The institutional determinants of MNCs' corruption practices in the host countries

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Points

- What's corruption?

- Corruption: a non market asset

- MNCs : actors of corruption

- Determinants of MNCs corruption patterns

 Patterns of corruption in the host country

 Political leverage in home country

- To bribe or not to bribe?

What's corruption?

"The misuse of public office for private gain"

World Bank

But…

"Corrupt incentives can also arise in purely private interactions"

Rose-Ackerman (2004)

"It should not be concluded that corruption cannot exist within private sector activities. Especially in large private enterprises, corruption clearly does exist"

Tanzi (1998)

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What's corruption?

All relations and mechanisms that favor specific interests, in a positive sum cooperative game involving a limited number of connected and interdependent insiders, and causing damage to outside actors or to collective interests.

(Economakis, Rizopoulos & Sergakis, 2010)

The public/private actors' interactions resulting in such practices are a particular aspect of this kind of **discriminatory behavior**, providing privileged access to rare goods controlled by public servants in exchange for bribes and other illicit benefits.

Corruption: a *non market* asset

Generally, public corruption is presented as a threat (or a cost) for business, but…

…bribery can also be considered as an asset which contributes to build competitive advantages (privileged access to markets or production factors, entry barriers…), through *non market* means.

Public/private actors interactions are characterized by reciprocity and resource interdependency. Mutual influence may imply rent-seeking and discriminatory behavior ➔

Firms don't merely suffer from bribery, they also generate it.

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MNCs : actors of corruption

Some facts:

- There is no country among the 28 major world economies whose companies are perceived to be wholly clean and that do not engage in bribery.

Bribe Payers Index 2011 (Transparency International)

- "A third of international companies think they failed to win new business over the past year because of bribery by their competitors… About three quarters of the companies, including 94% in Germany and 90% in Britain think businesses from their countries use agents to circumvent anti-corruption laws…Half of the MNCs claim to be totally ignorant of their countries' legislation governing bribes paid abroad…"

Control Risks and Simmons & Simmons: Facing up to corruption: A practical business guide (2007)

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MNCs : actors of corruption

Some facts:

The BRICs' have an extremely poor rating with regard to corruption (*Corruption Perception index 2011)* :

- Brazil, rang 73 (3.8)

- China, rang 75 (3.5)

- India, rang 95 (3.1)

- Russia, rang143 (2.4)

Is this a factor undermining their attractiveness?

China is the leading recipient of FDI and, by 2012, India and Brazil will have leapfrogged the US as second and third most attractive FDI destinations (*UNCTAD, World Investment Prospects Survey 2010-2012*).

Compatibility of bribery with MNCs' strategies

Determinants of MNCs corruption practices

The intensity and forms of MNCs corruption practices in host countries depends on:

- Local patterns of corruption related to the institutional structure and stability

- Political leverage in home country

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Local patterns of corruption

Institutional structure

	Elitist	Pluralist
Stable	Institutionalized corruption	Marginalized corruption
Unstable	Hierarchically fragmented corruption	Diffused corruption

Institutional stability

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Local patterns of corruption

Institutionalized corruption: Rich and stabilized states characterized by elitist models of interaction. Ruling elites are sufficiently powerful and coherent, benefiting from a strong ideological power and a privileged access to the common wealth ➔ "grand" corruption, limited at the upper strata without downstream diffusion.

Marginalized corruption: Rich and stabilized states characterized by pluralist models of interaction. Social coherence and relative equality in the distribution of wealth ➔ corruption does not have a structuring impact on the social and economic game.

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Local patterns of corruption

Hierarchically fragmented corruption: Elitist and vertically organized corruption networks are competing for the control of collective resources and for a share of the rent ➔ institutionalized but also conflicting networks of "grand" corruption given the multiple dependence links both inside and outside the country; interrelations between "grand" and "petty" corruption.

Diffused corruption: A certain degree of plurality combined with a relatively unstable institutional framework. Corruption is widespread, but not hierarchically organized ➔ unrelated "grand" and "petty" corruption.

Political leverage in home country

Political leverage at home will be favorable to bribe in the host country (+ macro-political and supranational influence).

Without political leverage, « good citizen » approach. Petty corruption is possible.

To bribe or not to bribe?
(Political leverage at home)

Patterns of corruption in the host country

Institutionalized	No bribe
Hierarchically fragmented	Grand corruption to obtain long lasting advantages; conflicts are possible.
Diffused	"One shot" grand corruption and petty (micro-political) corruption.
Marginalized	No bribe

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