

International business and corruption flashcard



**ASSIGN
BUSTER**

MGT 540 International Business International Business and Corruption Assignment 4 Dr. Patricia Humphrey November 28, 2005 International Business and Corruption Globalization of markets and the falling trade barriers have opened the floodgates for foreign direct investment and multinational investments. But just as the number of multinational corporations soared in the midst of this socio-economical development and entrepreneurial growth, so has corruption. In today's developing nations, corruption has become an overwhelming predicament. There is no country that has not been hit in some form or fashion, in spite of its political system, development, or its social and economic culture.

Enron is proof of this. Lately, more attention has been focused on world-wide corruption due to the immense increase in scandals. The United States and Europe share the spotlight as well as Africa, South America and China. But what really defines corruption? It has been defined in Webster's New World, 2003 as "those actions for which there is social consensus that they are a bad thing", "impairment of integrity, virtue or moral principle" (Merriam-Webster Online Dictionary, 2005) and "dishonestly using your position or power to your own advantage, especially for money" (Cambridge Dictionary Online, 2005). Corruption comes in various forms and reaches as high as it does low.

Minor types of corruption encompass trivial incidences which entail public service personnel who use their jobs to cut through some of the red tape it takes to issue licenses and forms among other minor duties. Even though this is considered an "impairment of integrity" these minor acts of corruption hardly cause any grave economical injuries. But corruption and

bribery go hand in hand. What is bribery? Bribery is defined as the “ offering of money or other incentives to persuade somebody to do something, especially something dishonest or illegal (Encarta Dictionary Online, 2005). ” Bribery and corruption in international business has quickly become a key issue in public policy around the globe.

Developing nation’s government officials have been bribed by multinational businesses in order to win contracts that aide in their market entry. These bribes may range from small inconsequential amounts to billions of dollars. In other words, bribery may be deemed petty or grand based on the dollar amount. Petty bribery appears to be the result of extortion driven by economic factors.

The small passages of money are usually seen as nothing more than a little “ tip” or “ thank you” for helping to get things going. Most often the bribes consist of pushing through some of the red tape that businesses go through in order to obtain a permit or a license. But the big guns come out when funds are rerouted from the government and end up lining the pockets of private individuals. This type of corruption can be detrimental to national economies, hurt international trade, and cause serious harm to the economy of developing nations.

It is called grand bribery and consists of payments made by high-level officials with no other motive than pure greed. Top public officials have been known to embezzle monies from their governments through multinational assistance. The dollar amounts of these “ actions” have climbed well over a

billion dollars. Nigeria is a country that sits smack dab atop approximately 25 billion barrels of high-quality crude oil.

Obtaining that oil from its governmental swamps is a muddled job. During an agreement with the Nigerian National Oil Corporation, Addax Petroleum Company was accused of attempting to steal over a billion dollars from the Nigerian government (Nwabuzar, 2005). An alleged attempt of six Nigerian businessmen from the private sector to scam a Brazilian national, Nelson Sakaguchi gives an example of the continuing level of crime in developing nations. The Brazilian was promised a contract to lift Nigerian crude oil in exchange for \$242 million. Mr.

Sakuguchi was the Managing Director of the Banco Noereste which collapsed due to the scam (Nwabuzar, 2005). In another botched venture, Nigeria's ugly face of corruption comes into view. Royal Dutch/Shell partnered with Nigerian's Malabu Oil & Gas and ended up in a federal district court in New York City. Shell was sued by Malabu after it was accused of conspiring with Nigerian officials to steal its oil prospecting license. The license, OPL 245, was a humongous block in the deep waters of the Niger Delta and was estimated to possess more than 1 billion barrels of oil. For a " measly" \$1 billion dollars in compensation, Malabu stated the problem would go away.

Dauzia Etete, Abacha's petroleum minister awarded himself a license to develop the block in question and made provisions for Malabu to become the license holder. Then Malabu offered Shell's Nigerian subsidiary profits amounting to 40 percent in exchange for production and exploration costs. Now, the clincher; Etete claims to have secretly met and recorded

conversations with V. P. Qtiku Abubakar who demanded a cut as a condition of not revoking his license on OPL 245.

These conversations supposedly consisted of bribes offered and paid to Abubakar, Shell's managing director Ron van den Berg, and President Obasanjo. After a parliamentary committee hearing, the government revoked Malabu's prospecting license. Shell lost its stake also due to Ron van den Berg's failure to show up for the hearing. A warrant was later issued for his arrest. After some months, the Nigerian government allowed Shell and ExxonMobile to bid on the license.

Shell secured it with a \$210 million bid. Malabu is now claiming that Shell won the bid based on insider information of the block's reserve. He also is accusing Shell of using oil service contracts to gain the vice president's favor for a stake in Intels. But Etete's credibility is in question. He is wanted by the Nigerian police on charges of money laundering (Sansoni, 2003).

Due to these indiscretions, among others, the country has trouble obtaining desperately needed foreign direct investment. As shown previously with Shell, the United States is not without a tarnished image. Enron, the United States, seventh largest corporation declared bankruptcy in November of 2001, the largest one in history. At the root of this bankruptcy brewed charges of illegal practices, criminal charges, plus shareholder and employee lawsuits. Company accounting practices were in question; corporate integrity was questioned; and fraudulent financial reports came into view.

Enron was a company that hid its losses very well. The chief financial officer, Andrew Fastow ordered accounts to log projected profits as current revenues

<https://assignbuster.com/international-business-corruption-flashcard/>

to keep the company looking profitable. He also set up a consulting agency, LJM2 to make deals for Enron. This company was used to hide Enron's bottom line losses. Sherron Watkins, vice president of corporate development questioning, Enron's practices and Fastow's monetization policies, wrote a six-page outline detailing her concern.

“ I am incredibly nervous that we will implode in a wave of accounting scandals,” Watkins warned Lay (“ Letter to Kenneth Lay”). She asked, “ Is there a way our accounting gurus can unwind these deals now? ” noting that after the Condor and Raptor deals of 1999 and 2000 respectively the company experienced impressive and high stock prices. Several Enron executives sold stock at this time. “ We then try and reverse or fix the deals in 2001 and it's a bit like robbing the bank in one year and trying to pay it back two years later. Nice try, but investors were hurt, they bought at \$70 and \$80/share looking for \$120/share and now they're at \$38 or worse,” Watkins stated (Enron, 2003).

She also voiced her concern for the discontented employees who possessed enough knowledge of the questionable accounting practices which could possibly return and cause problems. Her concerns were later rejected. When the company's stock began to decline Jeff Skilling resigned as CEO, causing the stock to plummet further. Within weeks of Skilling's resignation, Watkins's fears would come into fruition.

Enron filed for Bankruptcy on December 2, 2001 in a New York court. Arthur Andersen's accounting firm was hired to close the books. Unbeknownst to SEC, Enron was Andersen's largest corporate client. When it rains, it pours.

All types of document trails were in the jaws of shredders; computer hard drives were being deleted and Enron-related files were being destroyed. Soon his role ended up under a magnifying glass and Anderson was charged with obstruction of justice by the Department of Justice.

Charges continued in the scandalous fallout which flowed from Wall Street to the White House. In the aftermath of the Enron scandal, the United States has scrambled to avoid being caught like a deer in a headlight again. The repercussions of this scandal are still evident in the today's news. The tarnishing effect of corruption on a nation has proven to be detrimental to its economic growth. Negative attitudes are learned by the citizens that it no longer pays to be honest, ethical, or possess moral values. Substandard goods and services are produced in efforts to cut costs to prevent making necessary upgrades to equipment and performances.

Not only does the effect of corruption linger in the government infrastructure and threaten the legitimacy of a nation's government, it causes the citizens of the affected countries to look at the corrupt nation negatively. Their credibility has been stripped. China is a nation that is on the road to economic growth due to globalization. Just as Nigeria has mud on its face, so does China.

It not only possesses the cultural system of guanxi where there lies the question of the whether it is based on unethical norms or encompasses a well hidden system of corruption, it sports a huge wave of crime for the year 2005. We will deal with guanxi first as we venture into China's wave of crime. Guanxi is a " system of personal connection that carries long-term

social obligations (Millington, 2005). Basically what the system is based on is “who you know” and the exchange of beneficial favors.

It has also been defined as “a chief asset of most Chinese firms” (Braendle, 2005). These relationships must be spoon fed and nurtured like babies in an effort to establish, develop and continue a strong network worth investing in. Most Chinese are more inclined to deal with individuals they know and trust. The closer the relationships of individuals, the greater the exchange of favors expected.

It has been determined that China is so heavily rooted in its gift giving culture that it is more common than not for visiting companies and representatives of banks, organizations, retailers, and the like to visit with gifts in hand. Not only will they visit the businesses, but they will also visit the homes of their associates as well. This is a form of networking for the Chinese. But where is the line drawn that constitutes corruption when the practice ventures from a mere dinner on the town to business favors and getting around laws and social responsibilities? According to the research conducted by Andre Millington et al, there seemed to be quite a few issues concerning guanxi. There were incidences of “back-door” and “under-table” activities during business transactions; offers of vehicles and illicit payments for certain amounts of products ordered from suppliers; and staff dismissals at purchasing companies due to illegal activities of accepting bribes from suppliers.

In 1995, it was determined that the practice of guanxi may have been slowing due to legal enforcement (Millington, 2005). But at the time of the

previously mentioned survey, it was determined that the guanxi gift-giving practice can be limited through control of the legal system, but it by no means will be eradicated. There are those who feel that, as long as there are the “ little guys” with the small salaries, there will always be the opportunity for someone to accept gifts in return for favors. The small salaries have been known to double or triple because of the gift-giving guanxi. China’s history is so deeply rooted in the practice of guanxi that in an informal economic system, it has provided jobs, housing and medical services.

But this network may now endanger the economy’s integrity. According to Braendle, “ guanxi is in general a double edged sword”. It has been said that business-to-government relationships have been known to impair an already weakened Chinese governing system. Guanxi also impedes continued economic growth and progress (Braendle, 2005). Business-to-government (B2G) corruption in China is based on a guanxi network that has been known to serve as a surrogate market system that includes unclear property rights, economic roles, and a limited flow of information. In many instances a good guanxi network system may take precedence over legitimate decisions based on law or regulations (Braendle, 2005).

This type of guanxi is seen as detrimental and unethical and it is here that the line that borders on corruption and guanxi is drawn. But these crimes seem minimal compared to the crimes committed at the beginning of the 2005 year. According to The New York Times, there has been a rash of robberies on China’s banks. Bank of China’s branch manager ran off with over \$100 million dollars of loot while twelve employees from another bank were caught attempting to abscond nearly one billion dollars. Then adding <https://assignbuster.com/international-business-corruption-flashcard/>

insult to injury, China Construction Bank had some of its midlevel officers to take flight with almost \$8 million dollars. All of these episodes of theft were committed by employees, branch managers, loan officials and top bank executives.

But these were just some of the crimes committed in China. In April 2004, managers were arrested for the illegal trading of bonds worth \$3.6 billion dollars stolen from Delong brokerage firms. Huayin Trust and Dalian Securities had approximately \$3.

4 billion dollars stolen in December 2004. The thefts involved over two dozen employees accused of embezzlement, forgery, and contractual fraud (New York Times, 2005). China's lists of international crimes goes on and on. Even though Turkey was one of the first 34 countries to sign at OECD's anti-bribery convention in 1997, it has done little to control corruption. Crimes committed in this country have prevented it from taking advantage of many economical opportunities.

Former Prime Minister Tansu Ciller was accused of manipulating the sale of state assets for her own benefit. Last year former president Suleyman Demirel nephew Murat Demirel attempted to land his small boat on the banks of Bulgaria's Black Sea. Demirel, who was once an owner of Egebank, was barred from leaving the country pending investigations into the bank's demise. He offered the coastguard \$136,000 to let him go, but the guard refused the bribe and he was returned to Turkey to stand trial. The infamous Uzan family suspected of being the largest thieves of the country has fled abroad.

Kemal and one of his sons, Hakan defrauded Motorola and Nokia out of \$5 billion dollars. Cem Uzan, who was a media mogul and partner with former president and Prime Minister Turgut Ozal, was smart enough not to sign his name to incriminating documents and still lives in Turkey. The missing Uzans are still sought after by the Turkish government in an attempt to reclaim the \$6 billion dollars it claims they owe. This enveloping corruption in Turkey has taken an economic toll on the country.

It has caused low levels of foreign direct investments. It has only been able to attract investments from equally or more corrupt countries (Economist, 2005). Asian corruption has had a devastating impact on its economic growth. A senior anticorruption investigator was arrested for taking bribes in Vietnam. A top law enforcement official's son was charged with cheating or obtaining money by deception in Malaysia. In Bangkok, the celebration of the completion of a new \$4 million dollar international airport was marred by accusations of trivial corrupt practices to major contracts improprieties.

Upon purchase of the company that sold x-ray scanners to the airport, General Electric discovered the company used agents who had bribed officials in the Philippines and in Thailand. Due to this misfortune, General Electric paid almost \$2 million dollars in fines for violating the Foreign Corrupt Practices Act. Due to the perceived threat to society, reducing bribery has become a priority for national governments, trade associations, business firms, international government and non-governmental organizations. The elimination of corruption in developing nations and their economies is also on the rise. For quite some time, the United States and

Sweden were the only countries that outlawed bribery of foreign officials by their own citizens (Weber, 2004).

Transparency International, a non-governmental agency dedicated to fighting corruption is urging the African nations to endorse the UN Convention on Corruption and encourage European Union's newest members to join the anti-corruption efforts (Nwabuzor, 2005). It is the only international non-governmental organization dedicated to fighting corruption in an effort to bring civil society, businesses, and governments together globally. Its mission is "to create change toward a world free of corruption (TI, 2004). More than eighty-five independent national chapters around the globe attempt to diminish corruption at the national and international level.

Nationally, the chapters strive to increase the levels of accountability advocates. Internationally, TI raises awareness about the damaging effects of corruption, policy reform, works towards the implementation of multilateral conventions and subsequently monitors compliance by governments, corporations and banks (Transparency International, 2004).

This agency has been a leading advocate of the OECD's efforts to reduce and ban business bribery. Information access is a necessary tool in fighting corruption. Transparency International publishes newsletters and reports as a tool for getting information out concerning bribery and corruption. The Corruption Perception Index and Bribe Payers Index are two of its most well known reports.

In an effort to clean up public contracting, Transparency International has persistently pressured governments, donor agencies and international

organizations to tackle corruption by setting higher standards and applying stronger sanctions against businesses caught committing the act of bribery. It has even rallied for companies or business deemed to have committed these crimes to be barred from future bidding on contracts. Political corruption has also been a focus of Transparency International. Due to the increase in immunity laws to prevent the prosecution of corrupt politicians, in 2004 TI created the Standards on Political Parties and Favours which provides standards for countries wanting to design and enforce political regimes. As TI continued to strive for and build private sector relationships, Social Accountability International and Transparency International launched the Business Principles for Countering Bribery in 2002.

The program provides workshops for corporate audiences in more than 25 countries world wide and serves as the foundation for a forum that has more 65 companies have signed a zero tolerance to bribery policy (TI, 2004). Other special entities have been developed in Nigeria since the scam incidences to investigate accusations of corruption by public officials. An independent Corrupt Practices Commission has been established to investigate public officials and corruption allegations and a Money Laundering, Economic and Financial Offences Commission has been developed to do the same in the area of banking, tax evasion, smuggling and other areas of the like. Although the Nigerian government has taken action to eliminate corruption in its nation, it may take a while to see any real progress. National citizens need more than a smack on the hands to keep multinationals from the enticement of corruption and immoral behavior. In

an effort to tighten control over corruption, the Chinese government covered over \$22.

5 billion dollars in bad loans at the China Construction Bank and the Bank of China (New York Times, 2005) In the United States, after the Enron, Tyco and MCI WorldCom scandals, cries for reformation rang out. The result was the Sarbanes-Oxley Act of 2002, " the most important securities legislation since the original federal securities laws of the 1930s," according to Securities and Exchange Commission (SEC) chairman William Donaldson. The act aims to improve the accuracy and reliability of corporate disclosures by, among other things, requiring corporate chief executives to certify, personally, the accuracy of their companies' financial statements(Enron, 2003). No one organization, bill, act of congress or commission can or will deter global corruption. It will take combined efforts of all national governments.

Each will have to stand united, firm, and relentless to all facets of criminal behavior in an effort to " take a bite out of crime". Works Cited Barboza, David. Wave of Corruption Tarnishes China's Extraordinary Growth. " New York Times. 22 Mar 2005 pC1 col 02. Braendle, Udo; Gasser, T.

; Noll, J. " Corporate Governance in China-Is Economic Growth Potential Hindered by Guanxi?. " Business and Society Review. Vol.

110: 4 (2005): p 389-405. Cambridge Dictionary Online. 2005. Cambridge Dictionary. 06 Nov 2005. ; <http://dictionary.cambridge.org/>;

Economist. " Den of Thieves.

" Vol. 374: Issue 8418 (2005). Encarta Dictionary Online. 2005.

<https://assignbuster.com/international-business-corruption-flashcard/>

Encarta-North American Edition. 28 November 2005. It; <http://encarta.msn.com/> ;.

“ Enron: How Did This Happen?. ” History Behind the Headlines: The Origins of Conflicts Worldwide. Volume 6. Gale Group, (2003).

Student Resource Center. Thomson Gale. 29 November 2005 ; <http://galenet.galegroup.com/servlet/SRC>;

Merriam Webster Online Dictionary. 2005. Merriam-Webster. 06 Nov 2005. ; <http://www.merriam-webster.com/>.

Merriam-Webster. com/. ; Millington, Andrew; Eberhardt, M. ; Wilkinson, B. “ Gift Giving, Guanxi and Illicit Payer in Buyer – Supplier Relations in China: Analyzing the Experience of UK Companies.

Journal of Business Ethics. Vol. 57 (2005): p 255-268. Nwabuzor, Augustine. “ Corruption and Development: New Initiatives in Economic Openness and Strengthened Rule of Law.

” Journal of Business Ethics. Vol. 59: Issue ? . (2005): p121-138. Sansoni, Silvia.

“ Dirty Oil. ” Forbes. Vol. 171: Issue 9 (2003): p 92. Weber, James and Getz, Kathleen. “ Buy Bribes: The Future Status of Bribery in International Commerce.

” Business Ethics Quarterly. Vol. 14: Issue 4. (2004): p 695-711.