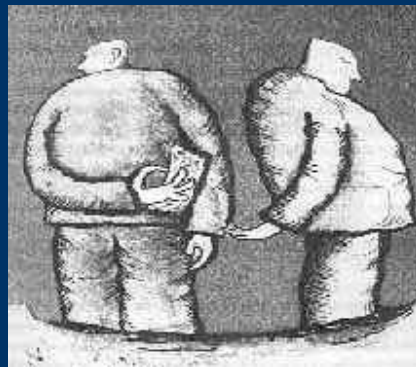


Enterprise and Development in Latin America: Corruption

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University of South Carolina

Academy of Management 2009 meeting





Corruption and Multinational Firms

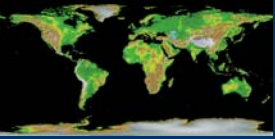
- What is corruption?
 - Two views of corruption
- Myths and facts about corruption
 - #1 Corruption is a developing country problem
 - #2 Corruption is good for business
 - #3 Corruption is common abroad; nobody should care at home
- Corruption and multinational companies



What Is Corruption?

- Public corruption or corruption in government:
 - The exercise of public power for private gain
 - There is also private corruption or corruption in firms: We do not discuss it
- Conditions for corruption
 - (Monopoly) control over a good or a bad (at no cost)
 - Both government officials and in firms have an incentive to engage in corruption
 - Likely to happen when lacking controls, transparency, and competition





What Is Corruption?

- Two views of corruption
 - Corruption as grease:
Helps navigate regulation
and bureaucracy
 - Corruption a sand:
Creates uncertainty
and increases costs

■ Syriana: Corruption is why we win. Ch 22, 1:22.07



Myths About Corruption

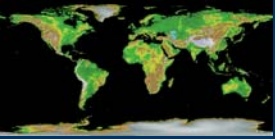
- #1 Corruption is a developing country problem
 - No, corruption is prevalent in all countries

Highest corruption (WB)		Lowest Corruption (WB)		Next Lowest Corruption (WB)	
1	Equatorial Guinea	204	Finland	184	Belgium
2	Somalia	203	Singapore	183	Spain
3	Myanmar	202	Iceland	182	France
4	Haiti	201	New Zealand	181	Chile
5	Korea, North	200	Denmark	180	Bahamas
6	Iraq	199	Sweden	179	Malta
7	Central African Republic	198	Switzerland	178	United Arab Emirates
8	Turkmenistan	197	Luxembourg	177	Portugal
9	Afghanistan	196	Norway	176	Japan
10	Congo, Dem. Rep. (Zaire)	195	Austria	175	Cayman Islands
11	Sudan	194	Netherlands	174	Aruba
12	Solomon Islands	193	United Kingdom	173	Andorra
13	Uzbekistan	192	Australia	172	Reunion
14	Burundi	191	Canada	171	Netherlands Antilles
15	Laos	190	Germany	170	Slovenia
16	Comoros	189	United States	169	Puerto Rico
17	Chad	188	Liechtenstein	168	Virgin Islands (U.S.)
18	Angola	187	Macao	167	Bermuda
19	Nigeria	186	Ireland	166	Antigua And Barbuda
20	Tajikistan	185	Hong Kong	165	Botswana

Myths About Corruption

- #1 Corruption is a developing country problem:
Variation in Latin America: Who asks for bribe?

Rank	Bribe index 08	Rank	Bribe index 08	Rank	Bribe index 08	Rank	Bribe index 08	Rank	Bribe index 08	Rank	Bribe index 08
1	Denmark	31	Cyprus	61	Namibia	85	Serbia	121	Nepal	151	Belarus
1	New Zealand	32	Portugal	62	Croatia	92	Algeria	121	Nigeria	151	Central African
1	Sweden	33	Dominica	62	Samoa	92	Bosnia & Herz	121	Sao Tome and	151	Côte d'Ivoire
4	Singapore	33	Israel	62	Tunisia	92	Lesotho	121	Togo	151	Ecuador
5	Finland	35	United Arab Em	65	Cuba	92	Sri Lanka	121	Viet Nam	151	Laos
5	Switzerland	36	Botswana	65	Kuwait	96	Benin	126	Eritrea	151	Papua New Gu
7	Iceland	36	Malta	67	El Salvador	96	Gabon	126	Ethiopia	151	Taijikistan
7	Netherlands	36	Puerto Rico	67	Georgia	96	Guatemala	126	Guyana	158	Angola
9	Australia	39	Taiwan	67	Ghana	96	Jamaica	126	Honduras	158	Azerbaijan
9	Canada	40	South Korea	70	Colombia	96	Kiribati	126	Indonesia	158	Burundi
11	Luxembourg	41	Mauritius	70	Romania	96	Mali	126	Libya	158	Congo, Republi
12	Austria	41	Oman	72	Bulgaria	102	Bolivia	126	Mozambique	158	Gambia
12	Hong Kong	43	Bahrain	72	China	102	Djibouti	126	Uganda	158	Guinea-Bissau
14	Germany	43	Macau	72	Macedonia (Fo	102	Dominican Re	134	Comoros	158	Sierra Leone
14	Norway	45	Bhutan	72	Mexico	102	Lebanon	134	Nicaragua	158	Venezuela
16	Ireland	45	Czech Republi	72	Peru	102	Mongolia	134	Pakistan	166	Cambodia
16	United Kingdom	47	Cape Verde	72	Suriname	102	Rwanda	134	Ukraine	166	Kyrgyzstan
18	Belgium	47	Costa Rica	72	Swaziland	102	Tanzania	138	Liberia	166	Turkmenistan
18	Japan	47	Hungary	72	Trinidad and	109	Argentina	138	Paraguay	166	Uzbekistan
18	USA	47	Jordan	80	Brazil	109	Armenia	138	Tonga	166	Zimbabwe
21	Saint Lucia	47	Malaysia	80	Burkina Faso	109	Belize	141	Cameroon	171	Congo, Democ
22	Barbados	52	Latvia	80	Morocco	109	Moldova	141	Iran	171	Equatorial Guir
23	Chile	52	Slovakia	80	Saudi Arabia	109	Solomon Island	141	Philippines	173	Chad
23	France	54	South Africa	80	Thailand	109	Vanuatu	141	Yemen	173	Guinea
23	Uruguay	55	Italy	85	Albania	115	Egypt	145	Kazakhstan	173	Sudan
26	Slovenia	55	Seychelles	85	India	115	Malawi	145	Timor-Leste	176	Afghanistan
27	Estonia	57	Greece	85	Madagascar	115	Maldives	147	Bangladesh	177	Haiti
28	Qatar	58	Lithuania	85	Montenegro	115	Mauritania	147	Kenya	178	Iraq
28	S.Vincent & Gr	58	Poland	85	Panama	115	Niger	147	Russia	178	Myanmar
28	Spain	58	Turkey	85	Senegal	115	Zambia	147	Syria	180	Somalia



Myths About Corruption

- #1 Corruption is a developing country problem:
Variation in Latin America: Who pays a bribe?

Rank	Payers Index 08	Rank	Payers Index 08
1	Belgium	12	Spain
1	Canada	13	Hong Kong
3	Netherlands	14	South Africa
3	Switzerland	14	South Korea
5	Germany	14	Taiwan
5	Japan	17	Brazil
5	United Kingdom	17	Italy
8	Australia	19	India
9	France	20	Mexico
9	Singapore	21	China
9	United States	22	Russia

Myths About Corruption

- #2 Corruption is good for business
 - No, corruption increases costs and uncertainty

Unofficial payments for typical firm to get things done (% of sales)	
Benin	4.6
Cambodia	4.6
Kenya	2.9
Mali	2.9
Ecuador	2.8
Azerbaijan	2.7
Guatemala	2.6
Kyrgyz Republic	2.4
Costa Rica	2.3
Bangladesh	2.1
Nicaragua	1.8
Honduras	1.7
Albania	1.6
China	1.6
Pakistan	1.6
Ukraine	1.4
Egypt	1.3
Uganda	1.3
Malawi	1.2
Philippines	1.2
AVERAGE all countries	1.1

Value of gift expected to secure government contract (% of contract)	
Brazil	11.3
Peru	11.1
Benin	8.2
Ecuador	7.3
Kenya	6.5
Albania	6.1
Senegal	6.0
Mali	5.6
Bangladesh	4.0
Azerbaijan	3.9
Cambodia	3.8
Guatemala	3.7
Honduras	3.3
Zambia	3.0
Bulgaria	3.0
Nicaragua	2.9
El Salvador	2.9
Tanzania	2.9
Uganda	2.6
Lithuania	2.0
AVERAGE all countries	2.1

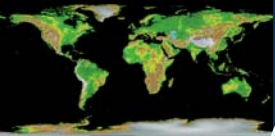
Firms expected to give gifts to get an electrical connection (%)	
Peru	100.0
Cambodia	100.0
Syria	75.3
Benin	37.6
Mali	32.7
Egypt	32.2
Tanzania	26.5
Madagascar	25.6
Kenya	22.1
Uganda	21.5
Nicaragua	20.6
Malawi	18.2
Vietnam	17.9
Guatemala	16.4
Senegal	16.2
Ecuador	13.6
Sri Lanka	13.0
Guyana	12.5
Honduras	9.0
Turkey	7.9
China	5.6
AVERAGE all countries	21.5



Myths About Corruption

- #3 Corruption is common abroad; nobody should care at home
 - No, it is illegal at home to bribe people abroad
 - US Foreign Corrupt Practices Act of 1977, amended 1998
 - OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of 1997, ratified 1999, 36 countries
 - United Nations Convention against Corruption (UNCAC) of 2003, signed by 140 countries, ratified by 70
 - World Bank “black list”





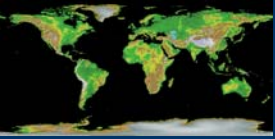
Corruption and multinationals

- Two views of MNCs and corruption
 - Agents of evil
 - Mostly perception but some reality
 - Subject to oversight by NGOs
 - Agents of good
 - Codes of behavior
 - Demonstration effect on local companies
 - But only if coming from countries with lower corruption (soft control) (Cuervo-Cazurra, 2006) or laws against bribery abroad (hard controls) (Cuervo-Cazurra, 2007)



Corruption and multinationals

- What about Latin American MNCs (multilatinas)?
 - Recent research focuses on their foreign expansion (e.g., Casanova, 2009; Cuervo-Cazurra, 2007, 2008; Cuervo-Cazurra & Dau, 2009; Santiso, 2006)
 - Little known on the behavior of multilatinas as payers of bribes or how they deal with bribes
 - But the largest increasingly focusing on corporate social responsibility
 - Many were already socially responsible (with employees education and healthcare) as part of their needs to deal with lack of development of countries
 - Some had undertaken environmentally friendly actions (energy, materials) to reduce costs



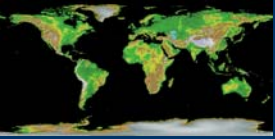
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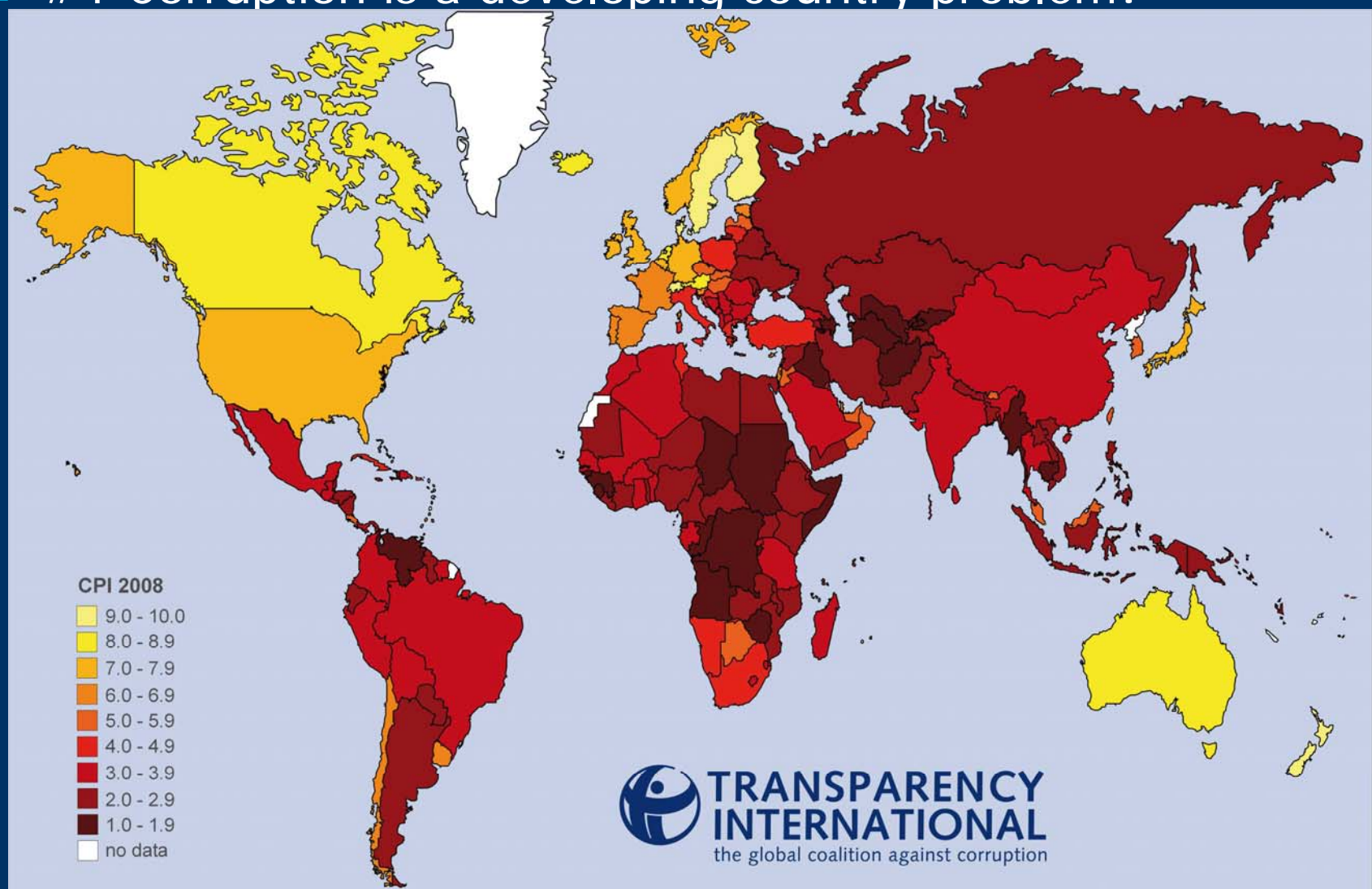
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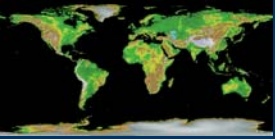




Myths About Corruption

- #1 Corruption is a developing country problem:





What To Do When Asked For A Bribe?

- Do NOT pay
 - It does not make economic sense
 - You will be asked for more bribes later
 - You will increase the uncertainty of operation
 - You have no recourse to courts if the promise is not delivered
 - It is illegal
 - You may end up in jail
 - Your company will have to pay, and will lose reputation
 - Exception are "grease payments"
 - Payments to get something done more quickly
 - NOT payments to get something done

