

1 Introduction

In an office, in one of these big modern skyscraper buildings: David Molton, top marketing manager, is in a meeting with Brian West, the chief executive officer of a small consulting firm. The atmosphere is very relaxed. For years, David's company has been doing business with Brian's consulting firm regarding the sponsoring of sports events.

The two men are discussing which of the upcoming events might be a good deal for David's company to sponsor, when Brian discreetly mentions that his consulting firm urgently needs orders.

“David, maybe you can help me out? You would get provisions if you conveyed some further sponsoring contracts to my firm.”

“Well, let me think. It would be no problem to advise our suppliers to also sponsor sports events and to persuade them of what an effective marketing tool this is. I already have toyed with that idea myself.”

“That would be great. And I promise, it will pay off for you. We will derive your provisions from the advertising revenues.”

“Yeah, of course, why not get some additional income for my efforts?” David laughs. “I don't see any risk. Negotiating with you was always my responsibility.”

“And your provisions will be paid to your private account, so that they will not occur in any of your company's documentation,” Brian adds.

“You're right. And why should my company have a problem – it's an investment in our good business relationship. You always offered very good service on good terms. And maintaining good business relationships with our partners is even one of the top priorities in our mission statement.”

“Don't forget, your company will benefit, too. You will sponsor the most important sports events; there is no better advertisement for your company than that,” Brian emphasizes.

“Absolutely. So, why not? Where's the problem? Let's do it.”

“Perfect.”

(Source: the author)

1.1 Motivation and Goals of the Study

In recent years, corruption has become one of the most widely discussed topics worldwide in the public and among business practitioners, as well as among researchers. While primarily corruption in the sectors of politics and public administration was discussed, in the meantime private corruption, that is, corruption in and between companies, has become topical as never before. Corruption is experienced

as a serious problem worldwide that not only affects politics, society, and economy (Transparency International (TI), 2007b), but also affects companies themselves.

European citizens see corruption as the most worrying form of white-collar criminality (European Commission (EC), 2004a; EC, 2004b). Taking the example of Germany, this does not astonish: Over the past years, many spectacular corruption cases with the involvement of companies were reported in the media. You could find headlines like “Corruption – Helix of temptation” (Buchhorn, 10/2005), “Welcome in the baksheesh republic” (Brost & Storn, 30/2005), “Self service in DAX companies – Corruption is top priority“ (Hinze, 2005, July 19), “Always new names, new figures, new sites – A net with thick knots” (Leyendecker & Ott, 2006, December 13), and “Culture of purchasability” (Münchau, 2006, December 20).

Corruption may take many forms: Actors pay commissions for alleged services, make illegal rebates and discounts, or give outright gifts of money or gratuities. Corporations often do not keep records of the illegal discounts and rebates. Instead, they conceal kickbacks from government agencies through false invoices, bills of lading, and accounting entries. They make payments by deposits in secret bank accounts or through phony consulting firms or dummy firms, which are set up solely for this purpose. The parent corporation can write off bribe money as a legitimate business expense and can claim it knew nothing about the payoffs. Bribes paid to influence purchases include paid vacations, the use of corporate recreational facilities, expensive dinners, theater tickets, provisions for call girls, and expensive gifts (Clinard, 1990, pp. 133 – 135; Coleman, 1998; pp. 39 – 40).

Corruption in one form or another has been present throughout history (Bardhan, 1997; Deflem, 1995). It can be found everywhere, in every society (Freisitzer, 1981) and every economic system (Krug, 1997), even if the manifestations (Noack, 1985, p. 9), the frequencies (Bannenberg & Schaupensteiner, 2004, p. 12; Freisitzer, 1981; Noack, 1985, p. 9), the hierarchical levels (Noack, 1985, p. 9), and the degree of cultural capture (Bannenberg & Schaupensteiner, 2004, p. 12) change. The list of companies involved in corruption is long; they no longer can be counted on one hand. The detected cases pervade various sectors, among them the automobile industry (e.g., BMW, DaimlerChrysler, Faurecia, Hyundai, Lear, Opel, Porsche, Skoda, VW), the electrical industry (e.g., Infineon, Philips, Siemens), the finance industry (e.g., Commerzbank), the energy industry (e.g., Linde, Thyssengas), the communication industry (e.g., Samsung, Telekom), the pharmaceutical industry (e.g., Ratiopharm), the furniture industry (e.g., Ikea), the security sector (e.g., Heros), or the retail sector (e.g., Bauer, Rewe). Corruption in and between companies is as old as the concept of business relationships (Pitt & Abratt, 1986). It is a “universal phenomenon with roots that stretch far back into human history” (Coleman, 1998, p. 38). In the meantime, in some economic sectors, corruption is carried out as part of everyday business policy (Schaupensteiner, 2004). It is accepted as normal business practice in many segments of the economy (Coleman, 1998, p. 38). In most countries

between 2 and 10% of the total order value are paid as bribes, in some countries even more (Bannenberg & Schaupensteiner, 2004, p. 13).

Referring to the example of Germany again, it is obvious that corruption is no longer an exceptional case there; Germany can no longer claim its superiority over other societies (Schaupensteiner, 2004). Rather, corruption is regarded in Germany's public opinion as a mass phenomenon. In the 2007 annual report of the worldwide networked "coalition against corruption," Transparency International (TI) (Eigen, 2003), Germany kept its 16th place from the years before in the 2007 Corruption Perceptions Index among 163 countries (TI, 2005; TI, 2006; TI, 2007c) after it continuously improved its position from the 20th to the 15th place in the years 2000 to 2004 (TI, 2000; TI, 2001; TI, 2002; TI, 2003; TI, 2004). With this result, Germany only achieves the West-European mean (TI, 2007a). Nevertheless, as valid studies of the dark field are lacking, statements about increasing corruption as a form of white-collar crime are not easy to obtain. But an increasing awareness and increasing prevention and control definitely contribute to a higher detection rate (Bussmann, 2004).

With the "corruption eruption" (Glynn, Kobrin, & Naim, 1997, p. 8) in the mid nineties, ignorance of the phenomenon has been replaced by a strong sensitization. There is a broad global interest for anti-corruption efforts worldwide. The reasons are manifold (for a summary see Hotchkiss, 1998; Johnston, 2000, August; Pearson, 2001; Tanzi, 1998; Williams & Beare, 1999). In the business context, especially, the globalization and growing competitiveness of the world economy, an increasing international integration in economic and trade arenas, growing expectations regarding accountability and transparency, and the changing nature of the media seem to be important motivators (Johnston, 2000, August; Pearson, 2001; Tanzi, 1998; Williams & Beare, 1999). Moreover, movements to ban international corruption by both domestic legislation (e.g., the US Foreign Corrupt Practices Act), by international agreements of intergovernmental organizations (IGOs) like, for example, OECD, OAS, IMF, World Bank, and WTO (e.g., the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the OAS Inter-American Convention Against Corruption), and voluntary standards by non-governmental organizations (NGOs) like, for example, Transparency International (e.g., TI Anti-Corruption Handbook) (Hotchkiss, 1998; Johnston, 2000, August) reduced the tolerance for corruption.

This growing awareness of the corruption phenomenon also initiated a lot of interdisciplinary research that tries to examine corruption from different perspectives. Economics, sociology, social psychology, criminology, political science, and business ethics have made important contributions to our understanding of corruption and its causes and consequences (Amundsen, 1999; Andvig & Fjeldstad, 2001; Br nner, 1981a; Williams, 2000). Most research addresses political and public corruption, while private corruption, that is, corruption in and between companies, is still a neglected topic. Moreover, there is only little research that focuses on the

person who acts corruptly. While there are a few data on personal characteristics and motives of corrupt actors, the interrelation of behavioral components causing a person to act corruptly has only rarely been investigated. That is why the present work aims at examining the person-based components of corrupt action in interaction with a specific situational context, namely the business context. My primary concern is to answer the following questions: What makes decision makers in companies act corruptly? Which motivational, volitional¹, emotional, and cognitive aspects play a role? How does their interplay lead to corrupt action? To answer these questions, I developed and empirically validated a model of corrupt action using an experimental simulation design combining a business game with a standardized questionnaire. Additionally, I investigated a number of selected personal and situational factors in relation to this model of corrupt action. Furthermore, I examined both the reasons given for a corrupt and non-corrupt decision as well as the rationalization strategies used by corrupt actors. As the empirical study was conducted in Germany, all country-specific aspects regarding corruption refer to the German context.

Thus, in summary, the present work makes a contribution to existing research in that it

- provides a literature review on the corruption phenomenon focusing on private corruption;
- offers insights into the subjective decision making processes of corrupt actors by providing an empirical validated model of corrupt action;
- examines the influence of a number of important personal and situational factors on the model of corrupt action;
- gives a picture of the frequently used reasons for corrupt and non-corrupt behavior;
- outlines the most frequently used rationalization strategies of corrupt actors.

The study also has important practical implications. Based on the results, it deduces recommendations for (human resource) management to prevent and combat private corruption.

1.2 Structure of the Study

The present work is organized into seven chapters, which follow the classical linear format starting with a theoretical part, continuing with an empirical part, and concluding with a discussion of results and implications. This shall help the reader to follow the deduction of the research question and the research hypotheses, to understand the development of the theoretical model, and to be able to relate to the methods and analyses used to come up with results that have both theoretical and

¹ Volitions are processes that determine which motivational tendencies should be realized. They seek to initiate action and realize the formed intention (Heckhausen, 1989, p. 17).

practical implications. The structure of the work is outlined in figure 1. A short description of each chapter's content is provided in the following.

Chapter 1 introduces the work by providing an overview of the motivation for the study as well as the work's research interest and focus.

Chapter 2 gives a literature review on the state of the art in corruption research. First, it tackles the problem of defining corruption. It outlines the main aspects of the corruption concept leading to an overall definition of corruption. After that, corruption is distinguished from related concepts and described as a classification of white-collar crime, deviant workplace behavior, and unethical behavior. A comparison of different forms of corruption follows. Then, the chapter summarizes the various causes of private corruption, including environmental, organizational, and personal factors. Following a similar structure, it outlines the consequences of private corruption for the environment, the organization, and the person. A presentation of theoretical approaches that describe the corrupt relationship follows. After that, the chapter examines the variety of theoretical approaches that have been used to explain the corruption phenomenon. The literature review closes with an overview on the problem of the normalization of corruption in organizations, including the description of rationalization and neutralization strategies.

Chapter 3 presents the theoretical framework and the research hypotheses. After deducing the research question, the research model is developed. The relevant reference models and theories are examined, followed by a discussion why they seem to be appropriate. The chapter closes with a description of the model of corrupt action. The relationships between the relevant person-based components of corrupt action described in the model are formulated as research hypotheses.

Chapter 4 introduces the methods used for empirically testing the model of corrupt action derived in Chapter 3. Following the discussion of the problem of an empirical investigation of corruption, the research design is described. Chapter 4 offers information on the research methods used for data collection, on the sample, as well as on the procedures followed in the study. It also discusses the relevant quality criteria. The chapter ends with a description of the techniques of analyses used to analyze and interpret the data gathered in the study.

Chapter 5 presents the results of the study. First, the results on the model of corrupt action and its evaluation are described. Further explorative results on sociodemographic and situational influence factors, on the reasons for the respective behavior, and on the rationalizations for corrupt behavior follow.

Chapter 6 discusses the empirical results in the light of the literature and gives an overview of managerial implications. It also addresses the limitations of the study and outlines avenues for future research.

Chapter 7 gives an overall summary of the work and outlines the work's contribution.

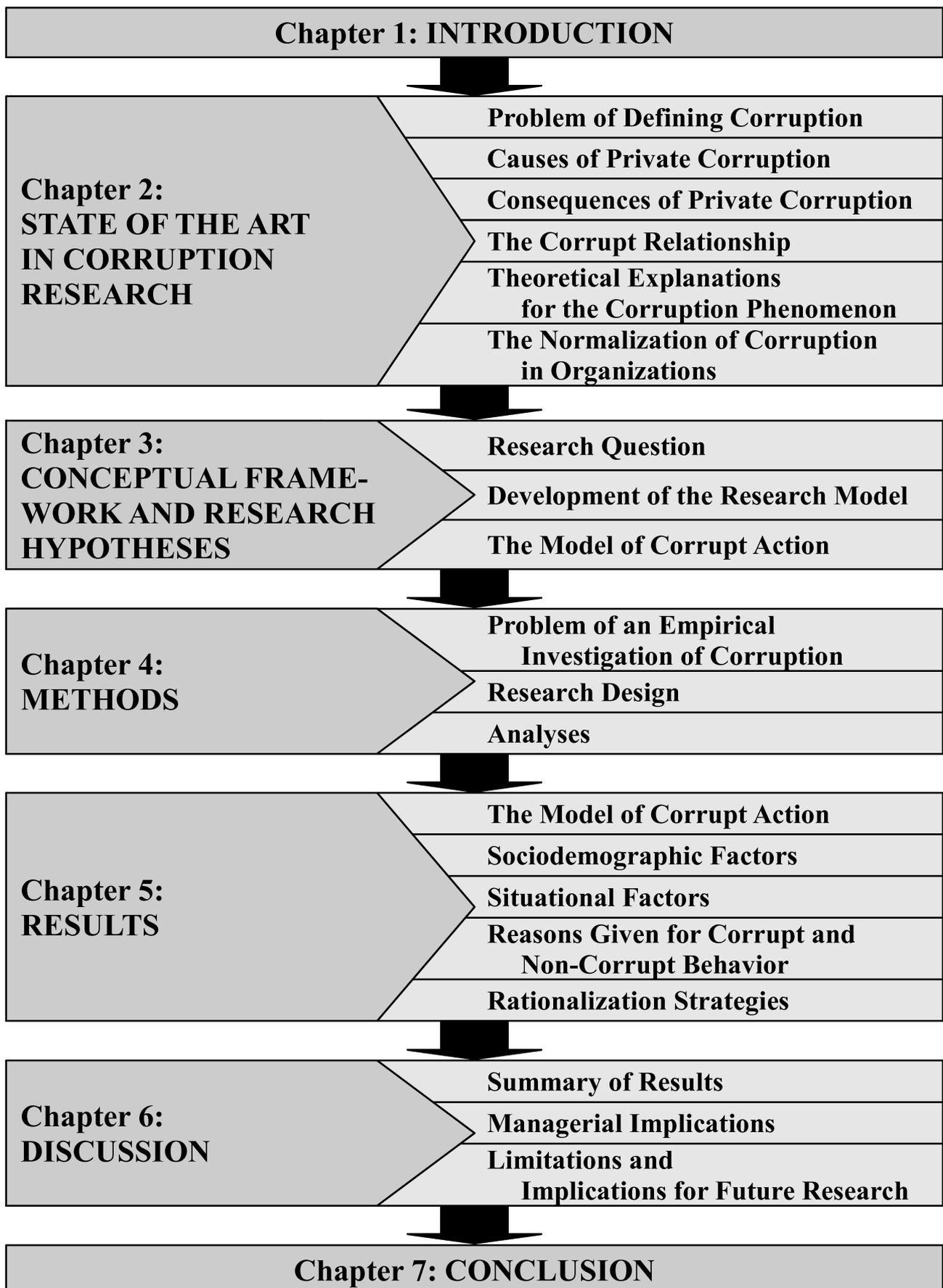


Figure 1: The Structure of the Work

As the present work focuses on private corruption, please note that throughout the work the terms “company,” “enterprise,” “firm,” and “organization” are used alternatively, always referring to a for-profit organization.

2 State of the Art in Corruption Research

There is a broad body of interdisciplinary research on corruption – a fact that on the one hand allows deeper insights into the phenomenon, but on the other hand makes it difficult to find a common denominator. Nevertheless, this variety of research approaches to corruption enables us to get a picture of its various facets. In the literature, there is a main focus on political corruption and on (international) public (including private-to-public) corruption. As my work aims at throwing light on private corruption in a national context but only little research has been done in this area, the following review of corruption research concentrates on those aspects relevant to my topic, also trying to transfer research results to private corruption where possible and necessary. The literature review starts with a discussion of the various attempts to define and conceptualize corruption. A reflection of the various causes and consequences of private corruption and a description of the corrupt relationship follows. Then, the review summarizes several major theoretical attempts to explain the corruption phenomenon before closing with a look at the normalization of corruption in organizations.

2.1 Problem of Defining Corruption

As corruption is a complex and multifaceted phenomenon, it is hard to define it in a short and precise way. The adjective “corrupt” has been borrowed from the Latin word “*corrumpere*” (Krug, 1997, p. 2; Scholz, 1995, p. 31). According to its linguistic origin, corruption characterizes actions such as “spoil, weaken, distort, erode, undermine, bribe, ruin, destroy” (Grieger, 2005, p. 3). The term is already used in the bible with a core meaning centered around injustice (Génaux, 2004). Despite a variety of definitions circulating within the sciences dealing with corruption (e.g., economics, law, sociology, social psychology, criminology, political science, theology), there is no universal conceptualization (Andvig & Fjeldstad, 2001). Various approaches to the phenomenon exist, each with a specific focus, be it the violation of legal norms, of moral values, or trust (Pies, Sass, & Meyer zu Schwabedissen, 2005).

2.1.1 Common Aspects of Definitions

Nevertheless, out of the number of definitions the following common dimensions of corruption can be derived (see Rabl & Kühlmann, 2006, November; Rabl & Kühlmann, 2008):

(1) Exchange

Corruption is based on the interaction between at least two partners (Alemann, 2004; Ashforth & Anand, 2003; Deflem, 1995; Getz & Volkema, 2001; Heidenheimer, 2002; Höffling, 2002, p. 25; Lapalombara, 1994; Maravic, 2006; Schwitzgebel, 2003; Warburton, 2001), between a supplier/corrupter and a recipient/corruptee, the person who induces or initiates the corrupt exchange and the

person who accepts it (Deflem, 1995; K uchler, 1997; Neugebauer, 1978, p. 6; Schmidt, 2004, pp. 3 – 4; Streibler, 1981; Van Duyne, 2001). It is an exchange of benefit and reward that comes off voluntarily and takes place by mutual agreement (Engerer, 1998; Park, 2003; Schmidt, 2003; Van Klaveren, 1989). As the corrupt exchange aims at the successful realization of personally defined goals, it is an strategic interaction (Deflem, 1995).

(2) Violation of norms

Corruption is immoral behavior (e.g., Brasz, 1970; Van Duyne, 2001) that includes the deviation from legal norms² (e.g., Argandoña, 2005; Br unner, 1981b; Deflem, 1995; Eliasberg, 1951; Fischer, 1981; Freisitzer, 1981; Hacker, 1981; Khan, 1996; Luo, 2002; Neugebauer, 1978, p. 7; Nye, 1967; Schmidt, 2003; Streibler, 1981; Zimring & Johnson, 2005) or from moral values³ (e.g., Argandoña, 2005; Br unner, 1981b; Brasz, 1970; Fischer, 1981; Freisitzer, 1981; Hacker, 1981; Schmidt, 2003; Streibler, 1981). For a decision on whether a conduct is corrupt or not from either a legal or moral point of view, local variations in law and culture have to be considered (Zimring & Johnson, 2005).

(3) Abuse of power

Corruption is seen as “criminality of the powerful” (Hardt, 2001, p. 50; see also Zimring & Johnson, 2005, p. 4). Corrupt actors utilize the authority, position, and/or knowledge entrusted to them for the sake of their advantage (e.g., Ashforth & Anand, 2003; Brasz, 1970; Br unner, 1981b; Clinard, 1990; Fischer, 1981; Freisitzer, 1981; Hardt, 2001; Huntington, 1989; Khan, 1996; Lambsdorff & Teksoz, 2002; Lapalombara, 1994; Neugebauer, 1978, p. 7; Noack, 1985; Nye, 1967; Pies et al., 2005; Pitt & Abratt, 1986; Rose-Ackerman, 1975; Rose-Ackerman, 2001; Schmidt, 2003; Tanzi, 1995a; Tanzi, 1998; Treisman, 2000; Van Duyne, 2001; Warburton, 2001; Zimring & Johnson, 2005). The application of power is a precondition for the success of corrupt action (Clinard, 1990; Luo, 2002; Van Duyne, 1999).

² Zimring and Johnson (2005) argue that only a legal standard can provide a definition of corruption that qualifies both analytically and morally as a crime, and thus allows a comparison with other offenses. The German criminal law does not know the term “corruption“, but understands the acceptance and grantage of a bribe in business relationships (§§ 299, 300), the malpractices in office regulated in §§ 331 to 335 (acceptance and grantage of an advantage or a bribe) in addition to § 108b (bribery of electors) and § 108e StGB (bribery of members of parliament) as corruption (Bannenberg & Schauptensteiner, 2004, p. 25). Donations within the scope of socially accepted societal or business practices are in accordance with the commandment of courtesy or are accepted by the law of custom. A rule of thumb is that allowances up to the value of ten euros are not objectionable, while cash returns are not tolerated at all by law (Bannenberg & Schauptensteiner, 2004, p. 26). Regarding international corruption, in Germany the Law for the Combat of International Corruption (IntBestG) and the EU Bribery Law (EUBestG) are relevant (Schmidt, 2004, p. 4).

³ Many processes identified as corrupt by the society are not seen as corrupt by (German) criminal law, like, for example, spoils system or nepotism (Bannenberg & Schauptensteiner, 2004, p. 29).

(4) Absence of direct victims

Corruption does not produce victims directly. Rather, there are only offenders who are involved in the corrupt act, and all gain an advantage by acting corruptly (Schmidt, 2004, p. 2; Zimring & Johnson, 2005). Victims are only found outside the corrupt relationship (Arnim, 2003; Hacker, 1981) – the reliable competitor who is squeezed out of the market by the corrupt competitors, the consumer who pays an exorbitant price, the tax-payer who pays exorbitant taxes, or the citizen who is at the mercy of a dishonest system, for example (Arnim, 2003). The real victims of the corrupt interaction are often unaware of the harm done to them (Deflem, 1995). As within the corrupt relationship no individual victims exist, this has direct consequences for detection⁴. Without a victim who makes a report, the judiciary is not able to intervene, and offenders who turn in themselves voluntarily are rare (Bannenberg & Schaupensteiner, 2004, p. 37; Zimring & Johnson, 2005).

(5) Secrecy

Corruption prospers in secrecy (Argandoña, 2005; Bannenberg & Schaupensteiner, 2004, p. 37; Brünner, 1981b; Fischer, 1981; Gorta, 2001; Graf, 2000; Hacker, 1981; Luo, 2002; Schmidt, 2003; Schwitzgebel, 2003; Van Duyne, 1999; Warburton, 2001). Corrupt actors form an intimate, close, and conspired community (Rügemer, 1996, p. 11) in which they secretly agree on the illegal aims and advantages of their exchange relationship (Hardt, 2001, p. 21). Apart from situational constraints, the possibility to continue the corrupt action mainly depends on the unimpaired victims' trust (Hacker, 1981; Warburton, 2001). The secrecy is also a reason for the difficulties in the detection, analysis, and measurement of the corruption phenomenon (Bannenberg & Schaupensteiner, 2004, pp. 37 – 40; Engerer, 1998).

When one combines these aspects, this leads to the following definition of corruption, a definition similar to the one also used by the German Federal Criminal Police Office:

Corruption is deviant behavior which manifests itself in an abuse of a function in politics, society, or economy in favor of another person or institution. This abuse of a function occurs on one's own or the other's initiative in order to achieve an advantage for oneself or a third party. As a result, a damage or disadvantage to politics, society, or economy is expected or does actually appear. The corrupt actions are kept secret in mutual, amicable agreement (Rabl & Kühmann, 2008, p. 478; see also Rabl & Kühmann, 2006; Rabl & Kühmann, 2006, November; Vahlenkamp & Knauß, 1995, p. 20).

⁴ In Germany, there is a large dark field of at least 95%, this means, out of 100 cases only five are detected (Bannenberg & Schaupensteiner, 2004, p. 38).

2.1.2 *Corruption-Related Concepts*

The difficulty in defining corruption also arises from a number of corruption-related concepts that are partially overlapping and at times interchangeable. In the following, I only sketch those concepts that identify some basic varieties of corruption that are also relevant in a business context (see Rabl & Kühlmann, 2006, November).

Bribery represents the essence of corruption; it can be understood as corruption *per se*. It is the payment in money or kind that is given or taken in a corrupt relationship. Many equivalent terms to bribery like kickbacks, baksheesh, sweeteners, grease money, facilitating payments, and pay-offs are all notions of corruption in terms of the money or favors paid to employees in private enterprises, public officials, and politicians. These are payments or returns needed or demanded to make things pass swiftly, smoothly, or more favorably through the private, state, or government bureaucracies (Amundsen, 1999; Andvig & Fjeldstad, 2001; Argandoña, 2005). Bribery must not be confused with gift giving. While a bribe implies reciprocity, a gift does not (Tanzi, 1998). A gift aims at expressing esteem, appreciation, gratitude, or good will, but not at obtaining a direct benefit (Argandoña, 2005).

A special variety of corruption is favoritism. In this case, power is abused to favor friends, family, and anybody close and trusted, which results in biased decisions regarding state or company resources. Another term used for favoritism based on social network ties is cronyism. Khatri, Tsang, and Begley (2006) define cronyism as a “reciprocal exchange transaction where party A shows favor to party B based on shared membership in a social network at the expense of party C’s equal or superior claim to the valued resource” (p. 6). While horizontal cronyism occurs either intra- or interorganizational among peers, vertical cronyism occurs only within an organization in a superior-subordinate relationship (Khatri & Tsang, 2003). Cronyism is a subset of corruption that differs from the corruption concept in regard to the exchange aspect: Cronyism includes only reciprocal exchange because it includes just a favor given without explicitly specifying the return obligation. Corruption, in contrast, also includes a negotiated exchange where the parties agree on the terms of exchange with the benefits being readily apparent. Cronyism specific to family members is called nepotism. It is a special form of favoritism in which an office holder prefers his proper kinfolk and family members (Khatri et al., 2006).

Corruption is often accompanied by offenses that represent separate *corpi delicti* like, for example, embezzlement⁵; extortion⁶; fraud⁷; tax fraud; infidelity; anti-competitive arrangements; betrayal of industrial secrets; false certification; falsifica-

⁵ Embezzlement is a theft of resources by people who are put to administer it (e.g., when disloyal employees steal from their employers) and a misappropriation of funds (Amundsen, 1999; Andvig & Fjeldstad, 2001). Embezzlement is clearly distinct from corruption because it does not include the interaction and exchange aspect, although it is a form of power abuse for private gain. Nevertheless, it is sometimes included in broader definitions of corruption (Amundsen, 1999; Andvig & Fjeldstad, 2001).

tion of documents, balance-sheets, or accountancy; cartelization; price fixing; money laundering; pseudo-payments for works/services not received; and wages for ghost workers (Rügemer, 1996, p. 48; Schmidt, 2004, p. 5).

There are some conceptions of corruption that explicitly include some of the offenses mentioned above – for example, those used by two⁸ of the three major conventions, namely the Council of Europe Convention and the UN Convention⁹. There are other conceptions like, for example, the ones used by Transparency International¹⁰ and the World Bank¹¹, which give a broad definition of corruption as the abuse of public or private office for personal gain. They do not specify which offenses exactly should be included in their conceptualization. It has to be carefully noted that these broader conceptions neglect important elements of a narrower definition (e.g., exchange, interaction of at least two partners).

2.1.3 Corruption – A Form of White-Collar Crime

Corruption or related concepts like bribery and illegal kickbacks are often treated as forms of white-collar crime (e.g., Clinard, 1990; Pies et al., 2005; Reasons, 1982; Sutherland, 1940; Weisburd & Waring, 2001; Zimring & Johnson, 2005). As in the case for corruption, no precise definition of white-collar crime exists (Weisburd & Waring, 2001, pp. 7 – 18; Vaughan, Gleave, & Welser, 2005, August). White-collar crime is defined by characteristics of the offender and of the offense itself (Zahra, Priem, & Rasheed, 2005). Edwin Sutherland, who introduced the term to the academic world (Geis, 1992), based his definition on the characteristics of the offender. He defines white-collar crime as “a crime committed by a person of respectability and high social status in the course of his occupation” (Sutherland, 1949, p. 9). Geis (1992) also argues that white-collar crime involves the “abuse of power by persons who are situated in high places where they are provided with the opportunity for such abuse” (p. 47). Reasons (1982) sees it as a “crime committed by a person in a position of trust for his or her personal gain” (p. 59). Herbert Edelhertz, in contrast, focuses on the work context defining white-collar crime as “an illegal act or series of illegal acts committed by nonphysical means and by concealment or

⁶ Extortion is money and other resources extracted by the use of coercion, violence, or the threats to use force (Amundsen, 1999; Andvig & Fjeldstad, 2001). Although extortion is basically seen as a corrupt transaction (Amundsen, 1999; Andvig & Fjeldstad, 2001), it does not include the amicable exchange relationship based on mutual agreement inherent in corruption per se.

⁷ Fraud is an economic crime involving some kind of trickery, swindle, or deceit (Amundsen, 1999; Andvig & Fjeldstad, 2001). Fraud is a much broader term than corruption that covers both bribery and embezzlement (Amundsen, 1999; Andvig & Fjeldstad, 2001). While corruption is an exchange relationship, fraud can be committed as a solitary act (Van Duyne, 2001).

⁸ The OECD Convention focuses on different kinds of bribery offenses (Organisation for Economic Co-operation and Development (OECD), 2007).

⁹ For a detailed list of included offenses see OECD (2007).

¹⁰ See TI (2005, p. 24) or http://www.transparency.org/news_room/faq/corruption_faq.

¹¹ See Tanzi (1998, p. 564) and Wei (1999, p. 4).

guile, to obtain money or property, to avoid the payment or loss of money or property, or to obtain business or personal advantage” (Edelhertz, 1970, p. 3). The US National White Collar Crime Center provides a “consensus definition” (Coleman, 1998, p. 7) of white-collar crime: “White collar crimes are illegal or unethical acts that violate fiduciary responsibility of public trust committed by an individual or organization, usually during the course of legitimate occupational activity, by persons of high or respectable social status for personal or organizational gain” (Helmkamp, Ball, & Townsend, 1996, p. 351). White-collar crime does not require that the act is punished, only that it is punishable (Stitt & Giacomassi, 1993, p. 59). From these definitions, it became apparent that white-collar crime has similar characteristics to corruption. White-collar crime is also characterized by an abuse of power, a violation of legal norms or deviation from societal norms, an abuse of business instruments, social harmfulness, exertion within an occupational activity, secrecy, the absence of physical violence, monetary or natural profit or private or commercial advantage as aim, and the involvement of individuals who are otherwise considered respectable members of society (L w, 2002; Zahra et al., 2005).

Clinard and Quinney (1973) divide white-collar crimes into occupational crime and corporate crime. Occupational crime “consists of the offenses committed by individuals for themselves in the course of their occupations and the offenses of employees against their employers” (Clinard & Quinney, 1973, p. 188). As an occupational crime, corruption against the organization may, for example, include self-dealing or padding expense reports (Grieger, 2005; Zahra et al., 2005). Corporate crime, in contrast, “consists of the offenses committed by corporate officials for their corporation and the offenses of the corporation itself” (Clinard & Quinney, 1973, p. 188). The term “organizational crime” is broader and includes both corporate and non-corporate crimes (Coleman, 1998, p. 12). As corporate or organizational crime, corruption on behalf of the organization may, for example, include bribery (Grieger, 2005; Zahra et al., 2005). Thus, what applies for white-collar crimes also applies for corruption: There are corrupt acts in which either an individual is the only one who benefits and the organization is the victim, or in which the organization is the beneficiary and others in society are the victims, or in which both the organization and the individual acting on behalf of the organization are beneficiaries and others in society are the victims (Zahra et al., 2005).

2.1.4 Corruption – A Form of Deviant Workplace Behavior

In the literature, corruption is not only labeled as white-collar crime, but also often regarded as a kind of deviant workplace behavior (e.g., Grieger, 2005; Robinson & Bennett, 1995). Robinson and Bennett (1995) define deviant workplace behavior of employees as “voluntary behavior that violates significant organizational norms and in doing so threatens the well-being of an organization, its members, or both” (p. 556). They provide a two-dimensional configuration of deviant workplace behaviors. The first dimension, the organizational-interpersonal dimension, represents the target of the deviant behavior. It ranges from deviant behavior aimed at the organization to

deviant behavior primarily directed at a member of the organization. The second dimension represents the severity of the deviant behavior. Deviant behavior on this dimension varies on a continuum from minor to serious forms. This configuration results in four classifications of deviant behavior: production deviance, political deviance, property deviance, and personal aggression (Robinson & Bennett, 1995; see also Appelbaum, Deguire, & Lay, 2005, and Litzky, Eddleston, & Kidder, 2006). If it includes accepting kickbacks, corruption, on the one hand, can be classified as property deviance, which represents “those instances where employees acquire or damage the tangible property or assets of the work organization without authorization” (Robinson & Bennett, 1995, p. 565). In this form, corruption is deviant behavior directed at the organization with high severity (Robinson & Bennett, 1995) and having negative effects on an organization's bottom line (Litzky et al., 2006). On the other hand, if it includes showing favoritism, corruption can be classified as political deviance, which represents “engagement in social interaction that puts other individuals at a personal or political disadvantage” (Robinson & Bennett, 1995, p. 566). In this form, corruption is deviant behavior directed at members of the organization with low severity (Robinson & Bennett, 1995) and generating costs to the organization resulting from inconsistent service quality, dissatisfaction, and perceptions of unfairness (Litzky et al., 2006).

2.1.5 Corruption – A Form of Unethical Behavior

As the vast body of literature on ethical behavior in organizations shows, it is generally assumed that corruption represents a form of unethical behavior. Empirical studies (e.g., Mitchell, Lewis, & Reinsch, Jr., 1992; Vitell & Festervand, 1987) found corruption or related concepts like bribery or giving kickbacks to be judged as unethical behavior. Thus, “the antithesis of ethics versus corruption is obvious” (Zekos, 2004, p. 644). In contrast to deviant behavior, which focuses on the violation of organizational norms, unethical behavior deals with the breaking of societal rules (Appelbaum & Shapiro, 2006). The focus on business ethics has generated interest in trying to define what is unethical (Mitchell, Daniels, Hopper, George-Falvy, & Ferris, 1996). Unethical encompasses more than illegal (Mitchell et al., 1996) because ethics is a more general set of moral principles or values (Lynch, Lynch, & Cruise, 2002; Mitchell et al., 1996; Pelletier & Bligh, 2006) that determines what is good or bad, right or wrong, with moral duty and obligation or without (Mitchell et al., 1996; Pelletier & Bligh, 2006; Roozen, De Pelsmacker, & Bostyn, 2001). Thus, illegal behavior partially overlaps with unethical behavior: “Some action could be illegal and ethical and there are certainly legal behaviors which could be seen as unethical” (Mitchell et al., 1996, p. 441). Corruption is both illegal and unethical behavior.

A deontological viewpoint based on the recognition of duties applying Kant's categorical imperative¹² allows corruption to be classified as unethical because due to the universal duty of renouncing corruption regardless of the consequences of its exercise, corruption and its means, despite plausible positive ends, are wrong (Salbu, 2001). From a teleological point of view, an ethical actor aims at maximizing net social utility. The rule utilitarian conducts this social cost-benefit analysis taking into account all cases, the act utilitarian only considering a particular situation. Regarding the harmful consequences of corruption (see chap. 2.3, p. 59), only in the second case is a moral justification of corruption plausible (Salbu, 2001).

2.1.6 Forms of Corruption

The number of attempts to categorize different forms of corruption also contributes to the difficulties in conceptualizing the phenomenon. In this work, I only discuss categorizations of corruption that help to clarify corruption in and between companies (see for further distinctions Amundsen, 1999, and Shleifer & Vishny, 1998).

(1) Public versus private corruption

A frequent classification especially relevant to my research is the functional distinction between public and private corruption. While public corruption occurs when the person being corrupted holds a public office, regardless whether the corrupting person is a private or public official, private corruption occurs when bribes are demanded or supplied by employees of companies (Brüner, 1981b). It is

the type of corruption that occurs when a manager or employee exercises a certain power or influence over the performance of a function, task or responsibility within a private organization or corporation. Because he has a margin of discretion, he can choose to act contrary to the duties and responsibilities of his post or job, and thus in a way that directly or indirectly harms the company or organization, for his own benefit or for that of another person, company or organization (Argandoña, 2003, p. 255).

The most obvious situation of private corruption is the negotiation of contracts in which the negotiator offers or demands an extra in return for the order (Van Duyne, 2001).

¹² A first formulation of the Kantian categorical imperative is: "Act only in accordance with that maxim through which you can at the same time will that it become a universal law" (Kant, 2002, p. 37).

(2) National versus international corruption

National corruption refers to corrupt acts that are confined to the territory of a single country. International corruption includes corrupt acts of parties belonging to different countries, corrupt acts with payments to another country, or payments through intermediaries in another country (Argandoña, 2005).

(3) Isolated versus systemic and situational versus structural corruption

Based on the dimensions of corruption frequency (isolated versus systemic) and stability of the corrupt relationship (situational versus structural) Höffling (2002, chap. 2) distinguishes the following forms:

- (a) Isolated situational corruption: These are corrupt acts committed reactively when the situation offers an opportunity. They are not intended to be repeated. Mostly, only a few persons are involved. They only have a superficial acquaintance with each other. The risk of failing when initiating a corrupt transaction is comparatively high. Against the background of the normative attitude of the social environment, corruption is seen as deviant behavior that has to be disapproved (see also Bannenberg, 2002, pp. 97 – 103, and Bannenberg, 2003b, who terms this type of corruption “single case corruption,” “corruption by opportunity,” or “bagatelle corruption”).
- (b) Isolated structural corruption: Corruption of this type is limited to strong, long-term relationships. The corrupt acts are planned in advance, take longer time to realize, and are intended to be repeated. Only some few actors are involved who invest a great deal of effort to keep their behavior secret and have a big trust in the willingness to cooperate with each other. Both parties depend on keeping the secrecy and trust because corruption does not comply with the expectations of the social environment (see also Bannenberg, 2002, pp. 103 – 108, and Bannenberg, 2003b, who terms this type of corruption “grown relationships”).
- (c) Systemic situational corruption: This form of corruption originates in an environment where corruption is normality. The corrupt exchange can be conducted with an unknown partner without high risk of rejection and prosecution. Corruption is public practice (“petty corruption”).
- (d) Systemic structural corruption includes corruption occurring in long-lasting social relationships. The social environment does not regard the abuse of a function for personal gain as deviant behavior, but accepts, excuses, and even facilitates it. Often, corruption is associated with other crime, like, for example, tax fraud. Under these conditions, corruption tends to spread; corruption networks and corruption cartels develop. Imitators are easy to find. It is difficult to leave the network. A number of possibilities to justify the corrupt behavior exist (see also Bannenberg, 2002, pp. 108 – 111, and Bannenberg, 2003b, who terms this type of corruption “networks” and “organized white-collar crime”).

(4) Personal versus collective corruption

On the one hand, corruption can occur as deviant behavior of a single actor within an organization (Brief, Buttram, & Dukerich, 2001; Brünner, 1981b), which is called “personal corruption” or “corruption in the group” (Brünner, 1981b, p. 681). On the other hand, if corruption is tolerated by the group and group-specific structures and institutions advance corruption (Brünner, 1981b), “collective corruption” (Brief et al., 2001, p. 471) or “corruption of the group” (Brünner, 1981b, p. 681) occurs. When collective efforts are taken to establish corrupt relationships or networks, this may result in corruption penetrating the organization and becoming part of its structure (Grieger, 2005).

(5) White versus grey versus black corruption

Heidenheimer (2002) named three categories of corruption according to social perceptions in the context of several sorts of political systems that seem to be also relevant for corruption within the private sector:

- (a) White corruption: White corruption indicates that corrupt behavior is tolerated by the majority (Alemann, 2004; Heidenheimer, 2002; Zimring & Johnson, 2005). There is no wish to punish corrupt conduct (Zimring & Johnson, 2005).
- (b) Grey corruption: In the case of grey corruption, corruption is regarded as reprehensible according to accepted moral standards, but nevertheless the involved actors are lacking any sense of doing something wrong (Alemann, 2004; Heidenheimer, 2002). Thus, there are some people who want corrupt action to be punished, while others do not, with a majority being ambivalent (Zimring & Johnson, 2005).
- (c) Black corruption: Black corruption exists when corruption is generally condemned and punished as a severe violation of moral standards and the law (Alemann, 2004; Heidenheimer, 2002; Zimring & Johnson, 2005).

(6) Demand-driven corruption (passive corruption) versus supply-driven corruption (active corruption)

The initiative to corrupt acts can either be demand-driven and come from the person who receives the payment or supply-driven and come from the person who pays. Active corruption is the offense committed by the person who promises or gives the bribe as contrasted to passive corruption, which is the offense committed by the person who receives the bribe (Argandoña, 2005; Manandhar, 2005, p. 6).

(7) Market corruption versus parochial corruption

Market corruption is a competitive type of corruption with a high degree of transparency where the identity of the partner is irrelevant. Parochial corruption is a transaction with few potential contractors and restricted competition where the identity of partners matters due to limited entry and exit (Lambsdorff, 2002).

(8) Grand versus petty corruption

Corruption is differentiated in respect to whether it involves large payments and large effects (grand corruption) or whether it involves facilitating payments (petty corruption) (Argandoña, 2005; Manandhar, 2005, p. 5).

(9) Debiting and crediting corruption

In regard to public corruption, Pies (2003) distinguishes between debiting and crediting corruption, depending on the effect of corruption on the company. In the case of debiting corruption, the company is forced to pay a higher price than the official one for the bureaucrat's service. Thus, the company is debited compared to the case without corruption. A conflict of interests exists. The company is the victim. Crediting corruption occurs when a bureaucrat and a company secretly agree on a lower price than the official one. The company has lower costs than in the case of corruption. A harmony of interests exists. Third parties are the victim. Regarding private corruption, I assume most cases to be cases of crediting corruption, except cases where one of the partners has monopoly power.

2.1.7 Summary

The multidisciplinary of corruption research, in addition to the variety of categorizations of corruption, allow no universal conceptualization of the phenomenon. This work is based on the corruption definition outlined on page 25, which summarizes the main characteristics of the phenomenon. As the empirical part examines the German case, all country-specific aspects of the definition – this means the legal norms and moral values – refer to Germany. The focus of this work is on private corruption where bribes are demanded or supplied by employees of companies.

2.2 Causes of Private Corruption

Research on the causes of corruption has almost exclusively focused on public and political corruption, in addition to international corruption. Thus, in the following, I provide a framework of factors with a relevant influence on private corruption.

All criminal behavior – and therefore also corrupt behavior – requires both motivation and opportunity (Albrecht, McDermott, & Williams, 1994; Baucus, 1994; Coleman, 1998, p. 176; Finney & Lesieur, 1982; Löw, 2002; Maravic, 2006; McKendall, DeMarr, & Jones-Rikkens, 2002). The literature argues that the motivation and opportunity to engage in corruption are the product of three factors, varying from situation to situation in shape and effect: environmental, organizational, and personal factors (Ashforth & Anand, 2003; Grieger, 2005). A person (respectively an employee) always acts within a certain organization, and an organization always acts within a specific environmental context. Thus, although my research solely focuses on the person who acts corruptly, in the following, I outline how all of these three factors – environmental, organizational, and personal – may determine an individual's corrupt behavior.

2.2.1 Environmental Factors

“Corruption corrupts” (Andvig & Fjeldstad, 2001, p. 91). Thus, private corruption is more likely if the organization acts in an environment that is prone to corruption. The environmental factors that have an influence on private corruption can be divided into four sectors: culture, law, society, and economy. As the political factors identified in the literature are only relevant for political and public corruption, they are neglected in the following, but referred to if conclusions can be drawn for aspects concerning private corruption.

Culture

The prevalence of corruption in different countries differs widely (Gaviria, 2002). Should one ask businesspersons, they would assert that in some countries, doing business is even impossible without acting corruptly (Getz & Volkema, 2001). This is due to the varying tolerance of corruption from country to country (Getz & Volkema, 2001). As Andvig and Fjeldstad (2001) state: “The borderline for acceptable behaviour is not universal” (p. 59). What is seen as corruption in one culture may not be seen as corruption in another. This is called the “cultural relativity” (Collier, 2002, p. 7) of corruption. The same behavior is perceived differently – once it is endorsed, once it is tolerated, and once it is prosecuted (Fleck & Kuzmics, 1985). Several empirical research findings underline the culture-boundedness of corruption (e.g., Cherry, 2006; Johnson, Kaufmann, McMillan, & Woodruff, 2000; Killias & Ribeaud, 1999; Park, 2003; Su & Richelieu, 1999; Treisman, 2000; Tsalikis & LaTour, 1995).

A typical example demonstrating this cultural relativity is the *guanxi*-phenomenon in China (Chan, Cheng, & Szeto, 2002). *Guanxi* involves “relationships between or among individuals creating obligations for the continued exchange of favors” (Dunfee & Warren, 2001, p. 192). While for some, especially Westerners, *guanxi* can hardly be distinguished from corruption (Chan et al., 2002; Dunfee & Warren, 2001; Steidlmeier, 1999; Su & Littlefield, 2001), others, especially the Chinese from their own cultural perspective, defend the ethicality and morality of *guanxi*, regarding it as necessary for establishing trust and long-term relationships (Chan et al., 2002; Dunfee & Warren, 2001; Steidlmeier, 1999). Fan (2002) argues that *guanxi* allows corruption to flourish. Millington, Eberhardt, and Wilkinson (2005), in contrast, only found a weak relationship between illicit payments and the established understanding of gift giving within *guanxi* networks. Luo (2002) outlines nine differences between corruption and *guanxi*:

Guanxi is an ingredient of social norm, whereas corruption deviates from social norm. [...] Guanxi is legal, whereas corruption is illegal. [...] Guanxi essentially builds on favor exchange, whereas corruption mostly involves monetary exchange. [...] Guanxi involves implicit, social reciprocity, whereas corruption pertains to explicit, transactional reciprocity. [...] Guanxi does not involve any lawful risks if it fails, whereas corruption is linked to high legal

risks and uncertainties. [...] Guanxi builds on a long-term orientation, whereas corruption deals with a short-term transaction. [...] Guanxi does not specify a time limit, whereas corruption often requires timeliness. [...] Guanxi builds on trust, whereas corruption is based on commodity. [...] Guanxi is transferable, whereas corruption is not (pp. 412 – 414).

Corruption may be the result of cultures and cultural value systems that tolerate, rather than condemn, corrupt activities (Beets, 2005). The norms and values of a specific culture influence the individual's behavior (Grieger, 2005). As cultural values also influence decisions on whether to act corruptly or not, they have to be considered in the study of corruption (Getz & Volkema, 2001). Some empirical studies investigated relationships between universal cultural dimensions and corruption. Corruption was significantly and positively related to the following of Hofstede's (1980) dimensions:

- to power distance (Davis & Ruhe, 2003; Getz & Volkema, 2001; Husted, 1999; Sanyal, 2005), “the extent to which the members of a society accept that power in institutions and organizations is distributed unequally” (Hofstede, 1984, p. 83);
- to uncertainty avoidance (Getz & Volkema, 2001; Husted, 1999), “the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity” (Hofstede, 1984, p. 83);
- to masculinity (Davis & Ruhe, 2003; Husted, 1999; Sanyal, 2005), “a preference in society for achievement, heroism, assertiveness, and material success” (Hofstede, 1984, p. 84);
- to collectivism¹³ (Davis & Ruhe, 2003), “a preference for a tightly knit social framework in which individuals can expect their relatives, clan, or other in-group to look after them in exchange for unquestioning loyalty” (Hofstede, 1984, p. 83).

Mallinger, Rossy, and Singel (2005) using the GLOBE study's dimensions (House, Hanges, Javidan, Dorfman, & Gupta, 2005) also found a significant relationship between corruption and uncertainty avoidance defined as “the extent to which members of collectives seek orderliness, consistency, structure, formalized procedures, and laws to cover situations in their daily lives” (Sully de Luque & Javidan, 2005, p. 603). But in contrast to the studies using Hofstede's dimensions, they found that the greater the uncertainty avoidance, the less likely corrupt practices occurred. They argue that in countries showing high uncertainty avoidance, specific policies and procedures for conduct in addition to a well-enforced legal environment contribute to a reduction of corruption. Getz and Volkema (2001), in contrast, explain their contrary finding arguing that an individual may use corruption to

¹³ In Husted's (1999) study, individualism failed to be significant due to the fact that it was highly correlated with the gross national product (GNP) per capita that also entered the regression model.

circumvent the imposed rules. Martin, Cullen, Johnson, and Parboteeah (2007) also based their study on the cultural dimensions used in the GLOBE study (House et al., 2005). Contrary to the finding by Davis and Ruhe (2003), they found a negative relationship between corruption and in-group collectivism addressing the degree of group cohesiveness and loyalty (Gelfand, Bhawuk, Nishii, & Bechtold, 2005). Davis and Ruhe (2003) explain the positive relationship of corruption with collectivism by multiple competing values in collectivist societies rather than one single standard that applies to everyone as well as by staffing and appraisal procedures relying on seniority and personal connections rather than on performance. Martin et al. (2007), in contrast, argue that more individualistic societies are more likely to engage in corrupt activity because of their stronger drives for success at the expense of the collective. Additionally, their results underline that other environmental factors moderate the effects of cultural dimensions on corruption. In their study, high levels of welfare socialism and political constraints offset the power of achievement motivation and in-group collectivism in leading to corrupt action, while high levels of welfare socialism but not political constraints enhanced the corruption-reducing effect of humane orientation.

Another cultural aspect determining corruption is religion. Several empirical studies found that countries with lower perceived corruption followed the Protestant traditions rather than being dominated by hierarchical religions (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999; Paldam, 2001; Sandholtz & Koetzle, 2000; Treisman, 2000). Treisman (2000) explains this by the fact that office holders may have less coverage through hierarchy. La Porta et al. (1999) argue that Protestant societies keep to social norms encouraging their members to denounce malfeasant actors.

Furthermore, the country's colonial history was found to play a role in determining its actual level of corruption (Serra, 2006; Swamy, Knack, Lee, & Azfar, 2001; Treisman, 2000). Swamy et al.'s (2001) and Treisman's (2000) results showed former British colonies as well as the United Kingdom to be less corrupt. The experience of British rule imprinted in these societies may have created a respect for the rule of law and procedural justice.

There is mixed evidence for the impact of ethnic and linguistic fractionalization on corruption. While Treisman (2000) found no relationship, La Porta et al.'s (1999) and Alesina, Devleeschauwer, Easterly, Kurlat, and Wacziarg's (2003) results showed ethno-linguistic diversity to be associated with corruption.

Law

Besides cultural determinants, weaknesses in a country's legal sector are relevant for the occurrence of private corruption. Ali and Isse (2003) found judicial inefficiency to be related with corruption. This judicial inefficiency can be a consequence of

political instability (Damania et al., 2004)¹⁴. A breakdown of the legal order creates legal uncertainty, which in turn promotes corruption, especially in developing countries (Ades & Di Tella, 1996; Heberer, 1991, p. 29; Heberer, 2001; Sanyal, 2005).

Corruption does not only tend to be greater in countries with a unstable legal framework (Lambert-Mogiliansky, 2002). Rather, often a complex legislation (Lambert-Mogiliansky, 2002) and a lack of transparency in laws provide a fertile ground for corruption (Tanzi, 1998). Laws written in the lawyers' professional language are difficult to understand, sometimes remain unclear, and thus provide scope for interpretation (Tanzi, 1998).

The tax deductibility of bribes in some countries was shown to determine the propensity to act corruptly (Sanyal & Samanta, 2004a). If there is the possibility for companies to count the costs of corruption to the costs of doing business, and thus benefit from reduced tax liability, this advances corruption.

Another facilitating factor is a lack of law enforcement (Nye, 1967; Sanyal, 2005). In this context, a lack of an independent and impartial judiciary even fosters corruption (Manandhar, 2005; Sanyal, 2005). The fact that penalties are seldom applied as specified in the law and that the administrative processes up to punishment are slow and cumbersome (Tanzi, 1998) makes its contribution. The greater the time gap between the illegal behavior and the penalization, the lower the efficiency of sanctions (Steinrücken, 2004). As subjective perceptions about the probability of punishment are formed by observing past rates of punishment (Sah, 1991), a deterring effect only occurs when there is both a communicated risk of detection and a consequent sanction (Bussmann, 2004).

The penalties' structure is also relevant. Tanzi (1998) theoretically argues that on the one hand, higher penalties may reduce the frequency of corrupt acts, but on the other hand, they may lead to higher bribes paid and demanded in the corrupt acts that still occur. In addition to the theoretical arguments (Borner & Schwyzer, 1999; Lui, 1986), there is also empirical evidence that the motivation to act corruptly increases with a lower degree of penalty (Abbink, Irlenbusch, & Renner, 2002; Goel & Rich, 1989). Studies on other unethical behavior also underline this finding (Buckley, Wiese, & Harvey, 1998; Carnes & Englebrecht, 1995). To be effective, penalties for corruption have to be proportional to the bribe in the case of the corruptee and proportional to the additional gain achieved through corruption in case of the corruptor (Streibler, 1981). But high penalties fail when corrupt actors see themselves as gamblers in a lottery (Cadot, 1987) and when there is a low probability of being adjudged and of early penalization (Steinrücken, 2004). According to Vogt (1997, p. 53), the risk of getting a medium penalty depends on the probability of

¹⁴ In Damania, Fredriksson, and Mani's (2004) study, judicial inefficiency was discovered as a mediator variable in the relationship between political instability and corruption. This finding was also confirmed by other authors (e.g., Serra, 2006; Treisman, 2000).

being detected, the probability of being accused, and the probability of being sentenced.

Society

A third set of environmental factors determining corruption concerns a country's society. It is often stated that a decay of moral norms and values is responsible for the increasing number of corruption cases (Heberer, 2001; Morgan, 1998). Bunz's (2005) study confirmed such a societal change in values for Germany: German leaders observed an increasing tendency to individualism and egoism, a lack of public spirit, a greed for money, a lack of security and orientation, a lack of morale, and a lack of leadership examples. Although morale was seen as important for the functioning of both economy and society, the leader's moral awareness was judged as decreasing or at least as changing. Thus, the negative examples given by members of higher social levels foster corruption (Freisitzer, 1981). Bussmann (2004) argues that it is not a general erosion of values in society, but rather a fragmentation of norm validity and its context sensitive application that encourages crimes like corruption. The higher the perceived corruption, the more likely is real corrupt action (Cabelkova & Hanousek, 2004).

A country's press and media play an important role for the perception of corruption and therefore also for the level of corruption. Ahrend (2002), Brunetti and Weder (2003), and Treisman (2000) found that a free press effectively deterred corruption. A free press gives both the mission and the right to the exposure of unethical offenses (Treisman, 2000). Graeff (2004) showed that not only the independence of media, but also the extent of media usage, measured by the number of Internet hosts and expenses for information and communication, decreased the corruption level. This press and media influence also provides public control, whose absence promotes corruption (Heberer, 1991, p. 29; Heberer, 2001; Priddat, 2004).

Especially in countries where there is a loophole regarding corruption, society and its morality is an important control instrument. If corruption is not condemned by public opinion, it spreads because corrupt actors' behavior is not regarded as deviant (Krug, 1997, p.139).

The characteristics of a country's population are also related to perceived corruption. Beets' (2005) results showed that those nations with a higher level of perceived corruption had a relatively rural population, smaller percentages of middle-aged citizens (15 to 64), fewer citizens either employed or seeking employment, larger households, higher fertility rates, shorter life expectancies, and larger percentages of national consumption attributable to the wealthiest citizens. They also accepted economic aid from other countries. Mocan's (2004) study also confirmed the relationship between a country's unemployment rate and corruption. Corruption was also found to be higher in less educated societies where human development was inhibited (Ali & Isse, 2003; Beets, 2005; Emerson, 2006; Espejo, Bula, & Zarama, 2001; Sanyal & Samanta, 2004b; Treisman, 2000). Changes in the human development

scores, particularly for developed countries, were associated with changes in the corruption level, showing that in developing countries, other culture-related factors were more important (Sanyal & Samanta, 2004b). Furthermore, corruption was found to be lower in countries with a higher degree of female participation to public life (Dollar, Fisman, & Gatti, 2001; Swamy et al., 2001).

Social and economic inequality also count among the important determinants of corruption (Heberer, 1991, p. 29; Heberer, 2001; Husted, 1999; Smelser, 1985). Income inequality, especially, was found to promote corruption (Goel & Rich, 1989; Jong-sung & Khagram, 2005; Sanyal, 2005). Jong-sung and Khagram (2005) argue that inequality also adversely affects social norms regarding corruption and people's beliefs about the legitimacy of rules and institutions, thereby making it easier for them to tolerate corruption as acceptable behavior.

Economy

The most important environmental factor relevant for private corruption concerns a country's economy.

First, the structure of the economic system plays a role. A highly complex economic system offers the opportunity for corruption because of the greater number of important decisions that have to be made that also affect others' property and interest (Zimring & Johnson, 2005).

Second, corruption is related to both the wealth and the growth of a country's economy. Several empirical studies found a positive relationship to economic adversity and poverty (Beets, 2005; Getz & Volkema, 2001), in addition to a negative relationship to economic growth (Mauro, 1997; Paldam, 2002; Serra, 2006; Treisman, 2000) mostly measured by using the gross domestic product (GDP) per capita.

Third, countries with large endowments of natural resources are more susceptible to corruption. Such resources create opportunities to exploit the associated rents. This behavior may have spillover effects to other segments of the society (Ades & Di Tella, 1999; Leite & Weidmann, 1999).

Fourth, lacking openness to trade was found to increase the level of corruption (Ades & Di Tella, 1999; Sandholtz & Gray, 2003; Sandholtz & Koetzle, 2000; Treisman, 2000; Wei, 2000a). Even low foreign direct investment (FDI) flows in the past positively affected corruption (Kwok & Tadesse, 2006). It is argued that corrupt practices can perpetuate themselves more easily in closed economies (Sandholtz & Gray, 2003) because domestic firms are cut off from foreign competition (Ades & Di Tella, 1999) and therefore have less to gain from curbing corruption (Wei, 2000a) and benefit from higher rents (Treisman, 2000). Countries integrated into international society do not only face economic pressures but also norms that legitimate and stigmatize corruption (Sandholtz & Gray, 2003).

Fifth, the extent of economic competition is associated with corruption. Empirical studies showed that higher competition lowered the level of corruption (Ades & Di

Tella, 1999; Clarke & Xu, 2002, Emerson, 2006) because of an increased supply, lower rents, and the possibility to switch to other suppliers if a bribe is demanded (Ades & Di Tella, 1999; Laffont & N'Guessan, 1999; Rose-Ackerman, 1978; Shleifer & Vishny, 1993; Streißler, 1981). This contradicts theoretical arguments. Only perfect competition in a perfect market with a great number of small suppliers and demanders, complete market transparency, and homogeneous products prevents corruption (Rose-Ackerman, 1978, pp. 200 – 209; Streißler, 1981). If some of these conditions are violated, trying to change them to approach the ideal may increase the level of corporate corruption (Rose-Ackerman, 1978, p. 208). Monopolistic or oligopolistic markets are especially conducive to corruption when either the demander or the supplier is alone or very powerful among few in the market (Streißler, 1981). Kugel and Gruenberg (1977) argue: “Since oligopoly markets are characterized by a lack of price competition, international payoffs become a kind of nonprice competition” (p. 36). The same is true for a market of inhomogeneous goods with lacking information about the goods' prices and qualities and therefore no standard market price (Rose-Ackerman, 1978, p. 201; Streißler, 1981). Under such conditions, high competition leads to the fact that not the best offer but the bribe decides who gets the contract (Geis, 1997): The greater the competition, the greater the need to act corruptly (Clinard, 1990, p. 132; Coleman, 1998, p. 201). Thus, corruption occurs where the market and competition cannot develop sufficiently (Ockenfels, 1997). Empirical evidence on ethical decision making also showed mixed results regarding the level of overall business competitiveness (Ford & Richardson, 1994). But both Hegarty and Sims (1978) and Martin et al. (2007) found higher corruption under increased competition or increased perceived competitive intensity.

Sixth, according to empirical results, the smaller the economic freedom and the higher governmental restraints and interventions, the more likely is corruption (Ades & Di Tella, 1997; Ali & Isse, 2003; Paldam, 2002; Park, 2003; Sanyal & Samanta, 2004a; Sanyal & Samanta, 2004b). Corrupt payments between firms are used to circumvent government regulations. The restriction of private transactions (e.g., price controls, rationing) by legislation creates payoff opportunities and thus provides corrupt incentives (Rose-Ackerman, 1978, p. 206). But Sanyal and Samanta (2004b) showed that changes in economic freedom resulted in changes in perceived corruption for developed countries but not for developing countries.

Seventh, if one company in a market acts corruptly and is successful, its behavior finds imitators (Krug, 1997, p. 67). Thus, once corruption is experienced as a successful means to achieve advantages, its attractiveness is enhanced (Coleman, 1998, p. 204).

Finally, certain industries are more prone to commit illegal acts (Baucus & Near, 1991) like corruption. The construction, engineering, commodity, and equipment industries are especially vulnerable because of the scale of the venture, strong competition, and increased likelihood of corrupt payoffs (Lane & Simpson, 1984).