University of Paderborn

Economics of Corruption

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<u>**Research Paper**</u>

Corruption in Business – Antecedents and Effects

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I declare that the work presented here is, to the best of my knowledge and belief, original and the result of my own investigations, except as acknowledged, and has not been submitted, either in part or whole, for a degree at this or any other university.

Formulations and ideas taken from other sources are cited as such. This work has not been published.

Paderborn, June 18, 2013

Location, Date   **Signature**

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List of abbreviations

BPI – Bribe Payers Index

CP – Corruption Perception

CPI – Corruption Perceptions Index

FDI – Foreign Direct Investment

OECD – Organisation for Economic Co-operation and Development

PwC – PricewaterhouseCoopers

TI – Transparency International

1 Introduction

In recent years many studies about the effects of corruption and how to combat its disruption have been conducted by various institutions, companies and experts from all over the world. The problem itself is well known to legislators across all borders, but usually people still tend to reflexively address the whole topic primarily to developing countries. Clearly, corruption is always connected to weaknesses of government and the enforcement of legal rights especially concerning contracts and property (Sundaram 2009, p. 462) and therefore mostly developing countries are affected by the negative consequences that go along with corruption. At first sight, one might come to the conclusion that corruption basically is a problem that only occurs in environments of weak governance, but this is not the case.

For example, Greece has to deal with considerable damage due to corruption bringing the struggling country to the center of attention in the current Euro crisis. Although there have been a lot of governmental failures, *Transparency International* has recently emphasized that businesses are one of "the weakest pillars in regard with their resistance to corruption"[1] (Transparency International – Greece, 2012, p. 16).

Taking these factors into account, the question at hand is, whether corruption takes place in developed countries with strong governments and what kind of influence it can have in such an environment. The pharmaceutical industry serves as a perfect example within this context. According to a new research conducted by PricewaterhouseCoopers (PwC), only every third company in Germany operating in that particular business area incorporates a program for combating corruption, although the whole sector is known for being confronted with a rather high risk of corruption (e.g. physicians are allowed to accept any amount of gifts from pharmaceutical companies without having to deal with any legal consequences). On the contrary, the intersectoral percentage of companies incorporating anti-corruption programs averages at 59% in Germany. Future legal action seems to be imminent, since even the majority of the industry itself points out that the corruption risk is to be considered medium to very high and consequently has to be addressed with more attention. First steps into that direction have already been taken by health minister Daniel Bahr (*Der Tagesspiegel*, April 16, 2013).

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[1] **Executive** and **media** are the other two pillars taken into consideration by Transparency International and together with the **businesses** these form the "threefold of 'interplay'". Primarily enterprises not listed at the Athens Stock Exchange do not apply to international corporate standards and are therefore drastically affected by corruption.

1.1 Motivation and research question

To put it in a nutshell, my seminar paper deals with a detailed view of corruption in companies which is usually based on a private to public relationship (i.e. Company X – Public official Y), due to the obvious advantages firms can gain by relying on the liquidity and validity of the state. For example, the US government estimates the total cost of corruption limited to an eight year time period (1994 – 2002) to comprise about $240 billion (Boeckmann, 2004). Given the fact that the United States are believed to be one of the least corrupt countries in the world (ranked 19 out of 174 in the Corruption Perception Index 2012 published by Transparency International), this is quite a surprising amount of money. Therefore, the target of this paper is to take a closer look at the individual behavior of companies in different countries, since corruption in literature is usually examined on a more aggregate level, although cases like the one described in the introduction are typical examples occurring in every country in the world almost on a daily basis.

The main question can be defined as: *What are the antecedents and effects of corruption in business?* In order to achieve appropriate research results, it is necessary to separate this question into different sub aspects:

1) What are political, legal and economic factors that promote corruption?
2) What are typical patterns of corporate behavior in different countries with varying levels of corruption?
3) What are the consequences and effects companies have to face when dealing with corruption?
4) How does corruption affect the economic efficiency of an individual state as a whole? (This includes an analysis of the reasons why companies are engaging in corruption, although knowing that it is generally seen to be harmful for the country and therefore finally negative for the company itself)
5) What measures can be taken to combat corruption in the future? (On a company and country level)

1.2 Approach and methodology

In order to address the research question, first existing literature on the topic will be reviewed to obtain a sophisticated view on how corporate behavior has been assessed in the past and what the outcomes and results have been. Related to this research, sets and experiments on the one hand (that most commonly focus on results gathered by the use of interviews) and case summaries on the other hand will be used.

Furthermore, the examination of mutual antecedents and effects across countries and areas of operation are expected to provide important insights into why companies tend to make use of corruption while doing business.

1.3 Defining "corruption"

Although the term "corruption" is widely known and used, many different definitions exist. Being absolutely precise, there is *no* definition that can be identified as *the* standard description of what corruption is about, even though hundreds of authors have discussed the problem and different indices like the Corruption Perception Index have been developed to reveal corruption on a large scale. So the initial question at hand should be how to describe "corruption" when there is no such universal definition of the term itself?

A very common approach is to look at the individual analysis and conclusions stated in the literature or data set at hand. Of course, this means that a comparison of different authors dealing with corruption is complicated, since most people tend to have varying views on what they are actually referring to when addressing corruption as a whole. Still, this is often the only way to determine the exact characterization of the term "corruption" (Pellegrini, 2011).

After all, literature has shown one definition that has been used predominantly throughout the last decades describing corruption as "an illegal or unauthorized transfer of money or an in-kind substitute" (Rose-Ackerman, 1975). Adding to this definition, it should be clear that the so called "in-kind substitute", although being of a financial type of benefit most of the time, is not limited to those monetary rewards, i.e. "Giving preference to members of a specific race, ethnicity, religion, or tribe, for example, may be corrupt behavior if such an action garners increased reputation" (McNab & Bailey, 2010).

Finally, it appears to be useful to consider the applied definitions of different corruption measuring indices as well. The Corruption Perceptions Index that was mentioned before basically relies on the definition pointed out by Rose-Ackerman in the 1970s. The author of this corruption index "Transparency International" consequently uses a modified approach: "Generally speaking as 'the abuse of entrusted power for private gain'. Corruption can be classified as grand, petty and political, depending on the amounts of money lost and the sector where it occurs" (Transparency International, 2009).

The World Bank also contributes to the investigation of worldwide corruption by providing "The Worldwide Governance Indicators (WGI) project" which addresses the control of corruption as well. This institution also relies on the definition by Rose-Ackerman, but at the

same time addresses the problematic situation of encountering many different facets of corruption. These are enlisted and described in detail on their internet webpage: bribery, theft, political and bureaucratic corruption, isolated and systemic corruption, corruption in the private sector (World Bank, 2013).

Finally, it should be clear that this working paper will stick as close as possible to the definition given by Rose-Ackerman and used (in modified terms) by the two indices mentioned before. At the same time the main focus will be put on to bribery, since this can be considered the most common type of corruption occurring in a business environment. This includes both pecuniary bribery, for example represented by gifts from one firm to another company or an individual, and simple favoritism which does not necessarily come along with a financial bribe.

2   Antecedents of corruption in business

There are several factors which normally come to mind when thinking about the antecedents of corruption in business and these are most commonly expressed by managers in questionnaires concerning that topic: legal and economic downsides of a country/government. As mentioned before, by taking these factors into account it will not always be possible to explain the reasons why bribery can even be encountered in developed and very rich countries. Consequently, it is necessary to broaden the view on the complexity of the problem at hand.

In order to gain insights into why corporations are taking part in bribery, it is indeed necessary to evaluate the literature that dealt with the topic throughout the last decades. Obviously, the magnitude of corporate observations took place in recent years, since most authors in the 1960s and 1970s used to have a positive association and pointed out that corruption "promotes efficiency and growth by removing bureaucratic rigidities and 'greasing the wheels of bureaucracy'" (Cheung et al., 2012).

All in all, the common point of view that efficient firms will always use bribes solely in order to reduce transaction costs – which at the same time only exist because of governmental flaws and bureaucratic problems - can be seen as the predominant consensus in that time span. Since the 1990s and even more so in the last ten to fifteen years, experts started to grasp a rather negative view on corruption which is nowadays seen as "'sand in the machine'" (Cheung et al., 2012).

Another chronological aspect concerning the approaches in literature has to be considered: In the first years of examination of corporate corruption, most studies relied

intensively on management questionnaires and the evaluation of the effects of corruption **after** a case of bribery had become public knowledge. Recently, this routine has shifted and more and more experts try to analyze a company's development dating back to the time period in which the bribery actually took place, since the effects of corruption can be assumed to be at the highest around that exact moment in time. Concerning this aspect, it should also be clear that the assumed effects of corruption for an enterprise, e.g. net benefits and change in market capitalization, represent an important antecedent as well, although these will be primarily identified and analyzed later on when precisely dealing with the effects of corruption.

2.1 Corrupt behavior in business to government relations

In most cases corruption usually involves two parties: a company bribing people in governmental positions with high responsibility since the latter are expected to be able to provide substantial payoffs for the corrupt company. Of course, there are also cases of private to private corruption, but "most researchers who have studied corruption […] have focused exclusively on transactions in which at least one party is in government" (Azfar et al., 2001). As a consequence, the analysis of the antecedents will have to begin at the individual level and an aggregated evaluation can be developed consequently.

In theory, the question for a government official whether to accept bribes or not can be seen as a simple calculation of benefits. The expected benefit received from a bribe has to be larger than the costs for being corrupt (this includes the psychological side, i.e. the moral conflict involved in such actions and, of course, financial aspects).

For the representative of a company the calculation is based on the same cost reduction principle: Business with governments usually involves a lot of bureaucracy and bribing officials seems to be an easy way out. As long as the risk of being caught is low and the transaction costs (which are, for example, especially high whenever an internationally operating company sets up a new subsidiary in another country) can be decreased significantly, the tendency for corruption is high. An example for the magnitude and high frequency of corruption is Nigeria: "The scope of bribery in Nigeria is staggering – in a recent poll, 41% of business executives there admitted that bribe payments are a daily occurrence in their business operations" (Ufere, 2012).

On the other hand, when analyzing the expected costs for the individual public agent it becomes clear that these will rise, whenever the "risk of getting caught and punished" increases as well and this will always be the case, if "the effectiveness of the country's legal system" is high (Treismann, 2000). On top of that, different factors may favor or antagonize corrupt

behavior of public agents. According to a report by the OECD (2000) these can be identified as the following:

1) The higher the information asymmetry between a government official and a company (i.e. the public agents have a lot more power than the corporation), the higher the probability that this power will be misused leading to corrupt behavior.
2) The lower the wages of public agents, the more likely are those to become corrupt.
3) Government officials who enjoy public confidence and can redirect funds rather discretely often tend to rather corrupt behavior, since there is an imminent "lack of a sense of accountability to society" (OECD, 2000).

Furthermore, the OECD (2000) also concludes that corrupt companies "try to maximise their gains by paying bribes, while officials try to maximise their illegal earnings and politicians their power (re-election or client bases) and wealth".

In most cases, individual corrupt behavior is hard to detect. Especially well known public agents with a high level of discretion in their actions (as already mentioned before) can easily hide bribes. This is also the case due to the fact that opportunities almost always arise in interpersonal relationships, e.g. at business meals (Buchan, 2005). Additionally, it should not be neglected that the intention to succumb to corrupt behavior may not be given a priori, but rather emerge from certain opportunities present at the negotiation of business between state and company representatives. These "private conversations, meals, and assorted meetings provide the most intensive and most difficult to monitor personal interactions between government officials and representatives of private firms" (Collins et al., 2009). Research shows that corruption is also higher in countries which do not legally require their officials to disclose their sources of income (Cheung, 2012).

In a research paper released in 2009 in the *Journal of Business Ethics*, Collins, Uhlenbruck and Rodriguez questioned hundreds of executives in India and came to the conclusion that the tendency for corrupt behavior rises, whenever "top managers have social ties with politicians or government employees" and the "top managers rationalize the practice of corruption as a normal part of doing business". On the contrary, the probability of Indian companies being corrupt is not affected by the mere size of the "firm's annual revenues from government agencies" (Collins et al., 2009). Although these results are closely tied to the given circumstances in India – a country that exhibits a rather high level of corruption and where even a special term for the corrupt behavior of officials selling contracts to different companies has

been coined ("licence raj") (Tanzi, 1998) – the general tendencies can be applied to many other states in the entire world. Why this is the case and why company policies also do play a significant role alongside the governments' efficiency will be shown in the analysis following in 2.3.

To conclude, there is remarkable evidence that interpersonal relationships are at the center of reasons for individual corrupt behavior and any form of such characteristics may arise in both developed and developing countries. As a next step, further analysis of how the overall governmental situation does have an effect on corruption within a specific country will be conducted.

2.2 Antecedents of corrupt behavior on an aggregate country level

First of all, governments introduce *regulations and authorizations* and these are involved in a huge number of different cases related to different companies that are actively participating in a given country. As pointed out in the last chapter, public agents and top managers who have to deal with these sets of regulations are facing a lot of contact time and both individuals may benefit from corrupt behavior. However, regulations and authorizations are necessary and so are actions of enforcement of rules and control of officials. After many studies, it is clear that "democratic systems should lead to lower corruption since the likelihood of exposure or punishment for corrupt acts is increased in an open society" (Brown, Shackman, 2007).

Intuitively, countries with efficient sets of regulations and authorizations are expected to be less vulnerable to corruption when they are backed by an *efficient judicial system* as suggested by Treismann (2000). Brown and Shackman (2007) used a dataset comprising of more than 70 factors for 143 states which had been observed from 1984 on until today, from which 127 have had "complete annual corruption data for the 21-year period, while 17 are incomplete sets" and by using this dynamic panel data analysis they were able to find that "democratic accountability, and rule of law all have a causal impact on corruption but not the other way around". At the same time, too much bureaucracy and exorbitant regulation favor the occurrence of corruption (Cheung, 2012).

The last factor that is very important when addressing the antecedents of corruption is economic growth of a certain country. Research has shown that, aside from governmental efficiency, factors like the gross domestic product per capita have a strong and significant impact on the level of corruption within a country (Cheung, 2012). Expressed in general terms this means that the higher the GDP of a country, the lower the risk of corrupt behavior.

Finally, the basic level of corruption, i.e. the risk of corrupt behavior in a given country, is at first determined by the governmental aspects named before: Regulations and authorizations. Of course, this is closely connected to the government's agents that are cooperating and dealing with local businesses. An efficient judicial system is the second part of the governmental factors as it contributes to a low level of corruption as far as it is supporting the officials or, to put it in other words, prevents them from being corrupt or at least decreases the risk for such behavior. At the same time, the development status of a country plays an important role. All different economic factors (e.g. the GDP) can be filed under that category and eventually influence corruption as well.
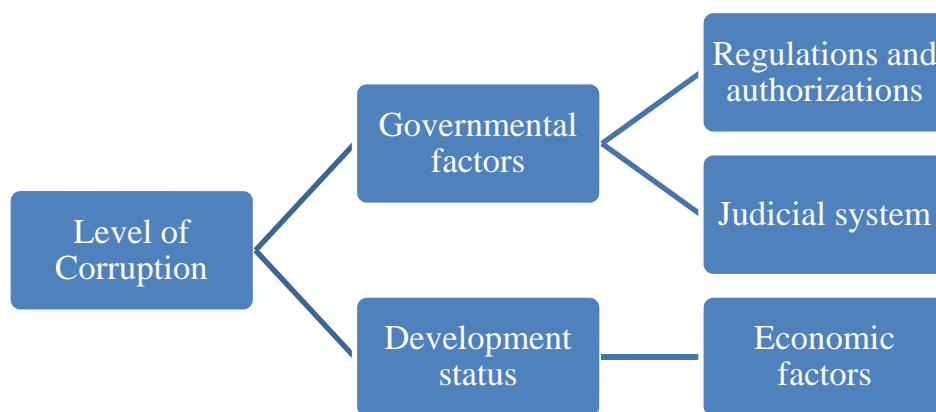
Figure 1: Structural factors influencing the level of corruption

2.3 The influence of a company's regulatory framework on corruption

Given the well elaborated influence of corruption on economic growth (which will be analyzed later on), the expectation may arise that big multinationals will probably combat corruption and implement related activities in their corporate framework, but surprisingly this is often not the case. As already described in the introduction, even in business areas like pharmacy, many companies do not call an anti-corruption program their own, although the necessity is obvious. Even more surprising, this is not limited to certain business areas, but it is rather common throughout all sectors. Studies have shown that, for example, only "forty three of the top 100 non-financial multinational enterprises present anti-corruption material on their websites" and only "Seven provided a formal report and 6 had material such as press releases on corruption-related misconduct" available to public (Gordon, Wynhoven, 2003).

The analysis of the reasons why agendas to combat corruption cannot be taken for granted turns out to be difficult, but definitely has to start at the very weakest forms of

corruption, namely the so called "facilitating payments". These can be defined as "small payments or gifts made to a person – a public official or an employee of a private company – to obtain a favor such as expediting an administrative process; obtaining a permit, licence or service; or avoiding an abuse of power" (Argandoña, 2005). At first sight, there seems to be no real difference between "normal" bribery and facilitating payments, but in the end most companies tend to accept the latter, since these are seen as common and they usually do not "involve an outright injustice […], since they are entitled to what they request" (Argandoña, 2005).

Many companies, although explicitly condemning the exchange of extraordinary gifts when doing business (based on the arm's length relationship principle), try to differentiate between corruption and facilitating payments. One example for this can be found in the code of business of one of the leading private enterprises in distribution, wholesale and retail of food in the Arabian Gulf, where this issue is directly addressed:

"It may be customary at times to pay government employees for performing their required duties. These facilitating payments, as they are known, are small sums paid to facilitate or expedite routine, non-discretionary government's actions, such as obtaining a phone service or an ordinary license. In contrast, a bribe, which is never permissible, is giving or offering to give anything of value to a government official to influence a discretionary decision." - BMMI Code of Business Conduct

It remains questionable, whether a differentiation "between acceptable and unacceptable" is useful. At the very least these facilitating payments and their delimitation from bribery do "pose problems of interpretation for both managers and law makers" (Gordon, Wynhoven, 2003).

Although these facilitating payments are common, they are not always explicitly named in a company's code of business. In many cases they are simply hidden in the accounting book. Research has proven that "Entertainment and Travel Costs (ETC)" represents "a standard expenditure item in the accounting book" (Cai et al., 2005). In the corresponding analysis, the authors considered a data set of more than 3,000 Chinese firms and took a closer look at the Entertainment and Travels Costs coming to the conclusion the item consists of a mix of "expenditures on government officials both as 'grease money' and 'protection money', expenditures to build relational capital with suppliers and clients, and managerial excesses" (Cai et al., 2005).

All in all, it should be clear that the individual attitude of a company towards corruption is at least as important as governmental and structural conditions within a country. A clearly expressed anti-corruption framework and managerial behavior build a fundamental basis.

3   Effects of corruption

In the following passages the different effects of corruption will be analyzed. The evaluation method is closely connected to the description of the antecedents in the previous segment. Since the reasons for succumbing to corrupt behavior for both companies and public agents are commonly based on a simple cost-benefit analysis, it is necessary to verify whether the expected outcomes of the parties involved are reached. Consequently, the effects for the individual company will be examined at first and afterwards the overall effects of corruption on an aggregate country level shall be determined.

3.1   Corruption in business – Greasing the wheels of the bureaucratic machine?

Even the weakest forms of corruption (described before as the so called "facilitating payments") may have strong – and positive – effects for a certain company. Bribing public agents seems to be the easiest way "to be granted, without unnecessary delay, a permit or license […]" and it is an "action that will guarantee the delivery of the service, or improve its quality, speed etc., thus ensuring that the company obtains what it is entitled to" (Argandoña, 2005). All in all, usually the reduction of transaction costs is the primary goal of corrupt corporations, but the typical behavior and aims are not limited to this. Many cross-country research studies have shown that especially in highly regulative countries, bribing can be beneficial for the companies involved (cf. panel data analyses: e.g. Vial, Hanoteau, 2010 or Cai et al., 2005 or Vial, Hanoteau, 2010). Yet, there are still some experts predicting opposing and therefore negative effects even on a firm-based level. In a study focused on more than 200 Ugandan firms, evidence is brought forward that high rates of bribery at least have a negative effect on the companies' growth rates in the short-run (Fisman, Svensson, 2007).

Usually refutation is not based on economical, but rather ethical reasons, pointing out the damage third parties may infer from corrupt behavior (e.g. "damage to other citizens, the discrediting of the public administration and other public servants, and the spread of corruption" (Argandoña, 2005)). At the same time, there might be negative long-term effects that many companies are unable to predict when engaging in any form of corruption. Although the overall negative effect on economic growth is one aspect that researchers have extensively evaluated throughout the past decades and that should be known to all companies, the positive individual prospects receive a lot of attention. Still, in many cases any form of corruption – be it facilitating payments or "real bribery" – initiates "a step towards a culture of corruption in society […]" and therefore corrupt enterprises may "create an incentive for politicians and public officials to create more regulations […] in order to have more reason to come into contact with companies and so

provide the opportunity for corrupt payments" (Argandoña, 2005). Such a development may finally trigger a vicious circle that further increases corruption and leads to an inefficient economy, since bureaucracy and injustice in markets formerly based on competition increase. Moreover, the higher the level of corruption, the higher is the incentive for firms to broaden their initial habits of using facilitating payments. Such a business environment may finally lead to a development which moves away from petty payments to the worst forms of bribery and at the same time the distinguishing line of separation between those two types of corruption is slowly fading away which inherently and continuously spoils an already crumbling economy. This remark represents one that is finally addressed even in most researches that at first draw a positive picture of corruption; for example, a panel data analysis conducted in Indonesia based on manufacturing enterprises with at least 20 employees concludes that there is a positive relation between "the effects of corruption on plant output and labor productivity growth" and clearly hints at the necessity of separating micro- and macroeconomic perspectives: "Some firms may benefit individually from corruption at the expense of others, but the practice remains fundamentally a negative distortion for the entire economy and a source of unproductive activities" (Vial, Hanoteau, 2010).

Furthermore, there are another two important effects concerning contracts provided by the government. The first one is related to the magnitude of companies involved in corrupt behavior. If there is a governmental contract and different enterprises are granted the opportunity to bid on this particular order, "it is possible that competition among the bidders leads to a 'winner's curse' scenario […], whereby the bribe B is large enough so that the net benefits decline to zero or are even negative" (Cheung et al., 2012). In the second case, companies might commit themselves to corruption that is not focused on simply receiving a certain order from the state, but rather aims at enhancing the connections to individual politicians in order to gain more influence in a whole business area (e.g. the finance sector) or to affect governmental bail-out operations during times of recession (Cheung et al., 2012). Especially the negative impacts of the latter should be obvious: an increase in corruption in an already unstable economic environment may lead to far more severe consequences than in stable economies.

Taking the negative long-term effects into account, many companies will probably not engage in corrupt behavior, but for the individual employee this might still be quite a lucrative business and this basically represents another important consideration. Employees may want to "gain a personal advantage" or benefit directly in forms of bonuses or improved chances of promotion (OECD, 2007). At the same time the individual employee might be – at least in his or

her own perception – operating in favor of the company, trying to enhance relationships to public agents or other contractors and to assure future orders and cash flows. These may eventually turn out to be beneficiary for both the company and the individual as seen in the case studies mentioned before (cf. e.g. anonymized studies on bribery in public procurement as illustrated by the OECD in 2007).

3.2 Quantification of different corruption cases

In an analysis of different case summaries the OECD and the World Bank have evaluated the proceeds of bribery with the gross/net revenue method (OECD, 2012). Using this approach, they were able to examine gross revenues and net profits which are directly connected to cases of corruption. Of course, the given data represents a rather limited picture of the overall situation, since the available figures for a gross/net revenue analysis are insufficient in most cases. However, the authors of the project were still able to have a closer look at a total of 21 companies in different countries. As an example overview, analyzing only American case summaries with complete financial coverage in the actual report, the following comparison can be derived:

Money paid as bribes (in USD)	Total benefit (Revenues – Costs – Bribes) (in USD)
5.000.000	80.000.000
2.000.000	5.300.000
8.250.000	50.250.000
9.200.000	8.500.000
50.000	7.050.000
1.000.000	8.500.000
250.000	1.500.000

Table 1: Comparison of bribes and the total sum of derived benefits (OECD, World Bank, 2012)

On average the examined cases involved a bribe of 3.678.571 USD from which the companies were able to derive a total average benefit of 23.014.286 USD (i.e. more than six times the average money paid rendering all of them highly profitable for the enterprises involved. The same picture can be drawn for the case summaries dealing with corporation in Europe and Asia.

The next consequent question would be, how often similar cases of corruption do occur. Since the data basis remains limited, research approaches that make use of questionnaires handed

out to top managers represent the main guidelines. In cooperation with the Confederation of Norwegian Business and Industry Søreide consulted more than 1,600 companies that are engaged in international business transactions and the results highlight, that such cases of corruption as described before are usual business: 42% believe unethical business practices are common and consequently 39% also think that they have lost contracts because of corrupt behavior (Søreide, 2004). Several other research studies came to similar conclusions, for example concerning the Brazilian (Halter et al., 2009), the Chinese market (Cai et al., 2005) and moreover the analysis of prominent bribery cases in more than 50 other countries (Cheung et al., 2012).

3.3 Effects on an aggregate level

At last, the effects of corruption on an aggregate country level have to be analyzed. Whereas possible positive effects on a company level have been evaluated beforehand, there are almost no indications for an overall positive effect on an aggregate level of examination. In order to analyze the economic situation and development of a country, it is very common that evaluations focus on a country's long-term growth rate (usually the growth in GDP). The question here is, what influence corruption does have on the different factors contributing to an overall growth rate.

A cross-country regression analysis conducted by Pellegrini shows a significant negative effect of corruption on the growth rate. In detail, four determinants of growth, namely investment, schooling, trade openness and political violence, and the impact of corruption on each of them are analyzed. In the applied regression the author proves a sharp negative effect of corruption mainly on foreign direct investment, but also – in weaker forms – on all the other variables (Pellegrini, 2011). All in all, the effects do have both a negative direct and indirect influence. An increasing level of corruption leads to a lower level of foreign direct investment - ceteris paribus - and therefore directly decreases the economic growth in the short run, but at the same time indirectly lowers it through lack of finance in the long run.

Different other experts have also highlighted the decrease of FDI as the main source of economic decline due to high levels of corruption. Taking this fact into account, a closer analysis of the contradicting situation in China and similar countries with high levels of economic growth in face of a relatively low score in indices like the Corruption Perceptions Index or Bribe Payers Index is necessary. First of all, research proved that "CP does play a big role in investors' decision of where to invest" (Mathur, Singh, 2013), but at the same time different typical aspects of a country indeed have a positive influence. Although the political and judicial system is rather

unstable in comparison to other countries ranked higher in different corruption indices, "economic freedoms, such as personal property protection, the right to move capital in and out of the country, or the ability to trade openly in world markets" do have significant influence on foreign direct investment decisions. For example, countries like China do rank "high on the property rights index" and therefore such countries are able to take advantage of high flows of investment (Mathur, Singh, 2013).

4 Ways to combat corruption in the future

Studying both the antecedents and effects of corruption in business, it becomes clear that combating corruption is and will be one of the major tasks of both companies and governments in the future. The analysis of antecedents for companies has shown that a clearly written and communicated code of conduct is essential for every internationally operating company. Businesses are at the front lines in the battle against corruption, since the first step towards unethical behavior almost always derives from corporate representatives. A well conducted framework and a well-organized anti-corruption apartment are essential. Literature also suggests that regular publications on key figures concerning the successful fight against corruption might be useful and increase transparency (Gordon, Wynhoven, 2003). As mentioned in the introduction, research has shown not only a significant lack of anti-corruption programs in certain business areas, but also the necessity to strengthen existing ones. A recent analysis of PwC pointed out, that 80% of the analyzed companies do have corruption detection apartments and still only 22% of those are convinced that these work well enough to identify and to alleviate the effects (PwC, 2008).

On an aggregate level different approaches may be considered, but all in all, these are harder to establish in comparison to what companies can do. As pointed out in the first part of this paper, a well working government that is backed up by a solid judicial system represents a main pillar of support. However, there are always aspects that could be easily attended by politicians and that have a positive overall effect. For example, research has shown that some of the newest member states of the EU are actually doing better in the fight against corruption as opposed to founding countries and that this pattern may arise because of the simple fact that existing rules are more strictly applied to new states (Pellegrini, 2011). At the same time, it cannot be neglected that most new member states usually rank worse in corruption indices when compared to highly developed countries. It will be up to the supranational government, to strengthen the locally existing policies and develop a good mix of anti-corruption and economic

development programs. Looking at the overall effects of corruption on economic growth, such programs seem to be the best way out since combating corruption and pushing development go hand in hand.

5 Concluding remarks

In this seminar paper, the antecedents and effects of corruption in business have been analyzed on both an individual level (e.g. reasons for public agents to succumb to corruption, antecedents for firm representatives to bribe and risk/benefit comparison) and in consequence on an aggregate level (e.g. influence of regulations, authorizations, political and judicial systems on corruption). Through the analysis of different research studies and the combination of questionnaire and panel data based examinations, a diversified picture of corruption was drawn. Positive effects of corruption have been highlighted, but at the same time these have also been put into a direct comparison of the overall effects for economic growth, which are usually of a negative nature.

The results of this seminar paper can be used to enhance and provide a broadened view on corruption at a micro- and macro-level, especially due to the interdependencies that were elaborated in the corresponding process of analysis.

While processing the findings of this examination, certain limitations have arisen. Due to the given maximum extent of this paper, not all aspects of both the individual and environmental reasons for corrupt behavior and interrelated effects could be examined. Thus, focus has been put on the individual level, addressing public agents as well as representatives of companies and their corresponding motives and actions, since corruption usually derives from interpersonal relationships. On top of that, ways to fight corruption in the future were not considered on an extensive scale, since the evaluation of this aspect was not among the primary goals of the underlying topic.

As a conclusion, the negative implications of corruption in business represent an overwhelming aspect that clearly outweighs the individual antecedents and associated expectations of future benefits and effects for either public agents or international enterprises. Consequently, different ways to combat corruption in the following years have been presented as a final step in the paper at hand.

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