed via local sales agents in Argentina, Brazil, Ecuador, Mexico and Venezuela; in order to win business in state-owned companies. This discovery was made when the European Commission and the Japanese Fair Trade Commission co-conducted an investigation on the companies suspected to be involved in the international cartel on marine hoses. It uncovered that the price of marine hoses were rigged and inflated, resulting in the arrest of eight executives from the French arm of Swedish Trelleborg and British Dunlop Oil & Marine, and lastly Hioki. Bloomberg (2009) reveals that Bridgestone was fined with the highest price of €58.5 million because it was believed by the

European Commission that they helped lead the cartel. The company that received the second highest fine was Trelleborg, paying €24,5 million.

Bridgestone executives apologized and made the statement that such corrupt act do indeed hurt the trust and betray the confidence that their customers, share holders and other business partners have in the company. Furthermore, they it Bridgestone would stop producing marine hoses and leave the market. Although Bridgestone had 30-40 per cent of the $140 million global market, marine hoses make up for a small share of total revenues. CEO Shoshi Arakawa said that the scandal would have a small impact on the company's immediate earning, but hurt the reputation and brand of Stonebridge Corp (Reuters, 2008).

Analysis of Brigdestone Corporations

The executive Misao Hioki was antagonized in the Bridgestone scandal, similar to the Siemens scandal. He was not only perceived as responsible for the scandal, he was the only one from Bridgestone who was penalized with a prison-sentence and a personal fine. This too, is consistent with the Bad Apple perspective. Not much can be said about the ethical disposition of Hioki, since we do not have any statements from him. However, seen from the Bad Barrel perspective, more motives to the corrupt behaviour can be provided.

In this case, the environment exceeds Bridgestone and its subsidiaries. The international cartel consisting of many companies of different origins, could have all created an environment encouraging inflating prices and bribing foreign officials. For a cartel to work it needs to be participated by and supported of all members, otherwise the cartel crumbles and price-based competition resumes. This could have created an environment where the companies relied on each other and consequently pressured each other to further co-operation. Winning business deals was undoubtedly the initiative motive behind leading the cartel, however pressures from participating companies could have encouraged corruption to a higher scale or elongated co-operation.

This is in fact out of character for Japan to be engaged in bribery when doing business abroad.. According to the BPI, Japan is one of the countries least likely to bribe foreign officials. However, this view was not shared by Latin America in the index. Bridgestone made illegal payments to only Latin- and Central American countries, all which have a CPI under four, lower than Japan's score of 7.9. In Mexico and Argentina (Ecuador and Venezuela were not included in the BPI) the institutions that were considered to be most corrupt by executives

were; political parties, the police and the juridical institutions, but also customs in Argentina. These institutions could have indeed caused delays and other problems for the companies involved in the Bridgestone scandal; however putting this in relation to all the crimes committed by the companies, satisfying petty custom officials seems to fade in comparison to the profit-maximizing motives.

5.7 Panalpina and Royal Dutch Shell

Bloomberg Businessweek (2010) state the following; in 2010, during the Bonga Deepwater Project, the Dutch oil giant Shell admitted to paying bribes in Nigeria worth $2 million. When the Nigerian subcontractors were paid, the company knew that some of the payments would to go public officials and allowed this to happen in the purpose of evading customs and other processes; giving Shell an illegal advantage to their competitors. According to SEC, Shell profited $14 million from the payments in the Bonga Deepwater Project. Shell was sentenced to pay a penalty fee of $48.1 million to settle SEC probes; however not the company to be penalized by SEC. The Swiss freight and logistics company Panalpina, hired by Shell, paid in fines $82 million after admitting to have paid bribes on the behalf of their clients. According to the company, they were involved in arrangements and Shell's Nigerian employees had specifically requested them to provide false invoices to cover corrupt payments and dodge suspicion. Panalpina was convicted for bribing custom officials in several countries, including Russia, Angola and Turkmenistan. The bribes in Nigeria took different forms, sometimes they were paid sporadically and sometimes they were systemic, as in monthly allowances - ensuring that officials would treat Panalpina and its clients favourably.

Both Panalpina and Shell have acknowledged and accept the responsibility that follows the wrong doings and most executives were replaced after the scandal. Moreover, Shell spokeswoman Kristen Smart says in a statement that Shell has since the scandal tightened its internal controls and enhanced its compliance program (The Telegraph, 2010).

Analysis of Panalpina and Royal Dutch Shell

Panalpina, keen on keeping clients content, was involved in a bribery scandal which took place in most corrupted countries in the world; Russia, Angola and Turkmenistan with CPI's of 2.1, 1.9 respective 1.6. Shell in this case, gave directives to Panalpina to make illegal payments and they obeyed. This behaviour can be justified if seen from the Bad Barrel

perspective. Social psychological experiments show that when given an order to engage in an unethical act, it is likely to give in to the order even if it contradicts to one self's ethical disposition. Panalpina is perhaps a "decent" company, who has only fallen into the ways of corruption because of clients. Conforming to the ethics of Shell would give the incentives of keeping a lucrative client such as Shell. However correct the Bad Barrel perspective may be, companies and executives are prosecuted as liberal individuals, responsible for their own actions.

Russia was not only the country most likely to be engaged in corruption abroad, but it was also the highest country in the BPI, to be perceived as corrupt. Circa half of the interviewees experienced corruption in Russia in forms of "bribery to high-ranking politicians or political parties, low-level public officials to "speed things up and use of personal and familiar relationships on public contracting". 74 per cent of the Russian population perceived the levels of corruption as "high" or "very high" (Transparency International, 2009a)

Angola is also highly corrupt, not surprisingly given the country's long history of conflict and drug trade. The situation post-conflict, is characterized by a monopolized elite in power, in control of the natural resources such as oil and diamonds (Transparency International, 2009a). The corruption in all the above-mentioned countries is undoubtedly pervasiveness. The corruption levels are amazingly high, especially in Angola and Turkmenistan, so much so that doing business in a clean matter is not probable.

5.8 IBM

According to the Wall Street Journal (2011) The International Business Machine Corp. recently came under accusations of a decade-long bribery scandal through their subsidiaries in Asia. An investigation by FCPA enforcers concluded that more than 100 employees of the computer giant had engaged in bribery between 1998 and 2009. The alleged goal was to secure contracts for their hardware products.

More specifically, the charges concerned a joint venture in South Korea, where employees had been seen literally handing over bags of cash, and opening credit tabs for government officials in bars and restaurants in hopes of being allowed to deliver mainframe computers to the government. Suspicion arose when in September of 2000, IBM delivered computers for a value well over $1,3 million to the same government, that were later found to be faulty. Even

so, IBM continued to land contracts with the South Korean state after a certain official received a deposit of some $14,000.

Furthermore, in China, IBM was instead accused of elaborate gift giving, rather than traditional bribes. Between 2004 and 2009, they were found to have created slush funds at travel agencies in order to provide vacations for Chinese government officials (Wall Street Journal, 2011).

These charges, coupled with those in South Korea, led the US Dept. of Justice to pursue civil charges against the company, which agreed to $10 million in disgorged profits and fines. This penalty is rather mild for FCPA standards, but the bribes themselves were also relatively small in size. IBM managers have stated that they have very clear ethical standards that apply to all employees, but that it is difficult for them to micro-manage the rather autonomous business units in Asia and other far corners of the globe. Indeed, IBM is a titanic company that made upwards $100 billion dollars of revenue during 2010. More than a fifth of this was generated in the emerging markets of eastern Asia, hinting at the growing significance of the region in the industry. Since the investigation ended, U.S. authorities have continued to pursue the tech industry heavily in FCPA cases, looking in to the overseas operations of Hewlett-Packard among others (Wall Street Journal, 2011).

Analysis of IBM

One interesting thing that comes across in this case is that when allegations were made against IBM, the company HQ neither denied nor admitted to any of the charges made against them. Instead, they simply accepted the fact that bribery had been committed and paid the fines, after taking "necessary remedial action". HQ also commented on the difficulty of controlling autonomous management abroad. This all suggests that indeed, the corrupted actions were carried out by the local managers, without the knowledge and consent of the top management. If this is so, then it is truly an example of where implementation of ethical standards has not succeeded.

Another noteworthy aspect of this case is that many of the bribed were in the form perhaps more aptly referred to as gifts. In the region of eastern Asia, this is a much more accepted part of doing business (Lovett, Simmons and Kali, 1999).

The question of local adaptation versus global integration is a constant one in the international business subject. When a culture differs much from the domestic one, adaptation is necessary in order to achieve economies of scope. Even so, it seems that adapting to a culture also means potentially adapting to its negative aspects, such as its tolerance for bribes. Another hazard could be hiring local personnel, whose domestic culture leaves them with higher acceptance for gift-giving (or bribes) in business. It seems that the law suit could have been avoided had communication of company standards and American law been clearer or better implemented. This would however mean that IBM's business relations in China and South Korea could suffer. Still, as a company that states their intention to always conduct business ethically, that ought to be the preferred choice regardless.

5.9 A Cross-case analysis

When comparing the cases analyses, we can see that corruption is widespread across the global marketplace. No country is completely spared, but looking at the cases, many similarities are noticeable, creating a behavioural pattern amongst the MNCs. Firstly, the countries where the MNC's are headquartered experience much lower corruption levels than the host countries. Using CPI as a tool for this observation, one will see that the countries where the MNC's originate from have a CPI index of at least 6.8 - ten being the cleanest. Holland is the cleanest country with a CPI of 8.8 and the US is the country with the lowest CPI score, scoring 7.1 – still much higher than all the host-countries in every case.

Another conclusion that can be drawn when overlooking all of the mini-cases is that persecution never occurs in the country where the crimes are perpetrated. Ultimately, legal action is taken in the host country of the MNC or in some other more developed country where the country has operations. Perhaps this explains why legislation such as the FCPA has such a broad and vague jurisdiction; if legal persecution never occurs in the host country them many companies would go unpunished.

The most apparent theme that the cases show is that corruption is indeed as widespread as it is varied. Reading through them, no continent goes unmentioned as affected by corruption and its devastating socio-economic effects. As the process of globalization shortens the distance between the regions of the globe, it is perhaps no surprise that this has become a very international issue. We therefore conclude that collaboration is essential to prevent further corruption. For the time being, the developed countries are typically the ones that persecute

corruption related crime. They do not however suffer nearly as much from its long-term consequences. There is an apparent necessity for host nations to engage more deeply in dealing with the issue pro-actively.

This brief analysis serves the purpose of highlighting some general noticeable patterns that all the cases share. It does however not attempt to answer the research questions, as this is done exclusively in the conclusions part of the thesis.

6. Conclusion

On the basis of our cases, we can conclude that the first driving force to corruption aboard is profit maximizing. As we saw with Johnson & Johnson and BAE Systems, the countries they were doing business with, were not dealing with corruption on a pervasive level and we can therefore state that bribery was not committed due to local adaptation. A motive behind making illegal payments is always to make lucrative business deals to some extent, bearing in mind that other motives may dominate decisions of bribing foreign officials and businesses as well. Fear is an additional motive that triggers corrupt behaviour: as seen in the Panalpina and Siemens cases. Panalpina followed the orders of engaging in corrupt behaviour in the hope of keeping their large client Shell. Former Siemens executive Sieczeck stated that fear of losing his business unit and employees losing their jobs, made him commit the crimes he was penalized for.

However, sometimes the environment can create an impossible situation where managers have to choose between bribing and doing business, or not doing business at all. This is highly possible in countries such as Turkmenistan, Iraq, and Angola – countries that Panalpina has conducted business in and greatly suffer from pervasive corruption. The environment can also impose corrupt behaviour due to culture differences. An example of this was given in the IBM case, where gift exchanging was a norm in China but condemned by the Transparency International. If one tries to categorize the behaviour of these managers based on the four Straw Men theories of ethical behaviour, we can see that a company usually pays bribes in countries where it is more likely to succeed and is more culturally acceptable. This does not however mean that they do not consciously break the law, which means that both the Friedman Doctrine and Righteous Moralism describe them poorly. It would rather seem that

Cultural Relativism describes the mentality behind this behaviour. This also supports the idea of corruption via local cultural adaptation.

In addition, a particular factor gives way for corporate corruption; it regards ethical distance and how companies delegate illegal payments, either to third party agents, shell companies or remote subsidiaries - to secure the secrecy of their actions and clear their conscious.

7. Recommendations

Our recommendation for companies that want to avoid engaging in unethical behavior abroad is firstly to very carefully evaluate their prospect markets from the perspective of transparency before entering. If a multination decides to launch a venture in Nigeria, they should be very well aware of to what degree and in with what institutions they are likely to encounter corruption. They should then prepare accordingly. Ethical standards and extremely clear codes of conduct need to me communicated to the concerned employees so that they are never left with making a personal decision regarding a questionable situation. That decision should already be made for them, and be in line with international law. The tools for how to evaluate markets and how to act are readily available as several organizations the international community works constantly with fighting corruption.

One approach to strategically dealing with corruption when internationalizing is to think of ethical principles as an advantage on competition rather than a burden. If used in the CSR policy of a company, ethical principles regarding corruption can be used to build a positive image. In this way, powerful MNCs can instead use their influence to be a positive example rather than feeding the Naïve Immoralists of the world with incentives to act unethically. According to Kwok and Tadesse (2006), the MNC has profound effects on the institutional environment of less developed host countries. It would be counterproductive if this transfer were to further entrench less developed nations in corruption rather than showing the way to a working, ethical private sector.

Corruption is not always as obvious as a bad of cash handed over in a dark alleyway. In some cultures, casual gift-giving is a natural part of business life. Even so, it can result in legal prosecution in another country. It is therefore important to be well aware of the boundaries of

the potentially relevant legislation. This legislation can also change. It is for example no longer legal to make facilitating payments under the OECD convention on corruption.

We also recommend that companies be especially careful when allowing local adaptation of business in countries that are known to have ethical standards other than their own. As we have seen, a company will be prosecuted in their domestic country no matter the principles of the host nation. Once again, a clear communication of conduct needs to exist so that cultural adaptation does not lead to the corruption of employees.

As we have seen, countries outside of the OECD are welcome to sign their convention and gain assistance in forming effective legislation and implementations. This convention was created because corruption should be beneficial for no one. It is necessary that the playing is leveled so that fair competition can exercise its healthy effects on the global market.

The U.N., the OECD, Transparency International as well as many other organizations work constantly with providing frameworks for not only conduct but also legislation and implementation of principles for governments. We therefore urge anyone on either side of a corrupt relationship to seek assistance and never act when uncertain.

Ultimately, it is obvious that managers sometimes know full well that they are acting unethically, even illegally, and still choose to do so without pressure from the environment. In the cases where the goal is to simply make profit out of illegal behavior, we can offer little advice, as these are criminal acts that deserve prosecution. We can only hope that the continued efforts to root out this behavior will result in managers and government officials everywhere realizing that, in the long-term, corruption is a game without winners.

8. Further research

As the main research question would suggest, the aim for this thesis was to identify the various reasons to corporate corruption when internationalizing. The behavioral patterns which were found in the chosen cases, were used to draw the conclusion in this thesis. However, less attention was given to the second research question regarding solutions to corporate corruption. Further research could be an elaboration of this aspect. Future research questions might concern effective anti-corruption business strategies or perhaps how to best incorporate anti-corruption policies into a MNCs CSR program.

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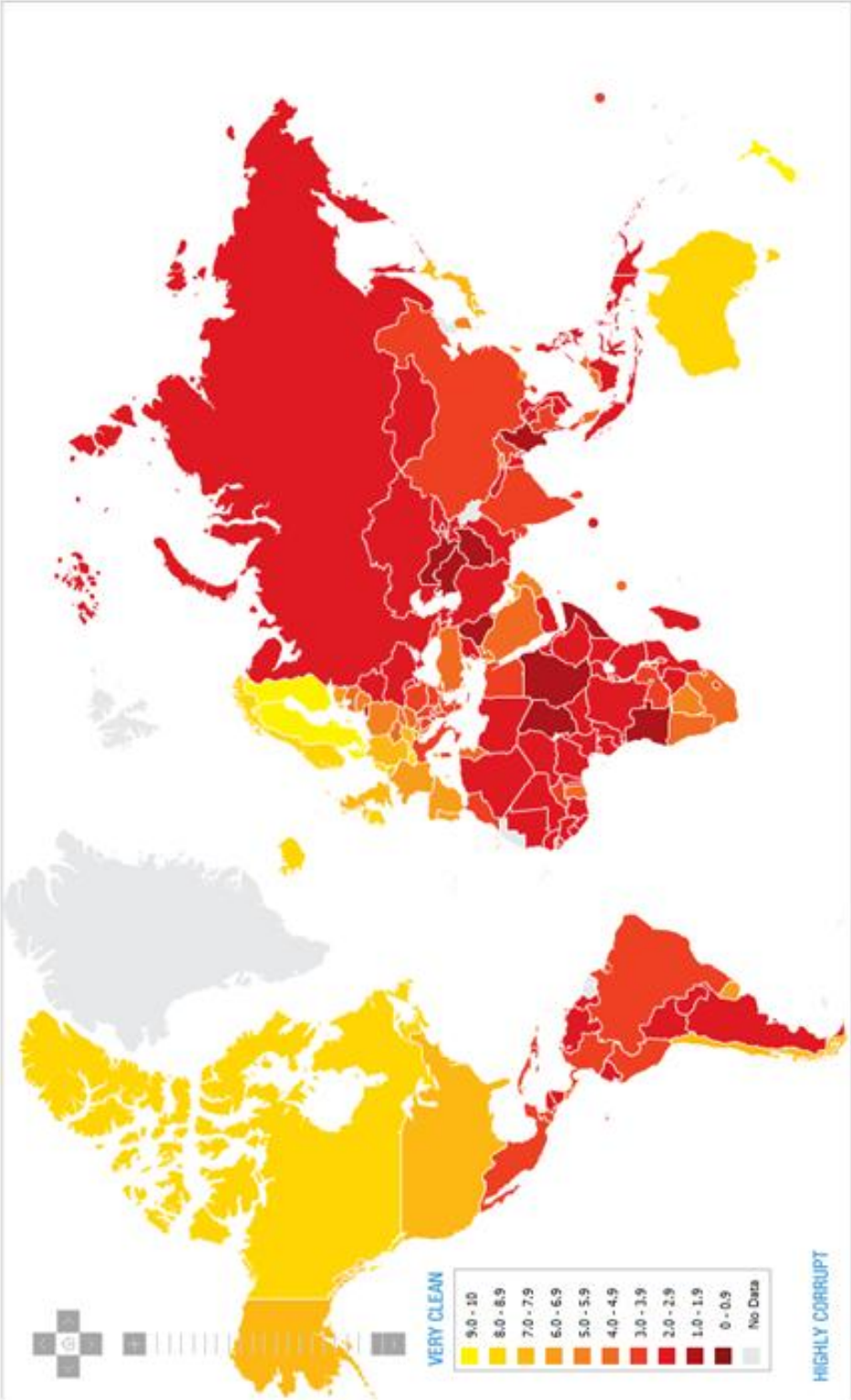leTabs%3Darticle. Accessed 4 April 2011

Appendix

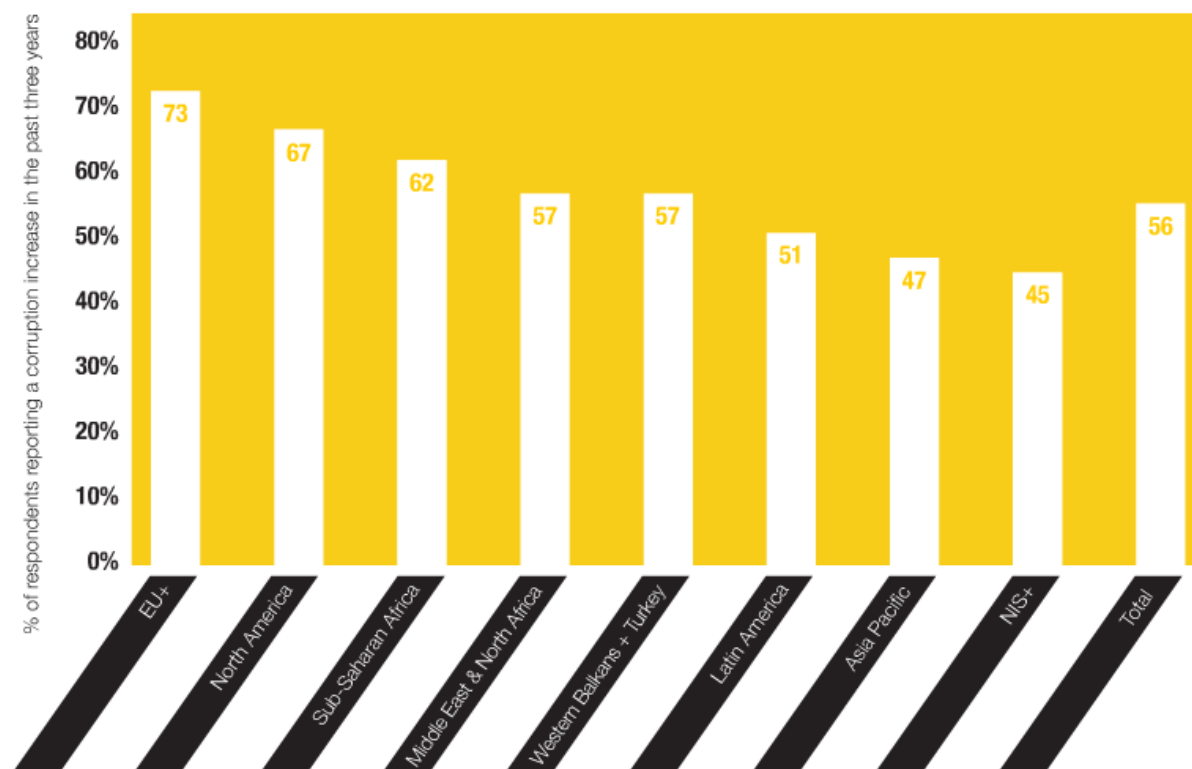Figure 1 (Transparency International, 2010a)

Figure 2 (Transparency International ,2010b)

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.
For number of observations see Appendix one.

Figure 3 (Transparency International, 2008)