Journal of World Business 51 (2016) 35–49

Contents lists available at ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Corruption in international business

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ARTICLE INFO

Article history:
Available online 16 September 2015

Keywords:
Corruption
Bribery
International business
Multinationals
Theory

ABSTRACT

I analyze corruption in international business, presenting a critical assessment of the topic and providing suggestions for future research. I argue that corruption creates a laboratory for expanding international business studies because its illegal nature, the differences in perception about illegality, and the variation in the enforcement of laws against bribery across countries challenge some of the assumptions upon which arguments have been built, i.e., that managers can choose appropriate actions without major legal implications. Hence, I first provide suggestion for how to analyze the topic of corruption in future studies by analyzing the types, measures, causes, consequences, and controls of corruption. I then provide suggestions for how to extend leading theories of the firm by using corruption as a laboratory that challenges some of the assumptions of these theories: extending agency theory by analyzing the existence of unethical agency relationships; extending transaction cost economics by analyzing illegal transaction costs minimization; extending the resource-based view by studying corporate social irresponsibility capability; extending resource dependency by analyzing the ethical power escape; and extending neo-institutional theory by studying illegal legitimacy.

"Corruption charges! Corruption? Corruption is government intrusion into market efficiencies in the form of regulations. That's Milton Friedman. He got a goddamn Nobel Prize. We have laws against it precisely so we can get away with it. Corruption is our protection. Corruption keeps us safe and warm. Corruption is why you and I are prancing around in here instead of fighting over scraps of meat out in the streets. Corruption is why we win." Danny Dalton in the 2005 movie Syriana (IMDb, 2015).

1. Introduction

This opening quote from the movie Syriana illustrates the tension found when analyzing corruption in international business. Although all countries have laws that penalize corruption, it is still widespread and some managers do not see corruption as a problem and will bribe to improve the advantage of the company over competitors. This is despite the apparent consensus that corruption is bad for the country because it involves government officials putting their interests before those of the citizens they are supposed to serve. Countries with higher levels of corruption also have lower levels of growth (Mauro, 1995); less investment (Lambsdorff, 2003); lower public policy effectiveness (Ades & Di Tella, 1997); less investment in education and healthcare (Mauro, 1998a); lower inward foreign direct investment (Wei, 2000), and less inward foreign direct investment from countries with laws against corruption, which are the largest foreign investors (Cuervo-Cazurra, 2006, 2008a). However, at the company level, the consensus about the impact of corruption is not as clear. On the one hand, corruption results in the additional costs of the bribe itself and of the managerial attention devoted to dealing with corrupt government officials (Kaufmann, 1997; Svensson, 2005). On the other hand, individual companies may be able to benefit from getting government contracts (Cheung, Rau, & Stouraitis, 2012), or from getting around complex regulations (Huntington, 1968). Thus, managers can rationalize corruption as another source of competitive advantage in corrupt countries, or as a mechanism for reducing transaction costs in countries with high levels of regulation.

In this article I go beyond traditional reviews of the literature that provide detailed summaries of the topic of corruption (see Aidt, 2003; Bardhan, 1997; Jain, 2001; Judge, McNatt, & Xu, 2011; Rose-Ackerman, 2004, or Svensson, 2005; and the two Handbooks edited by Rose-Ackerman, 2006, and Rose-Ackerman & Soreide, 2011) and instead I provide a critical assessment and suggestions on how the analysis of corruption can be used to extend the literature. I propose two types of extensions that future research

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http://dx.doi.org/10.1016/j.jwb.2015.08.015
1090-9516/

can do: extending our understanding of the topic of corruption, and extending our understanding of theories of the firm by analyzing corruption.

I first provide a critical overview of the topic of corruption, reviewing the concept, causes, consequences, and controls, and proposing potential research extensions on each of these. Specifically, I suggest extending the study of the concept of corruption by analyzing the various types, differences between measures and perceptions, and the diversity in the conceptualization of corruption across countries; extending our understanding of causes by analyzing differences in the willingness and ability of government officials and managers to ask for or provide a bribe, as well as their ability to reject the reception or payment of a bribe; extending the literature on the consequences by analyzing the impact of corruption on performance in the short and long term; and extending our understanding of controls by studying controls on the demand and supply of bribes at the firm and country level.

I then argue that the illegal nature of corruption can serve as a laboratory for extending our understanding of five leading theories of the firm—agency theory, transaction cost economics, the resource-based view, resource dependence, and neo-institutional theory—and provide suggestions on how to extend them. I analyze these theories because they are well-equipped for studying the relationship between companies and governments in international business (e.g., Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). Specifically, I suggest extending agency theory by analyzing the existence of unethical agency relationships; extending transaction cost economics by analyzing illegal transaction costs minimization; extending the resource-based view by studying corporate social irresponsibility capability; extending resource dependence by analyzing the ethical power escape; and extending neo-institutional theory by studying illegal legitimacy.

2. Extending our understanding of corruption in international business

The topic of corruption has generated an expanding and relatively recent literature in international business. Although bribery has happened since the beginning of history, with records in the Ancient World banning it (Noonan, 1984), interest in the topic in international business started in earnest in the 1990s, with changes in the attitudes toward bribery in international organizations like the World Bank, and the creation of non-governmental organizations like Transparency International, that began to openly discuss, measure, and analyze corruption (Clague, 2003). Hence, in this section I provide a critical review of the literature of corruption in international business and outline research suggestions that can be analyzed in the future. Fig. 1 provides the framework for analyzing corruption in international business that summarizes the ideas discussed in this section.

2.1. Definition of corruption

There are several definitions of corruption, which reflect preferred views on the topic. These include definitions highlighting its illegal nature, such as "an illegal payment to a public agent to obtain a benefit for a private individual or firm" (Rose-Ackerman, 1999, p. 517), or its illegitimate nature, such as "acts in which the power of public office is used for personal gain in a manner that contravenes the rules of the game" (Jain, 2001, p. 73). Other focus on the underlying economic relationships, such as "monetary payments to agents (both public and private) to induce them to ignore the interests of their principals and to favor the private interests of the bribers instead" (Rose-Ackerman, 2006, p. xiv). And yet others focus on government corruption and define it as "the sale by the government officials of government property for personal gain" (Shleifer & Vishny, 1993, p. 599) or "the misuse of public office for private gain" (Svensson, 2005, p. 20).

A broad – and in my opinion great – definition of corruption is 'the abuse of entrusted power for private gain'. This definition highlights three key characteristics of corruption. The first one is that a person is abusing power entrusted to him or her by another person or persons, which can include not only citizens, as is commonly the focus in government corruption, but also shareholders, employees, supporters, trustees, etc. The second one is that the person is abusing that power, engaging in actions that are beyond his or her position or mandate. And the third one is that the person is obtaining a benefit that only accrues to him or her rather than to the organization for which he or she is working; implicit in this is that the costs of his or her decision are borne by the organization. Hence, this definition includes not only corruption in government, but also corruption in firms (e.g., the apparent upgrading of the rating of AT&T by a star analyst in Salomon Smith Barney in exchange for influence to get his children into an exclusive Manhattan nursery school in 2000, described in Gasparino, 2002), international organizations (e.g., the payments to officials of the United Nations during its food-for-oil program in Iraq from 1996 to 2003, discussed in Jeong & Weiner, 2012, and Otterman, 2005), and non-for-profit and non-governmental organizations (e.g., the suspected corruption of one of the partners of the Kenyan office that involved finance and procurement staff of the Danish charity DanChurchAid in 2013, described in DanChurchAid, 2015).

2.2. Types of corruption

There are several alternative classifications of corruption. An important and first distinction is between public and private corruption. Public corruption happens when an elected politician or a civil servant obtains additional, personal income or benefits in exchange for giving a company or individual a good (e.g., a contract, a permit, etc.) or preventing a bad (e.g., compliance with regulation, payment of taxes, etc.). Private corruption happens

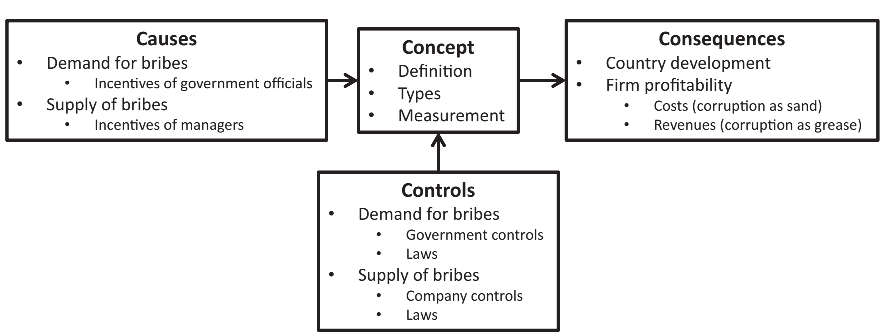

Fig. 1. Framework for analyzing corruption in international business.