

Corruption in international business transactions: The perspective of Norwegian firms

Tina Søreide

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Preface

The purpose of the project behind this report is to obtain more understanding of corruption in international markets, particularly by exploring the perspectives of firms, their challenges, their experiences and their preferred strategies. The study consists of three parts, (i) interviews at executive level in seven large firms, (ii) a business-survey, where 82 firms with a headquarter in Norway responded to a questionnaire, and (iii) a survey of Norwegian embassies outside the OECD-region.

The report is part of my PhD project at the Norwegian School of Economics and Business Administration (NHH), under the supervision of Kjetil Bjorvatn. The preparatory studies for the project were carried out under the guidance of Susan Rose-Ackerman during my research stay at Yale Law School in 2003. The PhD project, including the stay at Yale University, is financed by the Norwegian Research Council.

Both the business survey and the embassy survey were carried out in collaboration with The Confederation of Norwegian Business and Industry (NHO). This is the largest business-association in Norway, and organises more than 16000 enterprises ranging from small family-owned businesses to large industrial enterprises. NHO has assisted all parts of this project appreciably, most critically by addressing top managers and embassies. Despite its obvious interest in promoting Norwegian industry, NHO has remained neutral in this research, awaiting the results without influencing any conclusions. Persons in the NHO administration who have been involved in this project are mainly Jon Vea, Erik Lundebj, Kaia Lie Petterson, Ingebjørg Harto and Anniken Tømte.

Being an empirical study, the project has involved many individuals. I am deeply grateful to all the persons in the companies who responded to the quite extensive business survey questionnaire. Prior to the mail survey, I had meetings with representatives of seven firms: ABB, Statoil, Telenor, Jotun, Aker Kværner, Eidesvik Shipping and DNV (Det Norske Veritas). I am very grateful for their support.

The embassy survey was dependent on the cooperative attitude of the Norwegian ambassadors. I am particularly thankful to Christian Fougner, First Secretary at the Norwegian embassy in Sri Lanka, who also contributed to the project by collecting information from joint ventures between Norwegian and Sri Lankan firms.

Finally, the project has benefited substantially from comments from and interesting discussions with Kalle Moene, who is also supervising my PhD project, Tone Ognedal, Jens Andvig, Jacob Svensson, Tor-Inge Baldersheim, Claudio Abramo Weber, Thor Søreide, Birthe Taraldset, Chris Woodruff, Åse Grødeland, Jennifer Arlen, Helge Kvamme, John Bray, Fredrik Galtung, my husband Olav Roald Hansen and with many of my colleagues at CMI, especially Odd-Helge Fjeldstad and Arne Wiig.

Bergen, November 2004

Executive summary

Six issues motivate the study: (1) The choices firms make when experiencing a business climate that is worse than expected prior to entry; (2) the reluctance to speak out on corruption; (3) the link between corruption and market power; (4) the impact of improved procurement procedures; (5) the grey zones of facilitation payments, marketing and political pressure; and (6) the firms' revealed business strategies versus their expressed attitudes and codes of conduct.

Methodology

The survey consists of three parts: (1) A pilot study with interviews with business leaders in seven large firms; (2) a mail-survey in which 82 executives in private firms with headquarters in Norway responded to a questionnaire; and (3) an embassy study in which Norwegian embassies in countries outside the OECD area responded to a smaller questionnaire. NHO contributed appreciably throughout the project.

Norwegian industry is an interesting case for a study like this. It is international and outward oriented, several of the most important sectors are among the more exposed to corruption and undue business practices. Norway is still evaluated as a country where corruption is rare and where new anti-corruption rules are well implemented. The conflict of interest experienced when entering challenging markets with the ambition of respecting rules and regulations, is probably familiar to many of the respondents in this project.

The perspective of embassies

Most of the embassy representatives describe a rather discouraging picture of the local business climate in their specific countries of operation. Corruption appears to be a real business constraint, and firms will, according to this survey, lose contracts if they do not adjust their business practices to local informal conventions. Some embassy representatives would even recommend practices that would not be accepted in Norway. Nevertheless, most of the embassies will not tolerate corruption, and certainly not the involvement of Norwegian firms. Most of them are also ready to raise the issue of corruption at higher political levels.

In Sri Lanka, the Norwegian embassy collected information from 10 joint ventures. The firms describe corruption as a real obstacle to business. In spite of this, many of the firms find it possible to operate without getting involved in corruption.

Norwegian firms' experience of corruption

Two-thirds of the respondents in the business survey think or are convinced that they have lost a contract due to corruption. One-third have decided not to operate in a specific country because of corruption or similar problems. 42% find unethical business practices to be common in certain areas, and 32% frequently experience a gap between formal and informal rules in some of their markets of operation.

The legal status of facilitation payments, irregular payments "to get things done", is not clear to most respondents. In addition, 27% find that gifts are required for them to be able to operate in certain markets. Around 10% of the respondents admit to having accepted a request for payment from an agent, an adviser or a consultant that has most likely been used for bribery. Another 6% say that they probably have done so.

The respondents' attitude to corruption does not appear to be the same in all markets. A majority finds Scandinavian firms to be just as likely to meet demands for bribes as competitors from countries with higher levels of corruption. FDI firms are more exposed to corruption than exporting firms.

The survey results find a correlation between competitive pressure and exposure to corruption; i.e. the fiercer the competition, the higher the likelihood of being involved in corruption. Firms that find it hard to make profits are also more likely to find bribes a prerequisite for doing business in some markets.

Given the selection of firms in this study, larger firms are more exposed to corruption than smaller or medium-sized firms. The sectors most exposed to corruption are, according to this survey, ‘heavy industry’, ‘oil, gas and power transmission’ and ‘telecoms and IT’. Of the 82 responding companies, 16 have carried out aid-funded projects. Half of these have the impression that corruption is more common in aid-funded projects than in non-aid projects. Of these 16 firms, 7 find no difference between aid and non-aid projects. Only one firm has the impression that aid business is “cleaner” than non-aid ventures.

International tenders and corruption

The difference between marketing strategies and corruption is not clear. A significant proportion of the firms offer clients gifts or excursions that may have a considerable private value for the beneficiary. Many firms are also asked to advise the client on technical aspects of tender specifications, a situation that also creates opportunities to influence the client. A majority of the companies do not believe that tender rules prevent corruption, and 41% of the respondents say that tender specifications are occasionally designed to fit with the offer of one specific company (predestination).

One third of the companies report having experienced that a competitor has won a contract by means of political pressure, circumstances that resemble corruption. *Quid pro quo*, or local contents, should usually not be mixed up with corruption. It is reported that 18% often meet a demand for a *quid pro quo*, while 33% rarely do so.

Strategic choices in the presence of corruption

Many firms experience a conflict of interest when operating in markets where corruption is more common. Wishing to operate in accordance with both local and international law, they are worried about the consequences if only competitors pay bribes. The group of firms that finds it difficult to respect the law are also the most informed on the OECD anti-bribery convention.

A majority of the firms (58%) says that corruption is never acceptable (18% find it acceptable only if there is no other way of operating in the market). However, most of the firms would not lodge an appeal if a competitor paid a bribe, many of them because “corruption is part of the game”. The most reported reason for keeping quiet when encountering bribery is not the lack of proof, but rather a concern for future business cooperation. A firm’s propensity to react or complain about corruption decreases the more experience it has in international markets.

As most firms prefer not to speak out when losing contracts because of corruption, they have to choose between exiting from the specific market or to making some kind of adjustment to local practices. Only 5% prefer to leave the market under such circumstances. Agents, local contacts and advisers are important when entering new markets. However, ties to relevant decision-makers appear to be their most important quality. Their ability to deal with local formalities is also highly regarded.

The respondents were asked to suggest the most typical purposes of bribery and undue business practices. The alternatives most frequently suggested were: (1) Obtaining the contract through direct negotiations; (2) secret information about evaluation or tender specifications; (3) secret information about the other companies’ bids; and (4) adjustments in tender specifications. The respondents were also asked to suggest the “underlying motivation” behind bribery. The alternative most often suggested was “the fear of losing contracts because someone else has bribed the decision-makers”.

Internal control and measures

About one-third of the responding firms, mostly large firms, have codes of conduct to prevent employees from paying bribes. A larger number of the respondents, 48%, have, reportedly, routines to detect corruption. Half of these firms (of the 48%) consider their routines to be efficient, and 13% say that they have actually caught an employee being corrupt.

Among the firms that have an anti-corruption code of conduct, 31% say that they would adjust their strategies to the local business culture if they were losing contracts because of corruption. This study finds no support for the theory that firms with codes of conduct are less likely to lose contracts because of corruption. In fact, operating in line with anti-corruption codes of conduct implies the cost of losing contracts.

Most respondents, all with some executive responsibility, claim that they would have been informed if a bribe had been offered on behalf of the firm to obtain a contract: 18% have still considered it a benefit *not* to be informed if an agent applies his compensation to questionable payments.

Involvement in corruption is usually the result of an executive decision, and the risk connected with corruption is mainly related to the problem of being caught in the crime. Firms that carry out projects as a joint venture or consortium face the additional risk of having cooperating firms influencing clients in unethical manners, a problem experienced by several responding firms. The respondents are generally reluctant to discuss issues of corruption with persons outside the company. Only 11% would involve the police and only one firm would allow external investigations by a committee or a consultant if a serious violation of ethical rules were detected.

Most firms say that their attitudes to corruption have remained unchanged for a long time, implying that they do not tolerate corruption. Most of them also consider corruption to be on the decrease. In spite of this, only 27% of the firms find competition in their industry less unfair and biased than before.

1 Introduction

1.1 Corruption, new rules, risk and incentives

For some time now, there seems to have been broad agreement that corruption is one of the most serious problems in the world today. Politicians in most countries have introduced programs to combat this crime, multinationals encourage their employees to avoid unethical business practices, and the international community has proposed common cross-border anti-corruption regulations. It is therefore a puzzle why we, in spite of these considerable and united efforts, have no obvious reason to assume that international business corruption is on the decrease.

It is perhaps premature to evaluate the general impact of the relatively new international anti-corruption conventions. The OECD convention against bribery of foreign public officials in international business transactions has been in effect since February 1999. The UN convention, an agreement on the criminalisation of a broad range of corruption-related activities and co-operation on investigation, was introduced in 2003. New rules may take some years to have a bearing on attitudes and choices, particularly when being introduced in a field where rules in international markets have been inconsistent and not the same for all competitors, where firms have referred to moral justifications for breaking the law, and where politicians and states have been unconvincing in their efforts to combat this crime.

Even so, it is not too early to discuss the possible impacts of these initiatives on firms' actual choices. New rules will, of course, have some influence on the moral principles of many business leaders, thereby increasing their integrity and their conformity to professional standards of conduct. Other executives must be expected to calculate probable gains against possible losses, including when it comes to illegal or unethical practices. New international regulations have probably increased the cost of being caught in corrupt practice. However, estimating expected risk as a function of both cost and probability, the likely consequences of taking part in corruption are not much changed by the new rules, unless the probability of being detected in the crime also increases.

Increasing the actual risk of corruption is a considerable challenge for two simple reasons, both of them to do with incentives. Firstly, the probability of being subject to local prosecution because of corruption is generally low. Obviously, bribes are more frequently offered in countries where corruption is common. And if corruption is common, the risk of being detected is lower because there are so many cases for the police to investigate. Besides, once detected in corruption, the chances of having charges withdrawn by bribing the prosecutor, or someone above the prosecutor, increases with the level of corruption. Accepting corruption may also ensure a certain level of income for individuals in key positions, and hence diminish their motivation to react against this crime (Andvig and Moene, 1990).

Secondly, the implementation of the OECD anti-bribery convention on cross-border business transactions makes it illegal to offer bribes to public officials in foreign countries. However, most states wish to increase the probability of "their" domestic companies getting contracts in foreign countries. Many politicians even make significant efforts to influence foreign states to encourage them to prefer "their" domestic firms when making decisions on costly

investments, an influence that in many cases resembles corruption. When most politicians assume, and also accept, that the way of doing business varies across the globe, it is relevant to question their incentives to encourage investigations on “their own” firms, even if contracts are obtained in a way that allegedly is unacceptable. The number of cases based on the OECD convention, internationally, is, accordingly, almost none. When the enforcement of new rules is the responsibility of each individual jurisdiction, it has, repeatedly, proved difficult to put new international conventions into effect.

The consequences of corruption, and the challenge of controlling it, have motivated research, and the literature on corruption has increased significantly during the past decade. We have small scale studies that describe mechanisms of corruption in one specific country, sector or market, most often in developing countries. This kind of research is important in supporting or disproving more general assumptions about corruption, or just improving local anti-corruption policy. In contrast to the micro-oriented projects, we have large-scale studies that describe cross-country correlations between corruption and other phenomena, such as economic growth, legal traditions, religion, inequality, etc.¹ Conclusions based on this research will be subject to the ability of corruption indices to estimate actual levels of corruption. These studies will need to be complemented by other perspectives in order to provide information about relevant econometric causalities.

What we now also need, to better understand international corruption, is more research on how the different facets of globalisation, such as the increase of international trade, cross-border competition, and legislative co-operation, affect the differences in business climates across the globe and the strategic choices of the players. The World Bank’s business surveys are important contributions in this respect (Batra et al, 2003). Nevertheless, a number of issues related to corruption and similar problems are not included in these studies.

1.2 Key questions

Given this background, the present literature on the issues, and various discussions with persons mentioned in the preface, the present project aims to explore six related topics.

1.2.1 Choice of strategy in challenging business climates

Firms that operate in developing countries will sometimes experience a business climate that is worse than expected prior to entry into the specific market. Corruption may be more or less visible at several levels, the number of start-up procedures high and difficult to get through, property rights poorly protected and difficult to register, or the judicial system may function too poorly to enable the enforcement of contracts.² These bureaucratic obstacles seem to be correlated to the level of corruption. While a bribe may simplify the procedures, it also preserves the mechanisms and incentives behind the barriers.

Many firms find it difficult to make the right choices under such circumstances. When finding themselves repeatedly losing contracts because of corruption, or because there are some invisible ties between clients and competitors, they basically have three options:

¹ See Rose-Ackerman (1999, 2004) for a detailed classification of challenges related to corruption, the empirical literature, and anti-corruption policy measures. Papers are available at the web pages of several institutions, such as the World Bank, Transparency International, UNICRI and U4.

² World Bank (2005) provides an overview of geographical variations in such business obstacles.

- i) Exit and leave the country, forget about lost investments, and aim for alternative markets.
- ii) Complain about the circumstances, speak out and try to improve the underlying situation for the better.
- iii) Adjust to the local business climate. Make the right contacts, be patient, perhaps offer a bribe if that seems required.

The present study aims at more understanding of these choices. Which solution is the most preferred, and why? Is it common to leave a specific market because of corruption? Why do firms seem unwilling to act against corruption? Is it possible to make profits in a market where corruption is common without taking part in any kind of unethical business practice?

1.2.2 Why not speak out?

A particularly interesting question relates to the reluctance to complain, mentioned above, when contracts have obviously been lost because of corruption. There are alternative channels for responding to the crime. A firm can follow formal procedures, and lodge an appeal to the client or the tender authorities. How many firms do so? It can encourage local authorities to take a closer look at the deal. Given sufficient proof, it can itself bring the case to court, either locally or in the home country of the bribing firm. Other options are to go through intelligence services, embassies, newspapers or anti-corruption groups, or just submit a letter of complaint to the firm that has paid a bribe. Does it ever happen?

These matters are important because firms are often the most likely to understand that corruption takes place between a competitor and a client. A higher probability of reactions from competitors may have a vital impact on the actual risk of corruption, and may therefore have an influence on firms' propensity to offer bribes.

1.2.3 Competition and corruption

The link between competition and corruption is not clear in the relevant literature. It has been argued that market power enables corruption because net profits are required to cover the expenses of making bribe payments. However, empirical studies that find a positive correlation between corruption and market power may have failed to include an important dynamic aspect. Firms in competitive markets pay bribes to obtain market power, and change thereby the industrial organisation. Given such correlations, it can thus still be the case that competitive pressure leads to a higher propensity to offer bribes. Besides, the amount offered in a bribe can be covered by the total contract. The actual cost of making a bribe payment will often depend on the relative bargaining power of those involved.

1.2.4 The ability of procurement rules to reduce corruption

Many countries have reformed their procurement procedures in recent years in order to ensure fair and unbiased competition for public contracts. Corruption represents a critical threat to the attainment of this objective. Bribery-induced violations of procurement procedures can basically be categorised in two groups:

- (i) Hidden violations of procurement rules: it looks like as if the rules have been respected.
- (ii) Legitimate deviations from procurement procedures: rules of exception are too frequently exploited.

The project aims at more understanding of different forms of corruption in each of these categories, and explores the efficiency of procurement rules in preventing corruption. The presence of procurement procedures will often reduce the individual authority of public

officials to award contracts. The purpose of bribes will therefore be to increase the probability of obtaining the contract, but without a guarantee of success in the tender procedure. These changes may impact on the means of influencing a client, as well as the size of bribes and other inducements.

The study explores the perceived impact of procurement procedures on controlling corruption in tenders for public contracts. To understand possible obstacles to free and fair competition, the survey also aims at revealing the more underlying motivation behind bribery, while recognising the obvious search for revenues.

1.2.5 Grey zones

The definition of corruption varies, in layman's language as well as in legal terms. There are different forms of corruption, they have different consequences, and the tolerance of corruption will often vary with the actual circumstances. This study explores three areas in which the judicial status of corruption is unclear, where influence is very similar to corruption, and where the persons involved typically defend the practices as not being corrupt.

- (i) *Facilitation payments*, smaller bribes paid to get things done. The defence of facilitation payments is often based on a lack of bargaining power.
- (ii) *Marketing* targeted at specific individuals, where expensive gifts and excursions are offered to encourage informal relations with the potential client. Many firms claim this kind of marketing to be essential.
- (iii) *Political pressure*, for instance in the form of subsidies, export-credit deals or aid, sometimes also presented as threats of political sanctions. These practices are difficult to attack legally, as they are carried out by political leaders at the highest state level.

1.2.6 Business strategies versus codes of conduct

A visible and unquestionable attitude against corruption is important to prevent the temptation of bribery. However, the promises of business leaders and the words in their codes of conduct will not always have an impact on their actual incentives and choices.

This project includes a study of various measures introduced internally in firms to prevent corruption, such as codes of conduct, control routines and the choices made if actually experiencing a scandal related to corruption. These issues are discussed in the light of the firms' preferred strategies when operating in challenging business climates.

1.3 This project, this report

The research questions were explored empirically by conducting a business-survey on corruption in international markets, as experienced by Norwegian firms. The project was complemented by a survey of Norwegian embassies in countries outside the OECD region. Both the business survey and the embassy survey were carried out in collaboration with The Confederation of Norwegian Business and Industry (NHO).

There are obvious problems related to empirical investigations on such a sensitive subject, and the reliability of the answers collected is uncertain. The respondents have incentives to protect the reputation of their sector and Norwegian firms in general. Bribery is usually known to only a very small number of persons, and might also be hidden from high-level employees. The lack of actual knowledge about the phenomenon makes it probable that many

respondents base their beliefs on occasional incidents. It may even induce some respondents to overstate the problem and claim corruption to be more widespread than it really is.³

Nevertheless, the fight against corruption is crucial in making markets function in a welfare-enhancing manner, particularly in developing countries, and we need nuanced information from people with experience in international business to be able to identify efficient measures. It is important to be aware, however, when designing and interpreting surveys on corruption, of the fact that such results, for various reasons, are biased. One of the goals of the present survey design is to base the value of the material on what people say, while recognising its limitations in reflecting the firms' actual choices. Most of the questions still relate to issues about which the respondents are quite likely to tell the truth.

Restricting the survey to Norway-based firms represents a limitation to the generality of the results. This choice is due to the cost and difficulty of obtaining responses to a relatively extensive questionnaire from a large number of firms. The constructive attitude of and assistance from NHO has been important in obtaining data from firms in Norway. Similar assistance from business organisations in various countries cannot be expected. However, given one country in conducting this survey, Norway happens to be a good choice.

Norwegian industry is international and outward oriented, and well exposed to international attitudes and business cultures. Several of the most important sectors of operation are perceived to be among the more exposed to corruption, such as oil and gas, power transmission, construction and IT. Norway as a nation is still scoring well on international corruption rankings (Kaufman et al., 2003; Transparency International, 2003), and is also commended by OECD for its implementation of the new anti-bribery convention (OECD, 2004). The challenge of facing corruption in international markets, combined with a more restrictive legislation, is therefore well known to many Norwegian firms.

The topics surveyed are explored in depth, asking close to 100 questions in the business survey questionnaire. 82 persons in top management have responded, while 12 persons in seven firms with significant experience in international markets have been interviewed. The size of the 82 firms varies significantly, 10 sectors are represented, and all the firms do business in markets in which corruption is perceived to be a significant problem.

The business survey is not a large-sample study with statistical power and significant cross-sectional variation for identifying levels of corruption. Nor is it a clinical experiment with opportunities for obtaining detailed information about a few cases. The advantage of the present study, where a business survey is complemented by interviews and a second survey of embassies, is its ability to ask specific and qualitative questions, resulting in new information about certain issues.

The report is organised as follows. The executive summary, page v, describes the results very briefly. The embassy survey is presented right after this introduction in Section 2, before the business survey. This arrangement is made to provide some background information from actors other than firms, on the perceived extent of corruption in non-OECD countries where Norwegian firms are likely to be present.

³ The comprehensive rankings of countries according to their perceived level of corruption are also exposed to this problem because they are based on individual surveys. Information about these rankings are provided by the authors of the two main indices, the World Bank and Transparency International, and made available on their home pages. Søreide (2003) provides an assessment of empirical information on corruption.

The business survey is presented right after the chapter on observations made by embassies. Section 3 describes methodological aspects of the survey, respondent characteristics and terminological issues. The business respondents' experiences with corruption and their own involvement are presented in Section 4. This section also describes some characteristics of firms that seem to be exposed to corruption.

The focus of Section 5 is tender procedures. Various ways of influencing tenders are main issues, including some of the grey-zone practices. Section 6 describes the firms' reported strategies when operating in markets where corruption is a common problem, their apparent tolerance to or disapproval of corruption, and the perceived purpose of bribery. Section 7 reports on the responding firms' internal control mechanisms, including the responsibility and options preferred if the firm actually has been involved in corruption. Section 8 concludes.

2 The embassy survey

The perspective of embassies has seldom been systematically collected as a separate source of information on issues related to economic development. As far as is known to the author, there are no corruption surveys that apply such an approach. In this project, however, the responses from the embassies have great value. Embassy representatives usually reside in the country for a significant period of time, they observe its society with the eyes of foreigners and they take part in political gatherings. At the same time, they are expected to know the local markets and industries, in order to be able to advise home-country firms entering the local market, and to send information to home-country public institutions. In recent years, Norwegian embassies have also come to play a more important role in the assignment of (bilateral) aid-funded contracts. This specific role, as representatives for Norwegian authorities in countries where business practices often differ from those back home, makes it relevant to be aware of their views on the problem of corruption.

2.1 Survey design

The embassy survey is a mail survey. NHO distributed a questionnaire to 44 Norwegian embassies, while the responses were returned to CMI. 24 responses were received. The questionnaire can be found in Appendix 2. It asks nine questions related to the embassies' perceptions on challenges related to local corruption, their ability to confront local authorities with the problem, and whether foreign firms are likely to take on business practices that would not be considered acceptable in their home country.

The embassy survey respondents can be categorised according to the level of income in their country of operation. All the embassies that were approached by NHO to take part in the survey are outside the OECD region. 11 of the responding embassies are in developing countries, 13 in middle-income countries. The choice of category is made by the respondents themselves. For the sake of anonymity, the participating embassies can not be identified. The sensitivity of the issue also made it a challenge to formulate questions in a way that would not discourage the respondents from answering the questionnaire (see also Section 3.4 on terminology).

2.2 Responses from Norwegian embassies in non-OECD countries

2.2.1 A real business constraint

Most of the 24 respondents in the embassy survey, i.e. representatives of embassies in various developing or middle income countries, described corruption as a real business constraint in their specific country of operation. Three respondents considered corruption seldom to be an issue in local business. 19 respondents said that corruption is *frequently*, *often* or *always* part of the business culture. 21 respondents would assume that Norwegian firms operating in the specific area are *sometimes*, *frequently* or *often* confronted with challenges related to illegitimate business practices, irregular payments and corruption.

Studies made by the World Bank (Batra et al, 2003; World Bank, 2005) and Transparency International (2004) describe clear differences between corruption in OECD and non-OECD countries. However, the extent of corruption seems to vary considerably within regions and

also in the ways of impeding business. A correlation between actual levels of corruption and GDP per capita is not sufficiently documented (Weber, 2004).⁴

2.2.2 Adjustment to local practices

Adjustment to local practices and informal conventions will, according to the respondents, often imply business procedures that would be considered less acceptable in Norway. Only four respondents said that this is *never* or *seldom* the case. 18 respondents found the business climate in their country of operation clearly inferior to what they observe in Norway. These 18 respondents also assumed that the refusal to make irregular or informal payments will reduce foreign firms' opportunities to do business in the specific country. Several of the respondents added comments to the questionnaire and described the business climate more clearly. Two of them also warned that any business venture in their country of operation runs a high risk of being subject to corruption.

Most of the embassy representatives assumed that some of the foreign firms that operate in the local market adopt business practices that most likely deviate from their own official codes of conduct. The embassy representatives were, however, cautious on this point. Only two respondents found this *often* to be the case, while 13 said it probably happens *sometimes*.

The embassies were asked if they would recommend that Norwegian firms adjust to the local business culture, even if it could imply business behaviour that would not be accepted in Norway. Most of the respondents made a clear statement: 14 of them would *never* make such a recommendation, two of them would *seldom* do so, another two would *maybe*, and five respondents would *sometimes* make such recommendations. Given the presentation of the questionnaire, as part of a study on corruption, and the other questions that are more clearly related to corruption, it is reasonable to interpret this question (number 7, Appendix 2) as meaning whether the respondent would recommend some kind of bribery. Given that they are aware of this, it is disturbing that representatives of more than one third of the embassies included in this survey are in doubt on this issue, or, like five of them, actually prepared to give such an advice.

Table 2.1: Response from embassies

Question	Affirmative response ¹ , n=24
<i>How frequently do you think corruption is part of the business culture in your country of operation?</i>	21
<i>Will adjustment to local informal conventions in your country of operation ever imply business procedures that would be considered less acceptable in Norway?</i>	21
<i>Is it likely that the refusal to make irregular or informal payments might reduce the opportunities for foreign firms to do business in your country of operation?</i>	19
<i>Would you recommend that Norwegian firms adjust to the local culture, even if it could imply business behaviour that would not be accepted in Norway?</i>	8
<i>Given that a Norwegian firm has lost an important contract due to corruption, would you be willing to mention the issue to local authorities?</i>	18

¹Note: "Affirmative response" to the questions asked implies the choice of answers such as *frequently*, *yes*, *sometimes*, *often*, *certainly* and *probably*, as opposed to *no*, *never* or *seldom*. The questionnaire is available in Appendix 2. Note also, 13 responses are made by embassies in middle income countries, 11 in developing countries. Even so, there is no notable difference in the responses from these two categories.

⁴ Weber (2004) analyses Transparency International's Corruption Perception Index, and questions its ability to separate the level of corruption from the general level of welfare.

2.2.3 Raising objections at the political level

Many firms hesitate to complain about corruption, even if bribery by a competitor has obviously made them lose an important contract. The outcome of a complaint is perhaps expected to be low, the firm prefers not to insult the client, or it is worried about sanctions by the bribing firm, or even from the business community.⁵ To encourage firms to make some kind of response when bribery does occur, and thereby underscore intolerance to corruption, it is important to identify alternative channels of speaking out about the problem. One such alternative channel for firms is to co-operate with the relevant embassy, and raise the issue of corruption at the political level.

The propensity of the Norwegian embassies to co-operate with private firms under such circumstances is promising. 18 respondents would *probably* (6) or *certainly* (12) be ready to mention the issue to local authorities. Only five would *not* or *probably not* do so. 11 embassies have actually made this kind of response, and raised the issue of corruption at a higher political level. Six of these eleven say they have done so several times.

2.3 The perspective of Norwegian joint ventures in Sri Lanka

The Norwegian embassy in Sri Lanka was particularly obliging, and collected information from several Sri Lankan Norwegian joint ventures, ten companies altogether. The embassy questionnaire (Appendix 2) was copied and distributed by the embassy to these firms. The embassy accordingly collected the responses and sent them to Norway. The information from this sub-survey happened to be valuable and is presented here in Table 3.2.

Table 2.2: The response from ten joint ventures in Sri-Lanka

Question	Affirmative response ^a , n=10
<i>How frequently do you think corruption is part of the business culture in your country of operation?</i>	8
<i>How often would you assume that Norwegian firms operating in the area are confronted with challenges related to illegitimate business practices, irregular payments and corruption?</i>	7
<i>Will adjustment to local informal conventions in your country of operation ever imply business procedures that would be considered less acceptable in Norway?</i>	3
<i>Is it likely that the refusal to make irregular or informal payments might reduce the opportunities for foreign firms to do business in your country of operation?</i>	5
<i>Would you recommend that Norwegian firms adjust to the local culture, even if it could imply business behaviour that would not be accepted in Norway?</i>	5
<i>Given that a Norwegian firm has lost an important contract due to corruption, would you be willing to mention the issue to local authorities?</i>	10

Note: There are ten respondents altogether in this ‘sub-survey’. ^aAs in Table 3.1, an “affirmative response” to the questions asked implies the choice of answers such as *frequently, yes, sometimes, often, certainly* and *probably*, as opposed to *no, never* or *seldom*. The questionnaire is available in Appendix 2.

Firstly, the ten firms have a varying view on corruption as a restriction on doing business. Most of them consider corruption to be a real business constraint in Sri Lanka. The disagreement relates to the necessity of taking part in corruption to be able to operate in the country. Five of the ten firms believed that a firm’s business opportunities might be reduced if it refuses to make irregular or informal payments. Five firms would also recommend that other Norwegian firms adjust to the local culture, even if this would imply business behaviour that would not be accepted in Norway. The other five firms portrayed a better picture on these

⁵ This issue is more elaborated on in Section 6.2.

two issues. According to these firms, it is possible to operate “cleanly” and honestly in Sri Lanka: they would certainly not recommend any undue business practices. This sub-survey lacks characterising information on the firms because they responded to the embassy questionnaire. Information which could explain the different perceptions is therefore not available.

Secondly, all the firms are willing to mention the issue of corruption to local authorities. The question was meant for the embassies. When responded to by firms, it is interesting to note this attitude, as it deviates strongly from the attitudes reported in the business survey conducted in Norway. Section 6.2 describes a strong reluctance to complain about corruption in any way. The discrepancy can probably not be solely explained by the Sri Lankan joint ventures’ familiarity with local conditions. Many of the business survey respondents in Norway have decades of experience in developing country markets, and a number of them operate with joint ventures in various countries. The explanation is perhaps more related to a link between the Norwegian embassy and the joint venture firms that responded to the survey, and thus the embassy’s relations with the local authorities.

Five of the firms say that they have in fact responded to corruption by raising the issue at a higher political level. In addition, eight of the ten firms “frequently” or “sometimes” notice that foreign firms that operate in the area make use of business practices that most likely deviate from their own codes of conduct. Although several of the joint venture respondents find it possible to operate without taking part in corruption, offences are regularly observed.

Several of the respondents in this sub-survey made interesting comments in order to describe the business climate in Sri Lanka. A statement from one of those who will seldom recommend corruption is cited here, as it probably portrays a situation that is common to several developing countries.

“In general, corruption is on three levels: the political level, the bureaucratic level and the working level.

It is the working level corruption, which one encounters frequently in day-to-day operations, that actually hinders business operations. Complaining to a higher level resolves the issues for the time being but the issue crops up in another mode. This is an area where most of the foreign companies tend to find ways to adapt to local country situations.

Bureaucratic corruption pops up occasionally, but with big demands. Refusal to bend would put forward long-term hassles, raising issues like non-compliance to policies and standards. As these so-called policies are vague and subject to interpretations in most developing countries, a parallel battle starts challenging the legalities of the stand. However, this doesn’t affect day-to-day business, except that a parallel legal battle is on.

Also political corruption pops up occasionally, but if ones business operation is ok with bureaucratic levels, it is possible to ignore and have a deaf ear to this segment. This ends up as an embarrassing hassle to the CEO or the chairman but still the action goes on.

The worst is a mix-up of political and bureaucratic corruption at the same time and on the same issue”

- Anonymous representative of a Norwegian-Sri-Lankan joint venture in Sri-Lanka, 2004.

3-7 The business survey

3 Methodology

3.1 Survey design and interpretation of results

The information collected by the business survey can be organised in five categories: (i) exposure to corruption, (ii) tender procedures, (iii) the motivation behind bribery, (iv) strategic choices in the presence of corruption, and (v) security and internal control mechanisms. The selection of topics is based on a review of the literature on corruption, feedback from recognised experts in the field, and a pilot study with interviews of business leaders. Meetings were arranged in seven large firms with senior staff with extensive international business experience, mainly from marketing and sales. In some of the firms, managers responsible for security and corporate social responsibility (CSR) were consulted.

The pilot study was a necessary first step, and essential to obtaining the right terminology, understanding the likelihood of getting serious and honest answers, and recognising problems not given attention prior to the survey, but representing serious issues to the firms. The questionnaire was therefore developed to fit with the perspectives of firms. It was also designed with the goal of avoiding biases induced by the way questions were formulated and maximising the number of responses. The business survey questionnaire can be found in Appendix 1.

The sensitivity of the topic made anonymity and confidentiality the two most important concerns when arranging for the delivery and response to the questionnaires. NHO distributed the questionnaire with a cover letter of recommendation, a three week deadline for return and an anonymous return envelope to be sent to CMI with the response. Around 500 CEOs of exporting firms received the questionnaire, most of them members of NHO. The list of firms was rather arbitrary, and the specific response rate is not very informing. Many of the firms appeared to be small and several sent us the message that they did not have enough experience to respond.

Even so, given the length, nine pages with close to 100 questions, 82 responses, representing a response rate of 16-17%, compares favourably to the response rate of several comparable surveys on less sensitive issues. Graham and Harvey (2001), researching the theory and practice of corporate finance, obtained a response rate of 9% by using similar procedures, while defending their results as being general. A survey on topics close to the present study, carried out by Control Risk Group (CRG, 2002) in five countries, reports on the basis of responses from 50 firms in each country. Most of the countries included in the World Bank business environment survey (Batra et al., 2003) cover around 100 companies. The number varies significantly, and conclusions are also drawn for countries with far fewer than 100 companies surveyed. The relatively high response rate in the present study, mainly from top managers or directors responsible for international sales, is obviously due to the support of NHO for the study.

The selection of firms are not drawn completely by random, and the extent to which the 82 responding firms actually represent the population, i.e. exporting firms in Norway, is

uncertain. The material is analysed by help of non-parametric statistics only, and the results will not allow for statistical generalisations about the extent to which firms are involved in corruption when operating in international markets, not even about Norwegian firms. Section 3.2 informs about characteristics of the firms, and the degree to which the data represent the population can be considered in light of public statistics on Norwegian industry.

What this material informs about, are the reported frequencies and cross-tabulations in the answers provided. This is interesting as it supports or disproves specific theories, and the results are able to increase our understanding of corruption and identify specific needs for further research. However, it is not unlikely that correlations found in this material also are present in a larger population. And, the reliability of empirical research on corruption can, as already mentioned, be uncertain in cases of statistical validity as well.

To make the results easy to read, most numbers are presented in percentages, even if the number of respondents is below 100. Note therefore, 10% is the response from 8 persons. Most respondents have responded to all questions, and, n , the total number of responses to each question, is equal or close to 82 in all tables or presentations of the results.

3.2 Summary of respondent characteristics

3.2.1 The individuals responding to the business survey

The respondents hold the following positions: 51% are managing directors; 38% are executives responsible for sales and marketing; 9% have an other function in the management group; and the remaining are either country managers or members of the board. The respondents are supposed to have direct responsibility for the firm's main areas of operation, other than social responsibility, security issues or public relations.

3.2.2 Experience from international markets

Most of the respondents had significant experience in international business. 31% had operated abroad for more than 30 years, 46% for 10-30 years. 23% were less experienced, with fewer than 10 years of international engagement. This experience was collected throughout the world, although mostly in Europe and USA/Canada. Other regions were represented in the following order: East European countries and Central Asia, the rest of Asia except mainland China, Latin America and the Caribbean, Sub-Saharan Africa, the Middle East and North Africa, mainland China and Oceania. 42% of the firms produced goods outside Norway, 23% of the firms outside the OECD area. 64% did not trade or carry out projects for foreign governmental institutions, while about 35% did so often or sporadically.

Comparing to numbers from public statistics, around 75% of Norwegian exports go to countries in the European Union. The amount of goods exported to the USA and Canada amounts to less than 10% of the total. Asian countries represent more important markets, importing around 11% of Norwegian exports while standing for a significantly higher share of Norwegian imports. China appears particularly important in this region. Export to Africa and South- America account for around 3% of total Norwegian exports, Botswana, South-Africa and Brazil are important countries in these regions. Main export articles, except from oil and gas, are various kinds of machinery, shipping, the construction of ships included, equipment for telecom, and computer technology. Raw metals, fish and fish products, chemical products and paper products represent other important export commodities. The European Union is the most important market also for Norwegian foreign direct investment (FDI). Norwegian FDI in developing countries are occasional, and specific patterns are not easily identified.

3.2.3 Size, sectoral composition and ownership

45% of the responding firms have an annual turnover of less than NOK 100 million, from now on called *small firms*. 32% have sales of between NOK 100 and 1000 million, the *medium sized* firms. 23% are above NOK 1 billion in turnover, hereby called *large firms* (1 billion NOK is about EUR 120 million).

20% of the responding firms operate in construction, 20% in oil, gas and power transmission⁶, 15% in agri/food industries, 13% in telecommunications and IT, 8% in heavy industry, 8% in other types of service, 6% in consulting and 5% in light manufacturing. Shipping, a significant part of Norwegian industry, is included in construction, oil, heavy industry or transportation, depending on their main group of clients. Tourism, transportation, civil aerospace, banking, finance, insurance and the pharmaceutical industry are sectors less represented among the respondents to this survey.

When it comes to ownership, 73% of the total have mainly Norwegian ownership, 84% of the firms have their headquarters in Norway, while 18% have a state ownership share of more than 50%. The firms not owned by Norwegians are mainly owned by other Europeans. Almost 9% of the firms have their headquarters in another European country, while 6% are based in the USA or Canada. According to public statistics, the European Union stands for most of the FDI in Norway, most frequently represented by Sweden, the Netherlands and Denmark. Also US firms appear to represent a relatively large share of FDI in Norwegian industry.

3.2.4 Competitive pressure

Competitive pressure is important to understand the strategies of firms, still an aspect that is difficult to measure. This survey categorises firms in this sense, according to a question about their potential for making profits on their main products. Based on this question, Table 3.1 indicates the competitive pressure among the responding firms.

Table 3.1: Competitive pressure on prices

Question	Answers	Frequency
<i>Are the prices for your main products or services forced to a level that makes it hard to make profits?</i>	No	13%
	Generally not	31%
	Usually	38%
	Yes	17%

This is of course not an objective evaluation of competitive pressure, but rather based on the respondents' own opinion. Given this measure, there is no clear pattern of competitive pressure on prices across sectors in this material. The indicated surplus varies considerably between firms within the same sector, except in agri/food industries, where a clear majority finds it difficult to make profits. The price pressure is also reported to be strong in construction, oil, gas and power transmission, while being lower in telecommunications/IT.

Large firms do not come out as more exposed to pressure on prices than small firms. This is perhaps surprising as large firms often are expected to have some market power. However, competition may be fiercer in international markets and size categories different. In the categories of small and large firms, 65% and 58% respectively, find it hard to make profits. The other firms in these categories are in better positions to obtain revenues. In the category

⁶ For the sake of anonymity, oil and power are put together in the same category.

of medium-sized firms, two-thirds find it hard to make profits, while one-third are less pressured on prices.

3.3 Terminology

PriceWaterhouseCoopers (2001) describes corruption as an act intended to give or derive advantage inconsistent with official duty and the rights of others. A bribe can thus be thought of as compensation to a representative of an institution for making a choice that deviates from the goal of that institution. Another common definition of corruption is, accordingly, the misuse of public office for private gain. The damage of this misuse lies in the influence of choices and the introduction of inefficiencies (Bardhan, 1997; Rose-Ackerman, 1999). The definition of corruption should therefore be wide enough to include several ways of obtaining the same goal, and not be technically concentrated on the transfer of bribe money. Recent judicial documents, such as the anti-corruption conventions of the Council of Europe, OECD and the United Nations⁷ allow for alternative ways of gaining influence by referring to actions that obviously have a “corrupt intention” or proposals for “improper advantage”.

There is, in spite of vast improvements in the rules, a significant grey zone between legal and illegal business practices, particularly when it comes to payments made to reduce barriers to business or certain marketing strategies directed towards specific individuals. Documents describing international law and acceptable practices are available at the home pages of the above mentioned organisations.⁸

It is common to distinguish between different types of corruption. *Grand corruption* refers to the bribery of politicians or bureaucrats with influence over large projects and important contracts. High level corruption is sometimes described as *crony capitalism*, in which political networks dominate important private assets, or *state capture*, in which private firms are able to influence public power to their own benefit (Hellman et al., 2000). *Petty corruption* is at the other end of the scale: small payments offered to or demanded from persons representing a lower level of an institution, such as local tax collectors, customs officers, health personnel or bureaucrats providing firms with the required licenses or permits. The relevant business term is *facilitation payments*, according to Transparency International, “a payment made to secure or expedite the performance of a routine or necessary action to which the payer of the facilitation payment has legal or other entitlement.”

A firm bribes *actively* if offering a bribe where such payments are not requested, while *passive* bribery means accepting such demands; the difference between the two will often be unclear. The present study does not make much distinction, assuming that corruption for important business contracts generally is a result of shared understanding between the parts involved.⁹ *Private-private* corruption denotes the situation when one firm bribes a representative of another firm, neither of them representing a public institution. Judicial definitions of corruption will not always include the situations in which a public institution is not involved. The participants in this study do not seem to discriminate, finding corruption a challenge irrespective of whether the client is a public institution or a private firm. It is

⁷ Council of Europe, Strasbourg, 27.01.1999; OECD, Paris, 21.11.1997; and the United Nations, Merida, 11.12.2003.

⁸ Norwegian readers may also be interested in Dep. of Justice (2003), Harto (2003) and a study of the legal responsibility of companies' boards (Grimstad, 2004).

⁹ Although the issue of bargaining power is important in understanding corruption, as is well described by Rose-Ackerman (1978), it is not a central research topic in this study.

important, therefore, to note that some of the business practices reported in this study may not be covered by international anti-corruption legislation.

During some of the interviews the term *corruption* was itself a strain on the conversation. Terms sometimes preferred were *undue business practices*, *predestination of contracts*, *bid rigging*, *silent digression from ethical rules*, *extralegal activities*, *inducement*, *low quality business climate*, *irregular trot*, *shabby business* and *feeling of connections*. The use of such terms indicate a lack of exact knowledge about the business practices applied by other firms, and also a caution about describing practices, their own or those of competitors, by using terms that describe unquestionably criminal activities.

4 Experience of corruption

Roughly one third of the respondents say they have seldom or never been confronted with problems related to corruption when operating in foreign areas: 26% say they have never had reason to believe that competitors have influenced tender procedures unduly. 17% have never and 43% have rarely experienced a gap between formal and informal rules when operating in areas where corruption is more common. 28% say that they are convinced that they have never lost a contract because of corruption.

4.1 Lost opportunities

Corruption is still disturbing the operations of many firms. The table shows the percentage responding positively, like *frequently* or *often*, to questions formulated in an unbiased way in the questionnaire, and who thus would agree to the statements in the second column.

Table 4.1: Corruption and lost opportunities

Statement	Response
B1 <i>Unethical business practices are common</i>	42%
B2 <i>A gap between formal and informal rules is frequently experienced</i>	32%
B6 <i>We think we have lost a contract due to corruption</i>	39%
B6 <i>We are convinced that we have lost a contract due to corruption</i>	27%
B5 <i>Our firm has decided not to operate in a country mainly because of corruption or similar problems</i>	34%
B3 <i>Corruption impedes foreign direct investment (FDI)</i>	11%

Note: The first column refers to the number of the questions as presented in the questionnaire, Appendix 1. Note also, the third and fourth question refer to the same problem.

The number of firms that claim to have lost contracts due to corruption may appear high. Adding those who *think* and those who are *convinced*, two thirds of the respondents have lost business this way. The number is still not a reflection of real levels of corruption. The question asked in the survey is not restricted to a specific period of time: most of the firms have operated internationally for years, and many of them are large corporations with widespread operations. One contract lost due to corruption does not mean that this is a problem that happens all the time.

The distinction between *convinced* and *think* was an attempt to reveal the “bad losers” in tenders from amongst those who really had lost contracts due to corruption. Several of the persons interviewed, however, based their assumption about lost contracts on situations where the firm had refused to meet a client’s direct request for a bribe. When a competitor consequently won the contract, the respondents still might say that they *think* the competitor paid a bribe. They are not necessarily *convinced* despite such a clear indication.

The extent of lost business reported in the present survey is comparable to the average result of the business survey mentioned, carried out by Control Risk Group during 2002. In the CRG study, 27% of the responding firms believed that they had lost business contracts because a competitor paid a bribe during the last year, almost 40% during the last five years.

The responses from the five countries included in the CRG survey differed significantly. 56% of Hong Kong firms claimed to have lost business due to corruption during the past 12 months, compared to 16% of UK firms (CRG, 2002).

The number of firms that have decided not to operate in a country mainly because of corruption or similar problems, 34%, is not particularly high if one assumes that *problems* relate to the business climate in general, and not only corruption. 11% of the firms find corruption to impede their FDI activities, apparently a small number. However, less than half the firms that have responded to the survey have FDI activities, only 23% outside the OECD region. One could, therefore, suspect that the 11% who find corruption to impede FDI activities represent about half the firms that have FDI activities outside the OECD region.

4.2 Involvement

Some of the firms are actually involved in corruption themselves, although few respondents admit this directly.

4.2.1 Facilitation payments

Facilitation payment is a form of corruption which has an unclear legal status to most of the participants, and which several respondents and interviewees justified.¹⁰ 50% said that they never make “irregular payments to get things done”, 24% seldom do so, while 17% admitted that they sometimes or frequently make this kind of payment. The same question was asked by the World Bank in their World Business Environment Survey (Batra et al, 2003:53). They found facilitation payments to be requested most often in South Asia, South East Asian developing countries, and in Africa. Even so, almost half the firms operating in African countries said that they rarely or never had to make any irregular payments.

Making respondents declare the true size of facilitation payments was not straightforward. Given alternatives in the questionnaire that were significantly lower than many “common (petty corruption) rates”, the survey asked for the size of such facilitation payments. 10% said that they typically paid less than NOK 1000, 20% less than NOK 10 000, while 9% typically paid between NOK 10 000 and 50 000. Just a very few firms (7%) admitted paying up to and above NOK 100 000 in “irregular additional payments to get things done”. Among the firms that admitted paying more than NOK 1000 in facilitation payments, 42% said that they did not have any problems respecting present regulations in this field. Batra et al. (2003) provide information about cross-country variations in the size of both facilitation payments and bribes to get contracts.

4.2.2 Forced generosity

The respondents were asked if it was necessary to offer valuable gifts or pay bribes to clients, directly or through an agent, to be able to operate in certain countries. Most of the respondents did not have sufficient information. There were also significant variations between sectors in this response (see Table 4.3). Nevertheless, 27% of the total found valuable gifts or bribes a prerequisite in certain regions. This number, even if substantial, appears to represent a

¹⁰ The examiners who conducted the mentioned OECD evaluation of Norway’s implementation of new anti-bribery rules were concerned that information about facilitation payments was not sufficiently communicated to the business sector. This concern is justified by the present findings (OECD, 2004:28). The unclear legal status of facilitation payments and other forms of corruption is not always improved by the literature on business risks. Poole-Robb and Baily (2002:59) is just one example, asserting: “It appears that what is and is not a bribe is a matter of presentation and perception in much the same way as the concept of corruption itself”.

significant improvement compared to a PriceWaterhouseCoopers (PWC) survey among the largest Norwegian firms in 1998. This survey found that 62% of the respondents considered it necessary to offer gifts to be able to operate in or get contracts in developing country markets.

However, the indicated improvement of attitudes probably does not reflect a similar change in actual business practices. The PWC survey appears to reflect general attitudes in a year when international attention to corruption was still fairly low. The present survey, in contrast, aimed at the respondents' own experiences. It also asked for their opinion in the post-Enron year of 2004, after the implementation of the OECD anti-bribery convention and several information campaigns, just after a corruption scandal in a large Norwegian company, and during a time when corporate social responsibility was a main topic of debate. Moreover, it asked the respondents to mark the specific areas where they consider bribes a prerequisite "to be able to operate". The regions mentioned most frequently were much the same as those pointed out by the respondents to the WB survey as particularly challenging and where corruption is a real business constraint (Batra et al., 2003: 51). Many firms still find themselves able to operate in the same areas without having to pay bribes, and we do not know how much effort firms that do pay bribes have put into alternative business practices.

4.2.3 Corruption admitted

The least reliable answers in the survey are most likely those where the respondents were asked directly about their own involvement in corruption. 9% admitted having accepted a request from an agent, an adviser or a consultant about money that would most likely be applied as bribery. Another 6% said that they probably have done so. 6% said that during the last decade they had tried to obtain a contract, a licence or a concession in a way that was important to keep confidential.

When asked about the international extent of corruption in their own line of business,¹¹ 11% thought that it never happened, 46% thought that clients were influenced this way in "1-10% of the cases"; it was not made clear what "cases" refer to. 25% thought that corruption took place in "more than 10% of the cases", a number that also includes 6% who thought that it happened in "more than 30% of the cases". Only 19% said that they did not know. These responses do not indicate levels of corruption.

4.3 Home country norms and activities abroad

A study by Hellman et al. (2002), based on a dataset which is part of a World Bank business climate survey, clearly discloses the role of international firms, not as victims, but rather as being more active in bribery than their domestic counterparts. This study by Hellman et al. (2002) does not, however, describe the differences between firms from different countries with regard to their propensity to offer bribes. Do firms from countries perceived to be less corrupt have a lower propensity to make bribe payments? To what extent do Norwegian firms apply their home country norms when operating in foreign areas?

Obviously, it is difficult to identify the "home country norms" of the firms responding to this survey. Most of them do not seem to consider corruption a considerable problem when operating inside of Scandinavia, a result that differs from polls covering Norwegian firms with less international experience. It has been claimed that corruption takes a different form in Scandinavia: that corruption is hidden in various forms of benefits other than bribe money. In the present survey, however, more than half the firms found the competition for important

¹¹ Question E4 in the questionnaire, Appendix 1.

Scandinavian contracts to be free and fair. 20% found these procedures *sometimes biased*, while 11% found them *often* or *always* biased. About half the respondents thought corruption is *never* or *seldom* influencing the outcome of tender procedures in Norway, 30% thought it *sometimes* does so, and only 7% found it *often* to do so.

According to Transparency International (TI), there is a clear difference between firms from different countries in their propensity to offer bribes in foreign markets. TI's Bribe Payers Index (BPI) ranks the 21 leading exporting countries according to the tendency of their firms to pay bribes abroad. Sweden and Australia rank as the most ethical in this sense, while China and Russia are positioned as the most active in bribery.¹² Lambsdorff (2001), who links the level of corruption of import markets with bilateral trade statistics, also finds significant differences between exporters with regard to their tendency to offer bribes.

In the present survey as many as 41% of the respondents said that there is no difference between firms from Scandinavian countries and firms from other OECD countries when it comes to bribery. The fact that firms from OECD countries are responsible for the majority of total worldwide cross-border commercial activity, i.e. standing for more than 70% of world trade in goods and services¹³, makes it relevant to search for distinctions between different OECD countries in their firms' propensity to offer bribes. However, given the significant attention on corporate social responsibility in many OECD countries and the OECD convention on cross-border bribery, the differences between countries when it comes to their firms' propensity to offer bribes, are more likely to be found between OECD-countries that have implemented the new rules and countries without this kind of restrictions.¹⁴

When asked whether Scandinavian firms were more or less exposed, than firms from other countries (non-OECD countries included), to demands for bribes when operating internationally, 56% said that there is no difference. Compared to those who operate only with trade in international markets, firms with foreign direct investment appear more exposed to corruption and undue business practices. They are also more likely to adjust their practices to the local culture if corruption disturbs their business, irrespective of geographical area.¹⁵

The present study finds the most apparent differences in attitudes and exposure to corruption to lie along the lines of industry and competitive pressure. The level of corruption in the home country of exporting firms may still denote the moral standards of business practices. Considering the increasing multinationality of big firms, it seems likely that the firms' culture of origin becomes less important in this regard.

4.4 Competitive pressure

Several authors have suggested a positive correlation between firm profitability and bribe payments in developing countries (Myrdal, 1968; Ades and Di Tella, 1999; Kaufmann and

¹² The fact that Sweden is among the countries most represented on the World Bank's list of firms debarred from WB tenders due to bribery implies that we should be cautious in relying only on the BPI results.

¹³ www.unctad.org

¹⁴ Montigny (2004) describes the difference between firms from countries with restrictions on cross-border bribery and firms from other countries as a challenge and an obstacle to the development of industry and trade in African countries. Many "clean" firms prefer alternative markets in fear of being involved in corruption, and African countries are left with an "adverse selection" of foreign investors.

¹⁵ In addition, these firms are less in doubt when asked questions related to corruption, i.e. they rarely respond with the "I do not know" alternative. This FDI-firm tendency is controlled for size, sector and turnover. However, the result does not imply that FDI activities are more exposed to corruption than trade.

Wei, 1999; Clarke and Xu, 2003). The correlation can be explained by two mechanisms. Profitable firms will typically have a larger willingness to bribe to reduce their cost of waiting for necessary services to be provided (speed money). Secondly, the person that receives a bribe may evaluate the “customer” and adapt the request for a bribe to observable information that indicates profitability, such as the firm’s size and industry. A study carried out by Svensson (2003) among Ugandan firms supports such a correlation; the more a firm can pay in bribes the more it actually has to pay. Svensson adds a nuance by observing that firms have to pay less if they have profitable alternative business options, for instance due to a low cost of reallocation or a low extent of sunk capital.

The impact on the size of bribes demanded is, accordingly, a question of bargaining power, not just visible profitability. It is likely that bargaining power is also determined by other aspects. Fiercer competition between firms may increase their propensity to take shortcuts, in the form of corruption, for instance. A correlation between competitive pressure and bribery can thus be consistent with results in respect of profitability and the size of bribes because the two aspects influence bargaining power between the firm and the corrupt official in two different ways.

While intuition may support a link between competitive pressure and corruption, the correlation can be difficult to verify because bribes can be used to increase the market power of the briber. The present findings, however, still support such a correlation. Table 4.2 is a copy of Table 4.1 made to illustrate some variations in the reported exposure to corruption, across size and competitive pressure.

Table 4.2 : Exposure to corruption, given differences in turnover and competitive pressure

Question	All respondents	Turnover			Competitive Pressure	
		L	M	S	Low	High
<i>Unethical business practices are common</i>	42%	68%	31%	36%	37%	47%
<i>A gap between formal and informal rules is frequently experienced</i>	32%	58%	28%	20%	24%	38%
<i>We think we have lost a contract due to corruption</i>	39%	47%	42%	32%	22%	42%
<i>We are convinced that we have lost a contract due to corruption</i>	27%	37%	23%	24%	25%	31%
<i>Our firm has decided not to operate in a country mainly because of corruption or similar problems</i>	34%	42%	39%	25%	22%	42%
<i>Corruption impedes foreign direct investment (FDI)</i>	11%	26%	8%	6%	6%	16%

Note: L, M and S refer to large, medium and small firms. High and low competitive pressure refer to the answers when asked whether prices for main products are reduced to a level that makes it hard to make profits. Note also that both the third and the fourth question refer to the same problem.

Among firms exposed to competitive pressure (see Table 3.1), 42% say that they have decided not to operate in a specific country or region mainly because of corruption. Among these firms, 31% have decided not to operate in a specific sector or segment of the market mainly because of corruption. In the other category, the firms that do not feel the same pressure on prices, only 22% and 15% have made the same kinds of choice. In addition, two thirds of the respondents who consider bribery a necessity in certain regions operate in highly

competitive markets, whereas a third of these firms operate in markets where profits are more easily obtainable.

It is difficult to tell whether this indicated correlation between pressure on prices and exposure to corruption is a real tendency or coincidence. If it holds for a larger number of firms, the result suggests that firms operating in competitive environments have a larger propensity to being involved in corruption, compared with firms with more market power.

Given these results, it must be noted that indications of a correlation between corruption and competitive pressure cannot, of course, be read as a case against the reduction of trade barriers and efforts to improve competitive levels in developing country markets; quite the opposite. The strengthening of antitrust bodies should be a main issue of policy debate. Restrictions in competition and entry into strategic sectors can be enabled and continued by bribery. Corruption also enables collusion¹⁶ (Lambert and Sonin, 2003) and reduces the potential of markets to ensure a level of prices favourable to private welfare. Moreover, antitrust control is crucial to avoiding an adverse selection of foreign investors who aim at influencing laws and regulations with the help of state capture forms of corruption. Hellman et al. (2002) describe a pattern of variation in state capture tendencies of FDI firms between countries with and without good antitrust institutions.

4.5 Size and sector

The correlation between corruption and the size of firms is not clear. The WB study (Batra et al., 2003) finds that small (fewer than 50 employees), medium-sized or younger firms identify themselves as more constrained by corruption than larger (more than 500 employees) and older firms. Both the CRG survey (CRG, 2002) and the present study find larger firms to be *more* exposed to corruption compared to smaller firms (Table 4.1). Even so, the different results are not contradictory.

The CRG and the present survey results are based on lost contracts and opportunities, referring to corruption at all levels. The WB survey makes a distinction between grand corruption and state capture ways of influencing laws and regulations on one side, and lower-level corruption, bureaucratic red tape and facilitation payments on the other. The first type of corruption is, almost by definition, more common among multinational firms. Smaller firms are seldom capable of offering the amounts of money involved. The second category is probably a problem for both large and small firms. Still, small firms are more likely to be the victims of grand scale corruption and state capture, facing reduced transparency and predictability of laws and regulations.

One explanation of the results in Table 4.1 is that larger firms typically get larger contracts, and that larger values are at stake for these firms. However, large firms will often have more experience and a larger spread in their international operations. Their probability of experiencing corruption will thus be larger per se, but not necessarily, if the probabilities compared are measured in the light of their total activities.

¹⁶ Corruption facilitates tacit collusion because it reduces the participants' incentive to cheat. With an honest public official, cheating means offering a lower price than the cartel and thereby providing the firm with the short-term gain of winning the specific contract. When the public official is corrupt, on the other hand, the cheater commences a competition in bribes. The dishonest public official benefits, while the firm is not guaranteed the contract. This is why corruption will make tacit collusion and cartels more stable (Lambert and Sonin, 2003).

There is also a probable difference between active and passive bribery at this point. We know that large firms more often operate in markets where alternatives to active bribery are more common, such as political donations or political pressure. It is still not straightforwardly possible to assume that large firms are also more active in secret bribery. Large firms are more concerned about their reputation and seem to be more involved in anti-corruption efforts; they may also have alternative routes of influence that make them able to avoid demands for bribes requested at lower bureaucratic levels.¹⁷ Smaller firms may not take part in public tenders on large construction projects, contracts with a relatively high risk of corruption. Being part of a larger bid/tender is suggested by several of the firms in this category as being a common motivation for bribery. Smaller firms can thus be quite exposed to private-private corruption, either actively or passively.

When it comes to variations in different sectors' exposure to corruption, it is difficult to draw conclusions on the basis of this material. All sectors are not included in the survey, and those included are not represented in a number that corresponds to the actual distribution of exporting firms in Norway. Given these reservations, the sectors most exposed to corruption are construction combined with heavy industry and oil, gas and power transmission, followed by telecommunication & IT.

Table 4.3 presents the responses to some questions related to firms' frustrations because of corruption. The columns describe the percentages responding *sometimes* or *frequently*, as opposed to *seldom* or *never*. The columns presenting results on the two specific sectors, "construction and heavy industry" and "oil, gas and power transmission", are the frequencies of these responses as a share of total response within each sector, i.e. holding sector as dependent variable.

Table 4.3: Different sectors, different exposure to corruption

Question	Percentage responding <i>sometimes</i> or <i>frequently</i> .		
	All	Constr. & heavy industry	Oil, gas & power
<i>When competing in the areas mentioned*, do you ever have reason to believe that your competitors influence tender procedures unduly?</i>	42%	57%	53%
<i>Has your company ever decided not to operate in a specific country or region mainly because of corruption or similar problems?</i>	34%	37%	47%
<i>Have you ever experienced that unethical business practices have placed your company in a more adverse competitive position? **</i>	67%	78%	76%
<i>When operating in foreign markets, do you ever have to make irregular "additional payments" to get things done?</i>	17%	26%	29%
<i>Is it necessary to offer valuable gifts or pay a bribe to clients or public officials, directly or through an agent, to be able to operate in certain countries? ***</i>	27%	40%	58%

Note, * "areas mentioned" refers to question B4 in the questionnaire. ** The reported response to this question is *probably* or *for certain*. *** This question also asks respondents to mark specific regions where this is the case.

The sectors perceived to be most exposed to corruption according to the TI Bribe Payers Index, are "public works/construction", "arms and defence" and "oil and gas".

¹⁷ This may particularly be the case in countries where anti-corruption efforts are initiated at high political levels, e.g. Nigeria and Kenya.

Telecommunications and power generation/transmission are ranked number five and six. Heavy manufacturing and IT are ranked less corrupt by the TI respondents. Even if the TI ranking is based on a completely different question, the results are comparable with the findings in Table 4.3. The CRG study places the same sectors as being the more corrupt. However, according to the CRG study, “oil, gas and mining” were the most likely to give up an otherwise attractive investment because of corruption, and also the firms most likely to review their business practices on account of new laws in this field. Telecommunications firms were found to be the least likely to be deterred by corruption, and also the least likely to review their practices.

4.6 Aid

International aid to developing countries is sometimes mentioned as a field particularly exposed to corruption. Describing different perspectives, Alesina and Weder (2002) and Svensson (2000) conclude that under certain circumstances aid can increase the levels of corruption in the recipient country.

A significant amount of international aid goes through private companies that carry out projects in developing countries. Donor governments will often tend to prefer national companies for operations financed by bilateral aid, thereby facilitating these firms’ entrance to the recipient country with industry and trade. There is thus a high probability that aid-related projects carried out by Norwegian firms also are financed by the Norwegian state.

In their statistical study, Alesina and Weder (2002) find clear differences in the donors’ propensity to offer aid to corrupt governments. Australia and the Scandinavian countries were found to be among the most cautious about funding governments where aid is less likely to reach its intended purpose. Norwegian donors have been highly attentive to the problem of corruption for several years, and also made improvements in their procedures to reduce this risk. Even so, Scandinavian countries, Norway included, has provided aid for a long period of time to regimes that are perceived highly corrupt, such as Uganda and Tanzania, and a certain presence of corruption, in spite of anti-corruption efforts, is to be expected also in projects financed by Norwegian aid organisations.

The risk of corruption is present at several stages of the procedures, during operations in the recipient country but also in the early choice of contractor for aid financed projects. The number of respondents with the relevant experience needed to provide information on the subject is not high in the present survey. Only 16 of the responding firms have actually carried out projects financed by multilateral or bilateral aid. However, half the firms with the relevant experience have the impression that corruption is more common in aid-funded projects than in non-aid projects. The other half found no difference between aid and non-aid projects. Only one respondent found aid activities to be “cleaner” than non-aid business ventures.

5 Tenders and corruption

A specific contract is a typical objective of corruption in international business. The competition for the contract will often take place in the form of a tender. The tender procedure is supposed to follow explicit rules to ensure fair and “clean” competition between the bidders. We do not have much information about the efficiency of procurement rules to prevent corruption. Moreover, the distinction between acceptable business practices and corruption is often ambiguous in these situations. Firms competing for a contract will often try to influence the tender procedure, details in tender specifications or officials responsible for the contract. This kind of influence is not only conducted by firms. A considerable fraction of the respondents to this survey seems to consider political pressure a common aspect of international tenders.

5.1 Influence on tenders

5.1.1 Marketing strategies and technical consultation

Marketing strategies challenge the definition of corruption when benefits of significant private value to the customer are offered, particularly when having a job-related aspect, such as business excursions and tickets to events to which job contacts are also invited. Several of the persons interviewed for the survey admit that the intention behind these gifts is similar or identical to the purpose behind bribery. Among the respondents, 26% offer valuable gifts to clients, while 36% offer excursions. These practices are clearly more common in sectors perceived to be among the more exposed to corruption.

The survey aims to explore the meaning of “gifts” in this setting. During interviews it was made clear that the “gifts” or “bribes” requested can be very small, including in countries where the level of corruption is perceived to be high. In countries where gifts are often expected, it can be sufficient to offer small gifts at values far below what we would call bribery - “ridiculous items like cheap souvenirs or chocolate”, in the words of one interviewee. Firms that misinterpret a culture in this sense may offer gifts or bribes that are too valuable, thus encouraging corruption and disturbing the local business culture. However, the previously mentioned survey by PriceWaterhouseCoopers of Norwegian firms in 1998 finds that gifts of rather small value create a bond between business partners that is able to influence contracts.

Other ways of influencing clients are less direct. For instance, due to their high expertise, firms are often asked to advise clients on technical parts of tender specifications, even though they are among the competitors for the contract. This consultative service will also, in some cases, represent an opportunity to influence the specifications in a direction that benefits the firm itself or a firm that it co-operates with. Table 5.1 describes some of the survey findings on firms’ influence on tenders. The responses are reported for three groups, the total and two subgroups: those who generally found the international competition for important contracts in their industry free and unbiased (49% of the total) and those who sometimes or often found it predisposed and unfair (21% of the responses). About 31% of the respondents did not have a clear opinion about the extent to which the competition is biased.

A majority of those who operate in markets where it is possible to influence tenders, where tenders are predestined, or where negotiations are common all through the tender procedure,

are also more likely to find the competition biased. The differences between the two sub-groups in Table 5.1 are still not substantial, and the problems reflected by the questions asked are also common in sectors where the competition is perceived to be quite free and fair.

Table 5.1: Influence on tenders

Question asked	Total		Biased competition		Unbiased competition	
	n/s	f/o	n/s	f/o	n/s	f/o
<i>Are you ever able to influence or asked to advise clients on tender specifications?</i>	61%	33%	61%	39%	60%	40%
<i>Does it ever happen that tender specifications are designed to fit with the offer of one specific company?</i>	45%	41%	50%	42%	63%	25%
<i>Will there often be negotiations between tender participants and decision-makers during the tender procedure?</i>	43%	49%*	37%	61%	47%	53%

Dependent variable for sub-groups is total response. “Biased competition” refers to those who find the competition for important contracts predisposed and unfair, while “unbiased competition” refers to those who find it free and fair. *Almost a fifth of those reporting communication all through the tender claim that the communication is being copied to all tender participants.

In addition to these results, 67% of the respondents find it essential or an obvious benefit to obtain or maintain a relationship to a potential customer prior to prequalification for a contract; only 24% find this unimportant. Out of those who operate in markets where it is hard to make profits, 14% do not consider early contact to be important. Among those who are able to make profits, 37% do not care about early contact.

5.1.2 Early contact and predestination

Contact at an early stage is often a prerequisite for participation in business. Firms that fail to make this kind of contact a part of their marketing strategies may find themselves unable to operate in some markets, and the contact in itself is not corruption. Early contact can actually represent an alternative to corruption. Personal relationships are considered important in many cultures, and may be more decisive for a customer than a bribe offered by a newcomer. Even so, early contact is also needed to establish the mutual trust necessary to make illegal corrupt deals on big contracts (Lambsdorff, 2002). A high reported impact of pre-tender contact may reflect biased tender procedures. It can still not be interpreted as a true indication of corruption.

A more obvious sign of unfair competition is the high reported frequency of predestination, that contracts are designed to fit with the offer of one specific tenderer (Table 5.1, second question). The technical tender procedure may appear correct even if it covers some form of corruption. The qualifications required may be specified to fit with comparative advantages held only by the bribing company. The benefiting firm will thus offer the lowest price and the formal procedures behind the choice of contractor can be justified.

Predestination, or bid rigging, will often affect the choice of technology, a choice that typically has more consequences the larger the project. Andvig (1995) explains this problem and exemplifies by referring to the impact of choosing either a production ship or an oil platform, made out of either steel or concrete. In such cases, the choice directly affects what sub-contractors are to be used, and smaller firms have incentives to influence relevant decision-makers. However, predestination is not necessarily a result of corruption. Clients may be obligated to use tender procedures, regardless of strong preferences for a specific company, for instance because of satisfaction with its past performance. According to the persons interviewed, predestination is also applied to control the spread of contracts among few competitors and thus reduce their potential for collusion.

The problem of forged tender competition is, as expected, reported most frequently by firms that also consider the competition for important contracts unfair. Surprisingly, there is no difference between the different size categories and their perceived extent of predestination. Small and medium sized firms appear just as exposed to this problem as larger firms. The differences follow the business sectors. Predestination appears more common in telecommunications/IT, construction and oil, gas and power transmission (in that order), sectors that are also considered to be among the more exposed to corruption.

5.2 Tender rules

5.2.1 Do tender rules prevent corruption?

Predestination and pre-tender contact make it reasonable to question the efficiency of tender rules in controlling corruption. As many as 55% of the respondents did not think that tender rules prevented corruption, 15% said that tender rules functioned as an obstacle, while only 6% considered tender rules to be an *efficient* obstacle to corruption. The many possible ways of cheating on tender rules make it plausible that corruption does take place independently of such procedures (Della Porta and Vannucci, 1999).

The present material does not enable a study of the correlations between the level of corruption, geographical location, and the use of formal tender procedures. The region reported as the one where tender procedures were most often neglected was still “East European countries and Central Asia”, a region where corruption was also perceived to be a significant problem. West and North European countries and USA/Canada are reported as the regions where tender procedures were most frequently respected.

5.2.2 Rules of communication

A problem that may enable corruption, seems to be that rules of communication often are neglected in tender procedures. While access to information and transparency are important in ensuring fair competition, it is crucial to keep critical information about the bids as secret as possible. Communication rules are supposed to prevent the distribution of such critical information, which for obvious reasons is a treasured object of bribery.

A central element in most formal tender rules is the way the contact between client and bidders should take place once the tender process has started. At this stage, it is often required that communication between one firm and the client is copied to all tenderers. The results presented in Table 5.1 are not promising in this regard, revealing a high tendency to negotiating all stages of a tender, often without having critical information copied to other tender participants.

The tendency to negotiate all through the tender is clearly more common among the largest firms. The contracts are larger and more complex at this level, and will often include details that need thorough discussion. These are, however, aspects that will also make it easier to cover up corruption. The violation of communication rules is, nevertheless, not categorically a result of corruption or a lack of respect for the rules among firms taking part in a tender. To hold down prices, or to make a certain firm win the tender, the client may have an incentive to inform one or several of the competing tenderers about the secret tender information. The information is sometimes presented in a way that makes the firm unable to prevent it being informed.

A significant number of the firms (44%) still expressed a general respect for this aspect of the tender rules. The people interviewed also appeared to regard the rules highly, and found it “very problematic” when the rules were not respected. Rules of communication are, by this group, held to be particularly important for complex contracts. A low respect for communication rules reduces the efficiency of tender rules to prevent corruption.

5.3 Political pressure

5.3.1 The bidder’s government

The outcome of tenders on big contracts is sometimes affected by political pressure to the benefit of one specific firm, specifically when the client is another government. The pressure takes the form of a subsidy, such as export credit deals, aid to the buyer linked formally or informally to the purchase, diplomatic or political pressure,¹⁸ commercial pricing issues, impediments to trade or tied defence/arms deals.

This kind of pressure is destructive, as it reduces the prospect of ending up with the outcome most beneficial to private welfare locally. The link to corruption becomes clear when the privileged firm has paid its own government to put pressure on the client.¹⁹ However, even without such a payment, it resembles corruption. The local welfare implication of such political influence is independent of an encouraging payment between the bidding foreign firm and its own government. Besides, the buyer is in effect bribed by the contractor’s government, while the responsible minister can “brag” about jobs and exports (without mentioning the fact that such jobs are in fact subsidised). Table 5.2 presents the results on this issue:

Table 5.2: Political pressure and quid pro quo

Question	Total		Biased competition		Unbiased competition	
	n/s	f/o	n/s	f/o	n/s	f/o
<i>n=never, s=seldom, f=frequently, o=often</i>						
<i>Has any state institution from Norway ever taken part in the negotiations to ensure a contract, or to guarantee financial aspects?</i>	79%	19%	78%	22%	88%	13%
<i>Have you ever found that a competitor has won a contract with the help of political pressure?</i>	47%	32%	38%	49%	56%	31%
<i>When operating internationally, have you ever experienced a demand for a quid pro quo, such as the use of local human resources, the building of infrastructure or other contributions to the local community?</i>	68%	18%	67%	22%	73%	20%

The two sub-groups, “biased” and “unbiased” competition, are categorised by the question “Do you perceive your industry to be free and unbiased when it comes to competition for international contracts?”

While just 19% have had this kind of assistance from Norwegian governmental institutions, 32% have found that competitors obtain contracts this way. This result is consistent with the TI Bribe Payers Survey, which finds significant differences in the propensity of governments to influence the international business ventures of domestic firms. Some of the interviewees for the present study mentioned the USA, France, the UK and Germany as the most active in this sense, a conclusion similar to TI’s. Several said that political pressure to the benefit of international competitors is a significant disadvantage and called for more political assistance from Norwegian authorities. Some also said, however, that Norwegian authorities tend to

¹⁸ For instance, in the form of political questions, such as “do you really wish to enter the European Union?”

¹⁹ The pressure can also be a threat of political sanctions. According to people interviewed for this survey, it does happen in some countries that firms pay their national politicians, for instance in the form of party financing, to sanction a client, or the client’s government (when the client is a firm), after the contract has been given to “the wrong firm”, a competitor.

benefit Norwegian firms in governmental tenders and that foreign competitors probably consider this a comparable disadvantage.

5.3.2 Quid pro quo

Quid pro quo is often expected by local political authorities and refers to a reciprocal exchange as compensation from the firm for the benefit of being chosen as the contractor on a big project. It is not always clear what the content of this compensation should be. Many firms, particularly multinationals, offer various forms of local content during contract negotiations to show that they will operate with responsibility towards the local society, e.g. building a school or infrastructure, or the use of local human resources.

It has sometimes been argued that social responsibility, or the inclusion of such local content, is a form of bribery, as it may induce a government to make a certain choice of bidder. About half the respondents to the survey conducted by Control Risk Group thought that companies made donations to charities now and then for the purpose of gaining a business advantage (CRG, 2002).

However, it is legitimate to hope for an improved reputation in return for generosity. And local content will not necessarily influence the choice of bidder. The same local content can be expected from the chosen bidder, independently of which firm this is. Besides, a benefit to society is not supposed to profit privately a public official in charge of the contract procedures. While the development implications of local content in business contracts varies a great deal (Heum et al., 2003), it is important not to lump it together with the criminal act of bribery. Bray (2004) debates the issue of quid pro quo and, for firms that do not wish to have their charitable donations confused with bribery, he emphasises the importance of transparency in these transactions.

The present study finds that only 18% *frequently* experience a request for quid pro quo, 33% *seldom* and 35% say they *never* meet such a request. Local content is far more common among the large firms compared to the small and middle sized, and appears – from this limited material - more common in construction and oil, gas and power transmission.

6 Strategic choices in the presence of corruption

The presence of a challenging business climate may force a foreign company to make choices that it would not need to pay much attention to in a market where corruption is less common. This study explores some of these issues, such as the choice of strategy when competitors get contracts by offering bribes and the assistance from intermediaries and agents. In this setting, the study also explores the purposes of bribery: What are the actual benefits obtained?

6.1 Actual and asserted business practices

In general, judicial systems preserve existing values by making already accepted behaviour legal or unaccepted behaviour illegal. When it comes to corruption, it has not always been clear what the commonly accepted behaviour is (Bardhan, 1997). While the act of corruption has been illegal in most countries, cross-border bribery has been tax deductible under domestic regulations in many countries. Hence, there has been, and still is, a certain degree of acceptance of the bribery that goes on in countries with more corruption, according to corruption rankings, as well as among governmental institutions in developed regions.²⁰

New international rules have been vital to raise attention to and to criminalise this activity. Few utter pro-bribery points of view in public anymore. One consequence, however, is that the actual attitudes of firms have become more difficult to identify. It is not easy to tell whether firms act in respect of the law, or if they just pretend to do so.

6.1.1 A problem caused by new rules?

As a response to the new international awareness in the mid-1990s of the multinationals' role in corruption, many firms found it necessary to demonstrate anti-corruption attitudes, particularly as the laws were upgraded in a number of countries. In addition, firms that had never been involved in corruption introduced codes of conduct to reduce employees' propensity to offer or obtain bribes. As a result, firms without such codes appeared to be less trustworthy, and now all firms, independently of their actual conduct or geographical location, have incentives to promote themselves actively as being honest and responsible.

The survey explores the firms' obvious conflict of interest when operating in certain challenging business environments. Most firms wish to respect both local and international law, at the same time as they are worried about the consequences if single competitors pay bribes. The result might be a cynical gap between actual and asserted business practices. This gap is not induced by the new rules themselves, but rather by the lack of enforcement of the new rules. Internationally, there have been very few court cases based on the OECD convention of 1999 against cross-border bribery. Despite improved co-operation in international crime prevention, the probability of being caught is very small for firms involved in corruption.²¹

²⁰ One recent example is the Swedish Foreign Ministry's refusal to sanction bribes for exports to Vietnam, claiming that "one sometimes has to pay bribes to do business in this country" (*BBC Monitoring Service, 11.03.2004*).

²¹ In this regard, the USA comes out as a bit more resolute than Europe. Cross-border bribery has been forbidden for US firms since 1977, when the Foreign Corrupt Practices Act (FCPA) was introduced. There have been a number of court cases in which firms have been heavily penalised. One recent example is ExxonMobil's bribery of a Kazakhstan public official to get access to the country's largest oil field.

Table 6.1 presents the response to certain questions on corruption, and describes the results also for two sub-categories of respondent: those who never find it difficult to respect the law (33% of the total) and those who usually do not or sometimes find it difficult to respect the law (44% of the total). 22% were not familiar with the relevant regulation.

Table 6.1: Corruption and other undue business practices

Question	Total		Easy to respect laws		Not always easy	
	n/s	y/f	n/s	y/f	n/s	y/f
<i>n=never/no, s=seldom, f=frequently, o=often, y=yes</i>						
<i>Do you ever experience a gap between formal and informal rules in any of the areas just mentioned?</i>	60%	32%	64%	32%	48%	52%
<i>When operating in foreign markets, do you ever have to pay some irregular "additional payments" to get things done?</i>	74%	17%	61%	26%	68%	29%
<i>Is it necessary to offer valuable gifts or pay a bribe to clients or public officials, directly or through an agent, to be able to operate in certain countries?</i>	66%	27%	78%	22%	68%	32%
<i>Has your own company ever accepted a request from an agent, an adviser or a consultant about money that would probably be applied for bribery?</i>	76%	15%	81%	5%	65%	35%
<i>Has your own company, during the last decade, tried to obtain a contract, a licence or a concession in a way that is important to keep confidential?</i>	92%	6%	96%	4%	84%	13%
<i>Are you familiar with the OECD convention against the bribery of foreign public officials?</i>	70%	30%	65%	35%	52%	48%

The dependent variable for the sub-groups is response within the sub-category. On the third question, "required to pay", however, f/o represents those who responded by describing specific geographical regions, while n/s are those who did not know or did not respond. The dependent variable for the third question is thus also total response for the sub-categories.

Those who sometimes find the laws difficult to respect are also those who are exposed to corruption or actively involved in it themselves. However, the group of firms that find it difficult to respect the law are also *more* familiar with the relevant legislation and the OECD anti-bribery convention. This result can be interpreted in at least two ways. Those who find the law easy to respect may not be fully aware of the legal status of corrupt practices. Or, firms that are more exposed to and frustrated by corruption are also more aware of new rules, still subject to a branch culture.

6.2 Tolerance of corruption

When respondents were asked directly, their outspoken acceptance of corruption was low. 58% of the total found corruption to be never acceptable. 18% found it acceptable if there is no other way of operating in the market. Only 4% tolerated corruption if the contract was necessary to avoid insolvency, while two respondents defended corrupt practices if that was the way to get contracts.

Even so, the general disapproval of the crime is challenged in the respondents' daily business life. While a large share of the firms have lost contracts due to corruption (66%), only 5% would actively lodge an appeal to the customer or the tender authorities if encountering a competitor in bribery. 26% would get a formal explanation from the client under such circumstances. This is something they are supposed to receive, in any case, according to common tender rules, and cannot be considered an active response to corruption. If formal complaints are ignored or rejected, 13% would try to react in alternative ways - for instance, through political channels, in branch fairs or through journalists. As many as 45% say positively that they prefer not to react by any means under such circumstances. A majority of these firms agrees with the statement "corruption is part of the game". Among the persons who claim that corruption is never acceptable, 35% prefer not to report or react against the practice.

These responses question the reported intolerance of corruption. Many respondents seem to consider corruption a fact of life, on which reactions will have no more than a marginal impact. This assumption is supported by the 65% who claim that they would have been more inclined to respond to bribery if it took place in a country where corruption is perceived to be uncommon.

6.2.1 Reluctance to react

What, exactly, explains the absence of responses to corruption? One of the excuses is that “*we don’t want to make any fuss*”. However, when competitors pay bribes, the companies lose not only their fair chance of gaining the contract, but also the investment of taking part in the tender, often a significant amount of time and, at least for the large firms, amounting to perhaps several million Euros. In spite of this significant loss, they do not want to make any fuss.

A plausible explanation is the lack of proof. It is often impossible to verify that corruption has taken place. Section 4.1 also describes a general reluctance to accuse somebody of being “corrupt” without clear evidence. However, firms that have participated in a tender where the outcome has probably been affected by corruption will often have reason to be sure about their suspicion. They may have been asked for bribes themselves, they pick up reliable rumours, or by other means they realise that the tender procedure is flawed.

To explore the reasons why firms prefer not to react when realising that a competitor has paid bribes, the respondents were asked to rank alternative explanations. The result is presented in Table 6.2. Lack of proof and concern about sanctions from the firms reacted against are unexpectedly low. The most important reason for staying silent is worry about future business co-operation. Accordingly, if firm A loses business because firm B paid a bribe, it prefers not to react against the practice out of concern for future business cooperation with firm C, or even B.

Table 6.2: Absence of reaction

Question	Answers	%
<i>Independently of the experiences of your own business unit, what do you think is the most common reason for a company to keep quiet when encountering a competitor in bribery?</i>	Concern about sanctions from the bribing company	5%
	Concern about sanctions from other companies	5%
	Concern about future business cooperation	31%
	Concern about sanctions from customers	18%
	Lack of knowledge about the illegality of the act	15%
	Lack of proof	12%
	Other reasons	0%
	I do not know	5%

Note: The respondents were asked to rank the explanations suggested in the questionnaire. This table describes the total score based on a summary of the alternatives, ranked as number one and number two.

More surprisingly, the firms that never co-operated with other firms were just as concerned about losing future business cooperation in this way as those that did occasionally have this kind of co-operation.²² This worry was somewhat higher among firms able to make profits. The firms that operated under higher competitive pressure on prices were more worried about sanctions from the client in question than about lost business co-operation with other firms.

²² One explanation is the formulation of the question, as it encourages distance from the practices of one’s own business unit. However, the high number of firms that claimed to have lost contracts due to corruption makes it reasonable to assume that most answers were based on the firms’ own experiences.

The worry about losing future business co-operation can be explained by theories on collusion, loyalty to other firms in the business culture or worries about sanctions that would not necessarily apply (Søreide, 2005).

6.3 Adjustment to local business practices

Given the results from the previous section, that raising one's voice is seldom considered, firms are left with two options when operating in challenging business environments: exit from the market or adjust to local business practices. About half the respondents, 52%, say that they would adjust to the local business culture if losing contracts due to corruption and/or would accept corruption as "a part of the game". Table 6.3 describes the responses in detail.

Table 6.3: Corruption as an obstacle to business

Question	Answers	%
<i>If you generally choose not to complain [on bribery], or if complaints are ignored or rejected, what do you typically do?</i>	No big reaction, corruption is part of the game	28%
	We adjust our strategies to the local business culture	24%
	We retreat from the country	5%
	We report the case in alternative ways	13%
	I do not know	28%

Taking part in corruption is frequently suggested as an interpretation when business people are asked how the answer, *adjust to local practice*, should be understood. This is still speculation, and the responses in Table 6.3 also reflect other ways of behaving and doing business. For instance, *local practice* can also reflect the ways international firms pick up local firms' habits of applying "men of influence" to getting through to important clients or politicians.

6.3.1 Agents, intermediaries, contacts, advisers

It is both legitimate and reasonable that many firms find it necessary to enter foreign markets with the assistance of local advisers. To get more information about the kind of advice preferred by Norwegian firms, the study explores the categories of adviser that are most frequently applied. Table 6.4 presents the answers.

Table 6.4: Local assistance

Question	Answers	%
<i>What kind of assistance is typically preferred by your company when entering foreign markets?</i>	Agents and advisers with ties to relevant decision-makers	32%
	Bureaucrats and/or politicians	5%
	International business advisers and/or country analysts	9%
	Relatives of people in governmental institutions	1%
	Lawyers with the relevant competence	6%
	Agents able to deal with local formalities	32%
	Local business advisers <i>without</i> ties to the government	7%
	I do not know	8%

Note: Table 6.4 is a summary of the responses ranked most frequently as number one, two and three.

However, the respondents were asked to rank alternative answers, and Table 6.4 summarises the alternatives *marked most frequently* as number one, two and three. What it then fails to give information about is the categories of local assistance that were most frequently *ranked number one*. Considering this response, the firms were clearly most interested in ties to relevant decision-makers. Almost 50% of the respondents ranked this alternative number one, while clearly avoiding the relatives of persons in high-ranking positions. Agents able to deal

with local formalities were also much requested. This alternative was still ranked number one by only 12% of the respondents.

In addition to the Table 6.4 information, 44% of the responding firms said that they had contacts positioned at, or with access to, a high level of the government in countries where they operated. 12% of those who had high-level political contact did so in all their countries of operation, 17% in countries with a less familiar culture and 17% only in Norway or other countries inside the OECD area.

6.3.2 Middlemen and corruption

It is certain that intermediaries, agents, consultants and joint venture partners sometimes are used to get around anti-corruption laws.²³ This is uncovered in surveys and also in cases that are brought to court and to media attention. Making use of the benefits provided by agents with access to key decision-makers is still no verification of corruption. Basu (2000:161) describes an equilibrium where bureaucrats have incentives to comply with the wishes of “a man of influence”. In this model the key decision-makers are not “meticulously ethical” in their decisions, yet do not request any bribes. Their helpfulness is simply based on an indefinite hope of fruitful benefits in return, from having contact with such a man of influence. The equilibrium, where key decision-makers prefer to serve the influential person, is stable, but still totally dependent on the reputation of the man of influence - of his remaining a man of influence. A debate about the ethical aspects of making use of the reputation of such persons, and hence successful agents, is timely, although perhaps still obstructed by its clear connection to the criminal act of corruption.

The importance of ties to decision-makers is usually justified by referring to cultural differences in the ways of doing business. As part of globalisation, however, the ways of doing business are being standardised. Work towards a standardised WTO government procurement agreement is progressing, the EU has recently introduced new tender rules, and standardised bidding procedures are already widely applied, including in developing countries. Firms have a responsibility to expect content behind these procedures, and not just assume that personal ties are what really matters during the procedure. As long as firms do not recognise this responsibility, the emphasis on agents and ties will continue. And certainly, the more emphasis there is on ties to decision-makers, the stronger the suspicion is that firms are involved in corruption and the less reason there is to expect free and fair competition.

6.3.3 Middleman compensation

Compensation to agents is usually a pre-agreed percentage share of the total contract, and offered as a success fee where payment depends on the tender outcome. About half of those who offer compensation to agents said that they typically offer 1-5% of the total contract amount, a quarter offer 6-10% in compensation, a few firms offer 11-15%, while just 2 respondents said that they offer more than 15%. The percentage usually offered in compensation did not differ significantly between firms of different size. Payments above 6% of the contract were still more common among smaller firms. More visible differences occurred between sectors. For instance, the percentages offered appear, in this survey, to be significantly higher within “Telecoms and IT” compared to, for instance, “oil, gas and power transmission”. If, as a speculation, the payments reflected bribery, the result does not match Transparency International’s ranking of sectors according to their perceived level of corruption. Both telecommunications and IT compare favourably to oil and gas in TI’s Bribe

²³ Bray (2004) describes the different risks of taking part in corruption through the use of intermediaries, and finds the hazard to be increased, due to the improvement of international anti-corruption legislation.

Payers Survey. However, the difference is also likely to reflect differences in the sizes of the contracts in the two mentioned categories of firms, and the different proportions between production costs and revenues.

6.4 Motivation behind bribery

In the search for a better understanding of bribery, the survey aims to gather information about the purposes behind corruption, as well as the underlying motivation behind the crime. Increasing sales is obviously the main motivating factor for the choice of any business strategy, corruption included. Given this main driving force, there are still variations in what firms seek to achieve with the help of bribery.

6.4.1 The purpose of bribes

Table 6.5 presents the most common aims behind the use of bribes, as suggested by the respondents. The questionnaire does not ask about the respondents' own motivation, but rather that of other companies in their line of business. The present data should therefore not be applied as a basis for general conclusions about the respondents. The table still illustrates a potential for collecting more nuanced information on this issue.

Table 6.5: The purpose of bribes

Question raised	Answers	%
<i>If companies in your line of business operate unduly, for instance by establishing secret ties to specific decision-makers, what would you suggest that they typically would be aiming at?</i>	Adjustments in tender specifications	14%
	Being part of a bid for a larger contract or concession	7%
	Improve economic conditions, such as tax reductions	5%
	Obtain the contract through direct negotiations	26%
	Secret information about evaluation or tender specifications	19%
	Secret information about the other companies' bids	15%
	Promises of neglected quality controls	1%
	Reduced political risk	1%
	Other benefits	0
	I do not know	14%

Note: The table is a summary of the responses most frequently ranked number 1, 2 or 3.

Individuals in a public institution or a large firm will not usually have the necessary authority to just "give away" contracts. Bribers will therefore have to apply less direct ways to influencing the choice of contractor, probably less expensive ways, as a direct guarantee of the contract is not obtainable. The "price" is reduced when the offer is less attractive. Many of the respondents consequently suggest secret information about evaluation criteria or tender specifications to be a common purpose of bribery. The firms offer bribes to obtain a tender advantage vis-à-vis competitors, not necessarily to obtain a direct promise of the contract.

In many cases, the benefits offered and gained seem too small to be considered "real bribery", and might also be applied by firms that consider themselves "clean" and not involved in corruption. The drawback, from a welfare perspective, is that relatively small benefits or gifts can have a significant private value to the public officials in question, particularly in countries where the level of income generally is low. "Soft influence", more like marketing than bribery, can consequently have a decisive impact on the client's choice of contractor.

Contrary to respecting tender rules, the respondents suggested that bribes are most often paid to obtain the contract through direct negotiations, which means the abandonment of tender procedures altogether. Common justifications for direct negotiations are the familiarity of

operators with similar equipment, the uniformity of spare parts, a preference for previous suppliers, or the fact that a tender procedure was too expensive or time consuming. While these justifications can be legitimate, they may also enable corruption. One third of the firms ranked direct negotiations as the most important intention behind bribery, perhaps a disappointing result if hoping for standardised tender rules. However, the result also underscores the importance of tender rules for reducing corruption. There is no logic in offering bribes to avoid tender procedures if these rules are not applied.

6.4.2 Underlying motivation

The respondents were asked to suggest the most important underlying motivation for companies in their line of business to offer bribes. The survey question is based on Moody-Stuart's (1997:21) explanation of why companies pay bribes. The respondents were given three alternatives, all connected with securing sales, still excluding the obvious goal of getting a contract. Table 6.6 presents the distribution of responses.

Table 6.6: The underlying motivation behind bribery

Alternatives	%
1. The fear of losing contracts because someone else has bribed the decision-makers	43%
2. Because the goods or services offered would not have been chosen in a fair competition	21%
3. To persuade decision-makers to buy goods or services that otherwise would not have been demanded	5%
4. I do not know	31%

The third alternative motivation behind bribery, persuading decision-makers to buy goods or services which they basically do not need, had a surprisingly low rate of response. However, a certain bias against this alternative should be anticipated in such a survey, as most producers have a strong belief in their own products. We cannot expect salespersons to believe their products are not needed. Besides, these kinds of goods are typically expensive and technologically advanced. Moody-Stuart (1997) suggests military hardware to be the classic example of this kind of corruption. There are, however, no arms/defence producers among the respondents to this survey.

The second alternative, that the goods would not have been chosen in a fair competition, refers to products or services that do not have the required or standard quality, or products that are over-priced. The buyer demands compensation, a bribe, for choosing the specific product, as better alternatives exist. This motivation is probably quite common, but still suggested by only 21%.

The alternative suggested most, by more than half of those who had a view, was the worry about losing contracts simply because someone else have bribed the decision-makers. The great majority of bribers are probably motivated by a lack of trust in their competitors. This result reveals a considerable information problem, but also a challenge when it comes to the firms' internal control and measures against corruption.

7 Internal control and measures

Many firms place significant efforts on issues related to corporate social responsibility. Even so, the introduction of anti-corruption codes in many large firms has not so far had any convincing impact on the extent of corruption in international markets. One reason is perhaps that many firms that operate in international markets are not prevented from taking part in unethical business practices by codes of conduct or home-country regulations. Other firms may continue to pay bribes, in spite of their anti-corruption codes, in fear of losing contracts because competitors pay bribes. It is, therefore, interesting to explore the respondents' internal anti-corruption measures, their expected impact on the firm, and their view on responsibility if a case of corruption is coming up.

7.1 Codes of conduct and routines to detect corruption

Anti-corruption measures introduced in the firms vary significantly. 89% of the large firms have internal written codes of conduct that restrict employees from paying bribes, compared to only 19% of the small firms. Altogether, 36% of the total have such codes. Even so, as many as 48% claimed to have routines to detect violations of anti-corruption codes. There are, accordingly, more firms with routines to detect bribery carried out by employees than there are firms with written codes of conduct introduced to control the crime. This is not necessarily inconsistent. Most firms find it necessary to have control routines to detect a variety of misdeeds, corruption included. The number of firms which find that they need to introduce codes of conduct on corruption is most likely fewer.

Only 21% of the total found their routines to detect corruption to be efficient. However, the fact that as many as 74% claimed to have efficient routines to detect false consultancy fees, fake invoices or illegal transactions made, for instance, to avoid taxes makes it plausible to assume that firms' control mechanisms are less able to detect bribery than other forms of economic crime. Several of the interviewees also called for more information about how to introduce control mechanisms on crimes related to corruption. When it came to the detection of their own employees in receiving bribes, 30% said they have relevant control routines. When asked if they actually had detected an employee in corruption, 13% said that they had.

Almost half the firms (47%) encouraged employees to report the case internally if they uncovered bribery or other types of crime carried out by the firm. Only 11% did not encourage employees to do so, whereas 35% said that they did *not actively* encourage employees to make a report. Many of these firms would probably still expect their employees to report such cases if they were taking place.

During the past decade, NHO, the business organisation, has arranged several anti-corruption conferences and informed their members about the problem of corruption and the importance of keeping to professional standards of conduct. As most of the firms are members of this business organisation, it is relevant to ask about the impact of these campaigns. Table 7.1 presents the responses.

While 35% already had a clear attitude against bribery, 26% find the campaigns to have influenced their views.

Table 7.1 The impact of NHO’s anti-corruption campaigns

Question	Answers	%
Do you think anti-corruption efforts made by your own business organization have influenced the attitudes against bribery in your company?	No	9%
	No, we already had a clear attitude against bribery	35%
	Yes, it has influenced our attitude to some extent	11%
	Yes, it has clearly altered our attitude	15%
	I am not familiar with their campaigns	10%
	I do not know	19%

A significant ambition of the NHO campaigns was to inform firms about the implementation of the OECD anti-bribery convention, and the subsequent implications for the firms’ business practices. Although the questionnaire reminded the respondents about its content, as many as 70% of the respondents still did not find themselves familiar with the convention. This number is surprisingly large, especially as such a considerable share of the respondents claimed to be aware of NHO’s distribution of anti-corruption information. Even so, 26% said that employees in relevant positions are informed by the company of the content of the OECD convention. These firms were mainly large.

7.2 Company culture

Differences between firms in their business ethics are not found by just considering their anti-corruption commitment. For instance, among firms with an anti-corruption code, 31% admitted that they would adjust their strategies to the local business culture if losing contracts because of corruption. There is still reason to assume that anti-corruption codes of conduct will have some influence on the company culture and thus a firm’s actual performance. Most business leaders would hesitate to introduce rules that no one is expected to follow.

When asked about the major reason for not paying bribes when operating in foreign markets, one of the most frequent answers was *‘it is not part of our company culture’*.²⁴ Hence, implementing anti-corruption best practice is likely to have *some* impact on a firm’s tendency to be involved in bribery in situations where a bribe otherwise would not have been requested. Codes may also reduce the demands for bribes as it becomes easier for representatives of the firm to reject such requests, and future expectations about bribes will be reduced. Is it likely that codes are also able to reduce the firm’s potential for losing contracts, due to corruption?

The CRG study finds that firms from countries where anti-corruption codes are common, the USA and the UK, are less exposed to corruption in the sense that these firms report a lower tendency to lose contracts because competitors pay bribes. However, the present survey does not find any lower exposure to corruption among those with best practice codes. There are in fact significantly *more* losses of contracts reported due to corruption in the group of firms that have implemented anti-corruption codes, compared to the category without such codes. Norwegian firms that have introduced best practice codes are probably also those that are most exposed to such problems. Moreover, respecting codes of conduct in such a setting is likely to increase a firm’s propensity to lose contracts due to corruption, because it does not take part in bribery.²⁵ This perhaps obvious implication is often neglected in anti-corruption debates.

²⁴ The other most frequent responses were “it is illegal”, “it is immoral”, and “it may harm our reputation”.

²⁵ However, the situation is familiar to firms exporting from the USA. While their European competitors could get tax deductions because of bribery, the Foreign Corrupt Practices Act has prevented US firms from paying

7.3 Information, responsibility and the case of scandal

Top executives are, in addition to the board, officially responsible for a firm's operations. It is reasonable to assume that decisions about bribery are made at the same level. When CRG (2002) explored which sections of a company were most likely to be involved when bribery does take place, the most common response was "senior management". In the present study, most respondents represented "senior management", and most of them said that they would have been informed if bribery had taken place on behalf of the firm. More than half, 55%, would *certainly* have been informed, and 29% would *probably have* been informed, if bribery had taken place to obtain a contract or a significant benefit.

Some of the respondents still admitted that it might be difficult to control how agents in fact spent their payment. Almost one third (29%) did not think they would be able to discover whether a considerable part of the compensation to an agent was applied for bribery, compared to 54% who positively thought it would be possible to notice this.

Only 16% said that they would not know if the firm took part in corruption. This response may reflect the fact that several respondents were in charge of just a branch of a multinational firm, and thus unable to be responsible for the operations of other divisions. In addition, some firms have employees in positions that may provide them with incentives to pay bribes out of their private pocket to increase their chance of doing business, and hence their personal career opportunities. The bribe in such cases is still paid on behalf of the firm.²⁶

Previously, there seemed to be a tendency among executives to avoid unpleasant information about "grease" payments and bribery taking place in foreign countries of operation. This tendency is not very observable in the present material. Just 18% had actually considered it a benefit *not* to be informed if an agent applies his compensation to questionable payments, compared to 70% who would never consider this a benefit.

Cases of corruption can cause vast reputational damage, and it is obvious that most firms that happen to face a corruption scandal are cautious about publicity. When asked about the typical reaction from the company if a serious violation of ethical codes, such as corruption, were detected, the responses were as follows: 42% would initiate an *internal inquiry*, while 13% would have an *internal discussion*. Only 11% thought they would involve the police, and just one firm would open the way for investigation by an *external* committee or consultancy. The survey question is, however, difficult to answer. The firms' reactions would obviously depend on the actual circumstances, and 32% said that they in fact did not know how they would react. The tendency in this material, including the interviews, still reveals a significant anxiety about discussing the problem with persons outside the firm.

Conclusively, when there is a deviation between actual and asserted business practice, the accountability appears to lie both formally and actually in the hands of those who typically introduce, or accept the introduction of, anti-corruption codes of conduct. The risk of corruption is, therefore, mainly connected to the probability of being caught out in corrupt practice. Firms that carry out projects as a joint venture or a consortium, face the additional risk of having cooperating firms influencing clients in unethical manners. 42% of the firms

bribes in foreign countries since 1977. This competitive disadvantage made the US authorities actively encourage the introduction of an OECD anti-bribery convention.

²⁶ The unclear liability of the firm in such situations should not be a loophole in laws against corruption. Too many firms have escaped prosecution by placing the guilt on a scapegoat. In Norway, for instance, only individuals had, until recently, been held responsible for the offence of bribery.

said that they have carried out projects in a foreign country as a joint venture or as a part of a consortium. One third of these firms said that they have actually experienced the problem of having a cooperating firm influencing a client in a way that the respondent found difficult to acknowledge. Most of these firms uttered a reaction against the specific practice.²⁷

7.4 Changes in the level of corruption

While most of the respondents found corruption to be on the decrease, as many as 73% said that their own attitude to corruption had remained unchanged. Many firms have of course held a clear anti-corruption stance for a long time. However, several respondents described significant corruption during the late 1990s. A more frequently reported perception of change after the introduction of new regulations on cross-border bribery was therefore anticipated. Among some 16% who actually had changed their attitude to corruption, only one respondent found corruption to be more accepted now than previously. When asked about the time of change, there was no clear link to the implementation of the OECD convention, or to specific corruption scandals reported in the Norwegian press.

The common perception of less corruption may represent a reality. Considered in light of some other results, however, they do appear optimistic. For instance, a clear majority of the CRG respondents thought that corruption would either increase or remain unchanged in coming years (CRG, 2002). In the present study, 43% did not consider the competition for important contracts in their industry to have become more fair and unbiased during recent years. Only 27% found the competition in international markets to be improved in this sense.

The competition for important contracts is influenced by several means other than corruption. Nevertheless, as corruption is hidden activity, and one explanation why the competition is unfair, it is surprising that firms are able to find the levels of corruption reduced, while the competition for important contracts continues to be unfair.

²⁷ However, some firms may carry the concept of due diligence a bit too far. Some of the respondents said that illegal methods, similar to the practices of intelligence services, are applied by firms in international markets to be assured that potential business partners will not operate in a way that may represent a risk to the firm.

8 Concluding remarks

If not answers, the project has provided new information related to the research questions described in the introduction. Even if the generality of the results is limited, the study may be useful in the way it informs about mechanisms and preferences, supports some hypotheses in the literature and describes the potential for more specific business surveys on corruption.

The results of the survey of Norwegian embassies describe a grave picture of corruption as a business constraint on foreign firms and a challenge difficult to overcome, also for Norwegian firms. A deviation between firms' actual and publicly asserted business practices is noticeable to the embassy respondents, and many of them assume that a refusal to make irregular payments will reduce the opportunities of foreign firms to do business. Even so, most of them would not advise Norwegian firms to take part in corruption or adopt undue business practices. The embassies' willingness to assist firms in raising specific cases of corruption at higher political levels appears strong.

The results of the business survey are both reassuring and alarming. A clear majority said that corruption was totally unacceptable, and all the respondents were able to say why it is wrong to pay bribes. Most of the firms still claimed to have lost an important contract because a competitor paid a bribe. The barrier to taking action against the practice in such a situation is still surprisingly high. The absolute majority preferred to stay silent if competitors paid bribes. Lack of proof is a reasonable explanation. However, the more common reason was, reportedly, a concern about future business cooperation.

Corruption was described as "part of the game" by a large share of the respondents, a problematic exogenous factor that one has to be aware of when operating in certain markets. Generally, the firms' strategies seemed to vary across different business cultures. The respondents had, for instance, a significantly higher propensity to act on corruption if it took place in a country where the problem was uncommon. A large share of the firms would "adjust their practices" to the local business culture if losing contracts due to corruption, while just one out of twenty had retreated, or would have retreated, from the country if being in this specific situation. Home country norms may still prevent firms from entering certain markets; almost one third of the respondents had decided not to operate in a market because of a difficult business climate. Once established in a new market, however, most firms seemed to apply local norms. This will not necessarily imply corruption.

Most respondents did not consider corruption a significant problem when operating in Norway. Going abroad, however, Norwegian firms did not seem less exposed to corruption than their competitors. Differences in branch culture and industrial structure appear more important in characterising a firm's exposure to this problem than company size and culture of origin. Firms that operate under competitive pressure seemed to have a larger propensity towards being involved in corruption compared to those with more market power. The result is interesting as it deviates from conclusions in previous studies.

Many respondents revealed some confusion about the legal status of certain forms of corruption. Several respondents said that they apply business practices that clearly violated Norwegian law, while claiming that it was easy to respect existing regulations in the field. While 70% were not familiar with the OECD anti-bribery convention, which is incorporated

into Norwegian law, just 15% found themselves not to be familiar with the relevant Norwegian legislation. However, firms that admitted being unable to respect the law in certain situations were also the most informed about the OECD anti-bribery convention. Similarly, there were significantly more losses of contracts due to corruption in the group of firms that had implemented anti-corruption codes, compared to the category without such codes.

Top executives are informed and responsible, not only formally, if corruption does take place. New rules and a focus on the problem have probably reduced the number of employees informed if a firm is involved in bribery. Also CRG (2002) finds a significant change at this point. It seems that the most common objective in the bribery of clients is to increase the briber's probability of obtaining a contract. Given some regard of tender rules, direct access to a contract may appear less obtainable or too risky. However, tender procedures are not held to be an efficient obstacle to corruption. Avoiding such procedures is still a main purpose of bribery. Bid rigging and forged tender procedures appear to be serious problems in international business, to which the small firms in the present survey are no less exposed than the large firms. Political pressure is reportedly a disturbing element in large international tenders, described as an alternative to corruption, or as a form of corruption.

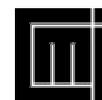
The underlying driving force behind corruption is the worry about having competitors offering bribes. As a logic consequence of this result, anti-corruption responsibility by firms involves a signal of reliable anti-corruption commitment. One option can perhaps be found in compensation programs, where all managers lose bonus in case of corruption. Another alternative is to blow the whistle when detecting competitors in bribery.

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Appendix 1: The business survey questionnaire



Corruption Survey

This is a survey on corruption in international business transactions. It is carried out by CMI researcher Tina Søreide in cooperation with NHO. The study is part of a PhD. project at the Norwegian School of Economics and Business Administration (NHH) and financed by The Norwegian Research Council (NFR).

Corruption, or similar ways of making influence on decision-makers, is a challenge for those who want to enter or operate in certain markets. The objective of this survey is to examine some aspects of the problem, and particularly how Norwegian firms encounter unethical business practices when operating in foreign areas. The data collected will be applied for research purposes. The information obtained will be treated strictly anonymously and confidentially. Neither your name nor the name of your company will be mentioned in any documents related to this study.

The survey focuses on corruption and similar undue business practices related to the assignment of important contracts; generous bribes, gifts or benefits offered typically to influence the tender procedure or the outcome of negotiations. More explanations to terms in use, the underlined terms, can be found on the last page. If you would like to add any comments related to your responses, or on the topic in general, we encourage you to do so on the last page. Any questions can be directed to Tina Søreide at CMI or Jon Veia at NHO.*

Questionnaire

<i>General information</i>			
A1	What is your position in the company? Please indicate your field of responsibility	----- -----	
A2	Where is your headquarter localized? Circle the answer that applies the most	Norway Other Scandinavian country Other European country USA/Canada Outside the areas mentioned	1 2 3 4 5
A3	Ownership	Size of state ownership: -----% Nationality of leading owner: -----	
A4	Annual turnover worldwide for your company	>1 billion NOK 100-1000 million NOK <100 million NOK	1 2 3
A5	Major activity of company Please specify (If part of a larger conglomerate, circle the category most	Agri /food industries Arms and defence Banking, finance and insurance Construction (roads, dams, tunnels, buildings, ships, etc.) Consultancy Light manufacturing (textiles, crockery, toys, etc.) Heavy industry, including mining and quarrying	1 2 3 4 5 6 7

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	applicable for your unit)	Oil, gas and power generation/transmission	8
		Pharmaceutical/medicare	9
		Telecoms and IT	10
		Tourism, transportation and civilian aerospace	11
		Other kind of service	12
A6	For how long has your company been operating with either trade or investments in foreign markets?	0-10 years	1
		10-30 years	2
		more than 30 years	3
A7	Are the prices for your main products or services pressed to a level that makes it hard to make profits?	No	1
		Generally not	2
		Usually	3
		Yes	4
A8	In which parts of the world does your firm do <u>business</u> ? Please rank the <i>three</i> most important markets with <i>numbers</i>	USA and Canada	...
		West and North European countries	...
		South European countries	...
		East European countries and central Asia	...
		Latin America and the Caribbean	...
		The Middle East and North Africa	...
		Sub-Saharan Africa	...
		Mainland China (excl. Taiwan and Hong Kong)	...
		The rest of Asia	...
		Oceania	...
A9	Is part of your firm's production located outside of Norway?	No	1
		Yes, in other <u>OECD</u> country(ies)	2
		Yes, outside the <u>OECD</u> area	3
A10	Have you ever traded with or carried out a project for a governmental institution in any of the foreign countries where you operate?	No	1
		Yes, sporadically	2
		Yes, many times	3
		I do not know	4

Experiences with unethical business practices

B1	If any, please rank the <i>three</i> geographical areas in which unethical business practices are influencing your operations the most. Please rank with numbers	USA and Canada	...
		West and North European countries	...
		South European countries	...
		Latin America and the Caribbean	...
		East European countries and central Asia	...
		The Middle East and North Africa	...
		Sub-Saharan Africa	...
		Mainland China (excl. Taiwan and Hong Kong)	...
		The rest of Asia	...
		Oceania	...
B2	Do you ever experience a gap between formal and informal rules in any of the areas just mentioned?	Never	1
		Seldom	2
		Frequently	3
		Often	4
		Always	5
		I do not know	6
B3	Do you ever experience that problems related to corruption impede <u>foreign direct investments</u> in any of the mentioned areas?	Never	1
		Seldom	2
		Frequently	3
		Often	4
		Always	5
		We do not have the relevant experience	6

		I do not know	7
B4	When competing for a contract in the areas mentioned, do you ever have reason to believe that your competitors influence tender procedures unduly?	Never Seldom Frequently Often Always	1 2 3 4 5
B5	a) Has your company ever decided <i>not</i> to operate in a specific country or region mainly because of corruption or similar problems? b) Has your company ever decided <i>not</i> to operate in a specific sector or segment of the market mainly because of corruption or similar problems?	a) No Yes I do not know b) No Yes I do not know	1 2 3 1 2 3
B6	Have you experienced that unethical business practices by competitors have placed your company in a more adverse competitive position?	No <i>We think</i> it has made us lose a contract(s) We are convinced that it has made us lose a contract(s) We often lose contracts because of corruption I do not know	1 2 3 4 5
B7	a) If losing an important contract (probably) because of corruption, or similar practices, what is your most typical reaction(s)? Please circle all that apply b) If you generally chose <i>not</i> to complain, or if complaints are ignored or rejected, what do you typically do?	No big reaction, corruption is part of the game We ask for a formal explanation from the customer We lodge an appeal to the customer or the tender authorities We prefer not to report the case We retreat from the country I do not know No big reaction, corruption is part of the game We adjust our strategies to the business culture We retreat from the country We report the case in <u>alternative ways</u> I do not know	1 2 3 4 5 6 1 2 3 4 5
B8	Independently of the experiences of your own business unit, what do you think is the most common reason for a company to keep quiet when encountering a competitor in bribery? Please <i>rank</i> the most important alternatives with numbers	Concern about sanctions from the bribing company Concern about sanctions from other companies Concern about future business cooperation Concern about sanctions from customers Lack of knowledge about the illegality of the act Lack of proof Other? Please specify----- I do not know
B9	Would you be <i>more</i> inclined to react on such bribery if it takes place within a country where corruption is perceived to be unusual?	Yes No I do not know	1 2 3
B10	a) Has your company ever carried out a project in a foreign country as a <u>joint venture</u> or as a part of a <u>consortium</u> ? b) If so, has your company ever experienced that a cooperating firm has aimed at influencing clients in a way that you find difficult to acknowledge? c) And if yes on (b), did your company (typically) utter some kind of reaction against this practice?	a) Yes No I do not know b) Yes No I do not know c) Yes No	1 2 3 1 2 3 1 2

		I do not know	3
B11	a) Have any of your projects ever been financed by either bilateral or multilateral aid?	Yes	1
		No	2
		I do not know	3
	b) If so, do you have the impression that there is more or less corruption, or similar trade of influence, connected to aid projects?	No difference compared to other projects	1
		More	2
		Less	3
		I do not know	4

Intermediaries, advisers and agents

C1	Does your company have contacts positioned at, or with access to, a high level of the government in any of the countries where you operate? Please circle all that apply	No	1
		Yes, in Norway	2
		Yes, in some other countries within the OECD area	3
		Yes, in foreign countries with a less familiar culture	4
		Yes, in all the countries where we operate	5
		I do not know	6
C2	What kind of assistance is typically preferred by your company when entering foreign markets? Please rank the most important alternatives with numbers	Agents and advisors with ties to relevant decision-makers	...
		Bureaucrats and/or politicians	...
		International business advisors and/or country analysts	...
		Relatives of people in governmental institutions	...
		Lawyers with the relevant competence	...
		Agents able to deal with local formalities	...
		Local business advisors without ties to the government	...
		I do not know	...
C3	If relevant, what is the typical way for your company to compensate a middleman? Please circle all the answers that apply	Periodic payments	1
		A lump sum	2
		A pre-agreed percentage share of the total contract amount	3
		A success-fee	4
		A combination	5
		Other	6
C4	Given that you reimburse the agent in terms of a share of the total contract, what is the typical percentage?	1-5%	1
		6-10%	2
		11-15%	3
		Above 15%	4
		I do not know	5

Tenders and negotiations

D1	Does your company place any effort in obtaining or maintaining a relationship to a potential customer prior to pre-qualification for a contract?	No, this is not important	1
		Yes, this is an obvious benefit	2
		Yes, this is essential	3
		I do not know	4
D2	Are you ever able to influence or asked to advise clients on tender specifications?	Never	1
		Seldom	2
		Frequently	3
		Often	4
		Always	5
		I do not know	6
D3	Does it ever happen that tender specifications are designed to fit with the offer of one specific company?	Never	1
		Seldom	2
		Frequently	3
		Often	4
		Always	5
		I do not know	6

D4	Will there often be negotiations between the tender participants and the decision-makers during the tender procedure?	No Usually not Sometimes Yes, we negotiate at all stages of the procedure Yes, but all communication during tender is copied to all participating companies I do not know	1 2 3 4 5 6
D5	Do you consider standardised tender rules (like <u>international competitive bidding</u>) an obstacle to corruption and similar ways of making influence on clients?	No, tender rules are not an obstacle to corruption Tender rules do not necessarily prevent corruption Generally, tender rules do prevent corruption Yes, tender rules prevent corruption efficiently I do not know	1 2 3 4 5
D6	In which geographical areas, if any, do you typically experience that standardized procurement procedures are <i>not</i> applied when contracts are awarded? Please circle all the areas that apply.	USA and Canada West and North European countries South European countries East European countries and central Asia Latin America and the Caribbean The Middle East and North Africa Sub-Saharan Africa Mainland China (excl. Taiwan and Hong Kong) The rest of Asia Oceania	1 2 3 4 5 6 7 8 9 10
D7	When operating internationally, do you ever experience a demand for a quid pro quo, like the use of local resources, the building of infrastructure or other contributions to the local society?	Never Seldom Frequently Often Always I do not know	1 2 3 4 5 6
D8	Have any state institutions from Norway ever taken part in the negotiations to ensure a contract, or to guarantee for financial aspects?	No Yes I do not know	1 2 3
D9	Have you ever experienced that a competitor has won a contract by help of political pressure?	No Yes I do not know	1 2 3
D10	Do you perceive your industry free and unbiased when it comes to the international competition for important contracts?	No, the procedures are always biased The procedures are often biased The procedures are sometimes biased The procedures are seldom biased The procedures are never biased I do not know	1 2 3 4 5 6
<i>Operating in markets where corruption is more common</i>			
E1	When operating in foreign markets, do you ever have to pay some irregular “additional payments” to get things done?	Never Seldom Sometimes Frequently Often Always I do not know	1 2 3 4 5 6 7
E2	What is the maximum acceptable size of such payments in your industry?	0 - 1000 NOK 1 000 - 10 000 NOK 10 000 -50 000 NOK 50 000 -100 000 NOK Above 100 000 NOK	1 2 3 4 5

		I do not know	6
E3	Is it required to offer valuable gifts or pay a bribe to clients or public officials, directly or through an agent, to be able to operate in certain countries? Please circle all the geographical areas that apply	USA and Canada West and North European countries South European countries East European countries and central Asia Latin America and the Caribbean The Middle East and North Africa Sub-Saharan Africa Mainland China (excl. Taiwan and Hong Kong) The rest of Asia Oceania I do not know	1 2 3 4 5 6 7 8 9 10 11
E4	How common would you expect it to be, for companies in your line of business, to influence clients by help of corruption or similar undue business practices?	I think it never happens I think it happens in around 1-10% of the cases I think it happens in around 10-20% of the cases I think it happens in 20-30% of the cases I think it happens in more than 30% of the cases I do not know	1 2 3 4 5 6
E5	If companies in your line of business operate unduly, for instance by establishing secret ties to specific decision-makers, what would you suggest that they typically would be aiming at? Please rank the most important alternatives with numbers	Adjustments in tender specifications Being part of a bid for a larger contract or concession Improve economic conditions, like tax reductions Obtain the contract through direct negotiations Secret information about evaluation or tender specifications Secret information about the other companies' bids Promises of neglected quality controls Reduce political risk Other benefits? Please specify
E6	Under what circumstances could it be acceptable for a company to influence clients by help of a significant benefit, a valuable gift or a bribe?	As long as the firm may end up with an important contract When there is no other way of operating in the market When the contract is necessary to avoid insolvency It is not accepted under any circumstances I do not know	1 2 3 4 5
E7	Does your own company sometimes provide clients with less tradable benefits, like ... Please circle all that apply	excursions and trips? promises of career opportunities in the firm? a seat in the company board? education for their children? tickets to expensive sports -arrangements, musicals, etc.? Other benefits? Please specify	1 2 3 4 5 6 7
E8	To your knowledge, has your company ever accepted a request from an agent, an adviser or a consultant about money that probably would be applied for bribery?	No Probably not Probably Yes I do not know	1 2 3 4 5
E9	Has your own company during the last decade tried to obtain a contract, a license or a concession in a way that is important to keep confidential?	No Seldom Probably not Probably Often I do not know	1 2 3 4 5 6

E10	Would you be informed if someone in your company paid a bribe, on behalf of the company, to obtain an important contract or a significant benefit?	No Probably not Probably Certainly I do not know	1 2 3 4 5
E11	a) Would you, generally, be able to discover it if a significant part of the compensation to an agent is applied for bribery? b) Have you ever considered it a benefit <i>not</i> to be informed if the agent applies the compensation for questionable payments?	No Yes I do not know No Yes I do not know	1 2 3 1 2 3
E12	Considering the following alternatives, what would you suggest is the most important underlying motivation for companies in your line of business to offer bribes?	'The fear of losing contracts because someone else has bribed the decision-makers' 'Because the goods or services offered would never be chosen in a fair competition' 'To persuade decision-makers to buy goods or services that otherwise would not have been demanded' I do not know	1 2 3 4

Perceptions about Scandinavian conditions

F1	Do you think Scandinavian companies in general are less or more likely to pay bribes than companies from other <u>OECD countries</u> ?	Less No difference More	1 2 3
F2	Do you think Scandinavian companies are less or more exposed to demands for bribes than companies from other countries?	Less No difference More	1 2 3
F3	Do you generally perceive the competition for important contracts free and fair when operating in Scandinavia?	No, the procedures are always biased The procedures are often biased The procedures are sometimes biased The procedures are seldom biased Yes, the procedures are never biased I do not know	1 2 3 4 5 6
F4	Do you think corruption and similar ways of making influence on clients, affect the outcome of tender procedures in Norway?	Never Seldom Sometimes Frequently Often Always I do not know	1 2 3 4 5 6 7

Control

G1	Do you think anti-corruption efforts made by your own business organization have influenced the attitudes against bribery in your company?	No No, we already had a clear attitude against bribery Yes, it has influenced our attitude to some extent Yes, it has clearly altered our attitude I am not familiar with their campaigns I do not know	1 2 3 4 5 6
G2	a) Are you familiar with the <u>OECD-convention</u> against bribery of foreign public officials? b) Are most employees in relevant positions informed by the company about the content of this convention?	a) b) No Yes No Yes	1 2 1 2

		I do not know	3
G3	Given that you are familiar with the Norwegian anti-corruption legislation, do you find it difficult to respect? If yes, please specify why? (There is more space for comments on the last page)	No Usually not Often Yes I am not familiar with the legislation on this area ----- -----	1 2 3 4 5
G4	What do you consider the major reason for <i>not</i> paying bribes when operating in foreign markets? Please <i>rank</i> the most important alternatives with numbers	It is illegal It is immoral It may harm the reputation It may place our employees in an unsafe situation It is expensive Accounting practices make it difficult It is not part of our company culture Corruption disturbs the function of markets I do not know
G5	a) Does your company have a set of internal written codes of conduct that restricts employees from paying bribes? b) Do you have routines to detect violations of these codes? c) What is the typical reaction from the company if a serious violation of ethical codes (like corruption) is detected?	No Yes No Yes, we some routines Yes, we have efficient routines No big reaction Internal discussions Internal inquiry Investigation by an external committee or consultancy Involve the police I do not no	1 2 1 2 3 1 2 3 4 5 6
G6	Do you have efficient routines to detect false consultancy fees, fake invoices or illegal transactions, made for instance to avoid taxes?	No Yes I do not know	1 2 3
G7	a) Do you have routines to detect your own employees in <i>receiving</i> bribes? b) Has your company ever detected an employee in receiving a bribe?	No Yes I do not know No Yes I do not know	1 2 3 1 2 3
G8	Does your company encourage employees to report the case internally if they uncover bribery or other types of crime carried out by the firm?	No Not actively Yes, we do I do not know	1 2 3 4
G9	a) Has your company's attitude towards corruption changed during the last years? b) If your attitude has changed, when do you think	a) No Yes, paying bribes was more accepted previously Yes, paying bribes was less accepted previously I do not know b) Last autumn	1 2 3 4 1

the change took place?		During the last two years	2
		During the last five years	3
		During the last decade	4
		I do not know	5
c) Do you think the competition for important contracts in your industry has become more fair and unbiased during the last years?	c)	No	1
		Yes	2
		I do not know	3

We would appreciate any thoughts you might like to add related to your responses or to the topic in general. Comments on this survey are of course also welcome. (Please add a sheet if the space here is too limited)

Thank you for your contribution!

Explanation to terms in use

An **agent** is a company or a person that assist you in facilitating the business in a foreign country. The term includes intermediaries, middlemen, information brokers and advisors on local business. The representative is not an employee of the firm.

Alternative ways of reporting on corruption, in cases where a complaint to the tender authorities is (expected to be) ignored, are to inform newspapers (either in the country of business or in the home-country of the bribing firm), political authorities, embassies, anti-corruption groups, etc.

Bribe: In this survey we mainly refer to grand scale corruption, generous gifts offered typically to influence the assignment of important contracts. The receiver of the bribe is often, but not always, employed by the state.

Business relates to export and imports of goods and services, also included are foreign direct investments. The term does not refer to strictly financial investments.

Consortium: An international business and/or banking agreement that includes more than two companies, often with the aim of cooperating on a larger business project or to control a significant share of a market. The responsibility of each company is restricted to what it delivers in the specific project.

Corruption: Corruption is often defined as the misuse of entrusted authority for private gain. An official demands or is offered a bribe, in money or other values, either to do what s/he is supposed to do in any case or to make a certain decision that probably not would have been made without the bribe.

Foreign Direct Investment (FDI) is the acquisition abroad of physical assets, such as plant and equipment, with operating control residing in the parent corporation. Greenfield investment is the form of FDI where you invest in new facilities rather than acquiring already operating firms.

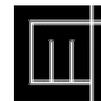
International Competitive Bidding (ICB) refers to tender rules that are developed to provide all eligible prospective bidders with timely and adequate notification of a tender and an equal opportunity to bid for the contract.

Joint venture: Partnership or cooperative agreement between two or more companies restricted to a single specific project. Each company will typically have joint liability.

OECD countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

OECD-convention: The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions entered into force on February 15, 1999. The Convention makes it a crime to offer, promise or give a bribe to a foreign public official in order to obtain or retain international business deals.

Appendix 2: The embassy survey questionnaire



Corruption Survey

This questionnaire is part of a Norwegian survey on corruption in international business transactions. It is carried out by CMI researcher Tina Søreide in cooperation with NHO. The study is part of a Ph.D. project at the Norwegian School of Economics and Business Administration (NHH) and financed by The Norwegian Research Council (NFR).

Corruption, or similar ways of making influence on decision-makers, is a challenge for those who want to enter or operate in certain markets. The objective of this survey is to examine some aspects of the problem, and particularly how Norwegian firms encounter unethical business practices when operating in foreign areas. Information is gathered by help of questionnaires and interviews in the headquarters of Norwegian firms. This part of the project aims at complementing the study by addressing Norwegian embassies and consulates with a few questions.

The data collected will be applied for research purposes. The information obtained will be treated strictly anonymously and confidentially. Neither your name nor the name of your country of operation will be mentioned in any document related to this study. In fact, the procedures applied prevent us from obtaining identifiable information. Any questions can be directed to Tina Søreide at CMI or Jon Vea at NHO.*

Questionnaire

1	How would you categorize your area or country of operation?	Developing country Medium income country Rich country	1 2 3
2	How frequently do you think corruption is part of the business culture in your country of operation? Please circle the answer that applies the most	Never Seldom Sometimes Frequently Often Always	1 2 3 4 5 6
3	How often would you assume that Norwegian firms operating in the area are confronted with challenges related to illegitimate business practices, irregular payments and corruption?	Never Seldom Sometimes Frequently Often Constantly	1 2 3 4 5 6
4	Will adjustment to local informal conventions in your country of operation ever imply business procedures that would be considered less acceptable in Norway?	Never Seldom Sometimes Frequently Often Always I do not know	1 2 3 4 5 6 7
5	Is it likely that the refusal of making irregular or informal payments might reduce the opportunities for foreign firms to make business in your country of operation?	No Seldom Sometimes Frequently Often In general, yes I do not know	1 2 3 4 5 6 7

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6	Do you ever notice that foreign firms that operate in the area make use of business practices that most likely deviate from their own official codes of conduct?	Never Seldom Sometimes Frequently Often Always	1 2 3 4 5 6
7	Would you recommend Norwegian firms to adjust to local culture, even if it could imply business behaviour that would not be accepted in Norway?	No Seldom Maybe Sometimes Usually Yes	1 2 3 4 5 6
8	Given that a Norwegian firm has lost an important contract due to corruption, would you be willing to mention the issue to local authorities?	No Probably not Probably Certainly I do not know	1 2 3 4 5
9	Have you ever reacted against corruption by raising the issue at a higher political level?	No It has happened Several times	1 2 3

We would appreciate any thoughts you might like to add related to your responses or to the topic in general. (Please add a sheet if the space here is too limited)

Thank you for your contribution!

Summary

This report presents a study of corruption in international markets by exploring the perspectives of Norwegian firms, their challenges, their experiences and their preferred strategies. The study consists of three parts, *(i)* interviews at executive level in seven large firms, *(ii)* a business-survey, where 82 firms with a headquarter in Norway responded to a questionnaire, and *(iii)* a survey of Norwegian embassies outside the OECD-region.

Six issues have motivated the study: (1) The choices firms make when experiencing a business climate that is worse than expected prior to entry; (2) the reluctance to speak out on corruption; (3) the link between corruption and market power; (4) the impact of improved procurement procedures; (5) the grey zones of facilitation payments, marketing strategies and political pressure; and (6) business strategies versus their expressed attitudes and codes of conduct.

The study is conducted in collaboration with NHO, The Confederation of Norwegian Business and Industry.

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