

How to respond when only bribe money talks

Illicit payments for services are a normal part of business culture in some countries. *Morgen Witzel* looks at the dilemmas for foreign companies adapting to illegal local customs.

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THE DEBATE about debt relief for Africa during the Group of Eight summit has highlighted a related problem encountered by multinationals and local business alike: bribery.

Bribery is perceived as endemic in business and government in parts of Africa and south and east Asia. While efforts at reform are under way, there is scepticism about how successful these will be. Corruption and bribery, it is argued, are part of the culture and environment of certain markets, and will not simply go away.

Corruption affects not only poor or underdeveloped countries. In 2002, for example, a number of officials from the International Olympic Committee were expelled for accepting bribes during Salt Lake City's campaign to host the 2002 Winter Olympics. But the problem is most widespread in poorer countries, and while economists continue to debate the exact relationship between poverty and corruption, business people have immediate choices to make.

For many, bribery is seen as a necessity: if everyone else is paying bribes, then they must too, if only to keep up with the competition. But does that make bribery right? In particular, is it right to pay bribes to businessmen or officials in a foreign country when it would be wrong to do so at home?

The difference between a bribe, a gift and a payment for service is sometimes hard to define. The US

Foreign Corrupt Practices Act, which regulates the activities of US-based companies and managers overseas, explicitly distinguishes between "grease" payments—money paid to gain access to an official or to ensure that a shipment passes through customs—and bribes *per se*, which are meant to influence decisions or gain advantage over rivals. The Act allows the former, but prohibits the latter.

Marianne Jennings, a professor at Arizona State University, says: "You cannot bribe a government official in another country to win a contract, but you can make a payment to a government official to get the lights or telephone turned on."

Prof Jennings rejects the distinction, arguing that both are a mistake. Transparency International, the non-governmental organisation that campaigns against corruption around the world, supports her view.

In its *Business Principles for Countering Bribery*, TI urges companies to prohibit not only money payments but also "the use of other routes or channels to provide improper benefits to customers, agents, contractors, suppliers, or employees of any such party or government officials". TI also urges companies to put in place anti-bribery programmes to communicate this message to all employees, and to encourage a zero-tolerance approach to bribery.

It is sometimes argued that the acceptance of bribery can be linked to the values of particular cultures. Thomas Donaldson, professor of business ethics at the Wharton School of the University of Pennsylvania, notes that in some Latin American countries, the small-scale bribery of customs officers is a standard practice followed by most businesses. Customs officers are badly paid, and are encouraged to take bribes to supplement their incomes in the same way that waiters in restaurants are encouraged to accept tips.

Richard De George, a professor at the International Centre for Ethics in Business at the University of Kansas, believes it is important not to assume that where bribery is tolerated it is also condoned. Bribery may be common in many countries, but that does not mean that all the citizens of that country believe it is right. In no country in the world is bribery actually legal. It may be common practice in China, for example, but there it is also a crime punishable by long prison sentences, even death.

In many cultures bribery is tolerated among only political or business elites, or in particular professions such as police or customs officers. The rest of society, usually the majority of the population, may have rather different views.

In 1987, it was reported that Bofors, the Swedish arms maker, had paid millions of dollars in bribes to Indian government officials to secure a lucrative contract to supply artillery field guns to the Indian army. There was widespread anger in India, and the Bofors scandal played an important role in the defeat of prime minister Rajiv Gandhi's government in the 1989 general elections. Corruption may have been acceptable in some parts of the Indian civil service, but

it was deemed absolutely unacceptable by the general public.

Yet what should managers do when paying a bribe is the only means of saving the business? The question is usually put thus: which is the greater wrong, to pay a bribe and secure work that will keep the business going, or lose the contract, declare bankruptcy and put one's employees out of work?

In one such case in the 1930s, the owner of a small British shipyard on the verge of bankruptcy paid a bribe to an eastern European government official, securing an order that kept his business going. He was later prosecuted for corruption and sent to prison.

The novelist Nevil Shute, who was also an engineer and businessman, turned this affair into a moral fable in his 1938 novel *Kindling*. Shute argued that the shipyard owner had no choice but to pay the bribe, for the result would have meant unemployment and poverty for hundreds of people. A lesser evil had averted a greater one.

But as Prof Jennings points out, even well-intentioned companies that pay bribes court many risks. Once bribery has begun, it is very hard to stop. On the next occasion the bribe demanded may be larger, and the cost of doing business can spiral. Short-term gain quickly becomes long-term pain.

"The better question and bigger issue," she says, "is not whether to bribe, but whether to do business in a country where you cannot trust government officials, or the other companies doing business there."

On the other hand, companies that refuse to pay bribes can often exert moral authority. Prof Jennings points out that no country wants to have a reputation for bribery, and threatening to blow the

whistle on corrupt practices can yield results.

She cites the example of Procter & Gamble, the consumer goods group, which explicitly forbids its employees from paying bribes. In one instance, faced with a demand for payment before goods could be landed at a port, local P&G employees instead notified their head office. Managers then made contact with the highest levels of government in that country and threatened to make the matter public. The goods were allowed to land, and the officials demanding payment were transferred or fired.

The temptations to offer and pay bribes can be overwhelming. But managers should remember that bribery is both morally wrong and illegal. The penalties can be severe; so too can the long-term damage to personal and organisational reputations.

Beyond this, the gains achieved through bribery are at best transitory. In the long term, those who pay bribes are not only contributing to crime and helping to perpetuate local poverty—they are also increasing the risk to their own businesses. Honesty may be painful and difficult, but in the long-term it is still the best policy.

CLEAN HANDS: KEY SUCCESS FACTORS IN BEATING THE BRIBERY TRAP

- Bribery is always illegal, and is condemned by every major religion and philosophical system as well as in law. The notion that bribery is culturally acceptable is a red herring; at best it is condoned, often because of poverty and lack of economic development. In fact, bribery itself contributes to both of these problems.

- It is a myth that companies cannot do business in Africa or Asia without paying bribes. On the contrary, companies that keep their hands clean develop a reputation for probity and often do very well.
- Resisting the pressure to pay bribes is not easy. Where bribery is a problem, companies should consider developing anti-bribery programmes, communicating a zero-tolerance message to all employees and making it clear what should be done if a bribe is demanded, or offered.
- Scrutinise potential business partners carefully. Even if your own hands are clean, illegal activities by joint venture partners, agents and the like can reflect badly on you and pose risks to your business.
- If there seems no alternative to paying a bribe, think again. If one government agency demands a bribe, consider approaching another one. Threatening to go public can also yield results.

FURTHER READING

M.M. Jennings, *Business: Its Legal, Ethical and Global Environment*, 5th edn, Mason, Ohio, 2005

Transparency International,
www.transparency.org