
FROM BUSINESS CORRUPTION TO BUSINESS ETHICS – NEW CHALLENGES FOR THE COMPETITIVE STRATEGY OF THE FIRM –

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Abstract:

The word corruption became a hyper used one in the last few years into the public discourse – related with politics, business or public administration. In Romania's case it was (and still is) especially related with the requirements of the adherence to the European Union. All the infrastructures and superstructures of the society are suspected of being (more or less) contaminated by the corruption scourge – according to different studies and reports (made by national and international organisms) measuring the corruption level and its perception.

The main idea of this study is to review and analyze the existing literature (which is mainly foreign) in the field of business related corruption – private-to-public corruption and particularly private-to-private corruption, form that is generally neglected and less examined in Romania – in order to identify why and how is possible and necessary for firms to make a shift from business corruption to business ethics. The competitive strategy of the firm can emphasize ethics among the core values of it, source of long lasting competitive advantage, a key resource of surviving into the global economic world and competition.

Keywords: *business related corruption, private-to-public corruption, private-to-private corruption, business ethics*

Business related corruption – what it is and how it works

The term corruption has a variety of approaches, depending on the field of activity and/or interest of those who bring it into discussion and/or or public debate – researchers, business practitioners, citizens, politicians, journalists, etc. On the other hand, they talk about corruption at many different levels – public servants and public institutions until the highest (national and international) levels, employees and managers from the smaller family firm to the biggest multinational company, etc. The general idea about corruption and its consequences is that it “can occur in both the public and private domains and often in collusion with individuals from both sectors” (<http://www.wordinfo.info>).

So, corruption is many different things to many different people, yet it is not easy to define, because “you may know it when you see it, but it is hard to spell out” (Lewis, F., 1996). Our particular interest in this context is to clarify some aspects

regarding business related corruption and to emphasize the reverse angle of business ethics as strategic alternative.

One of the most complete and comprehensive **definition of corruption** we found to be that one offered by *Antonio Argandona*, who defines corruption as „*the act or effect of giving or receiving a thing of value, in order that a person do or omit to do something, in violation of a formal or implicit rule about what that person ought to do or omit to do, to the benefit of the person who gives the thing of value or a third party*”.

This general definition can be applied to any kind of corruption, it probably covers (most of the) the actions and behaviors that can be qualified as corruption and it captures the following **features of corruption** (see Argandona, A., 2005):

- ✓ *It is an action*, which may also be an omission (for example, not reporting an infringement or not imposing a fine), and the definition includes even an attempt to perform such an action, and the effect of that action (the payment) and also the habit of acting corruptly, that...
- ✓ *consists of giving or receiving*: corruption encompasses both sides of the transaction (supply and demand)...
- ✓ *a thing of value*: money, goods, services, a job, a favor, or simply the promise or hope of obtaining them in the future, however ill-specified...
- ✓ *in order that a person*, who may hold a position in the public sector (a politician, government official, judge, police officer etc.) or in the private sector (a manager or employee of a company or organization)...
- ✓ *does or omits to do something* (corruption may occur by action or by omission – and this also includes inducing or directing a third party to do or omit to do something: as, for example, in the case of a superior who orders or induces a subordinate to do something, or the leader of a political party who invites a politician or public official to do something)...
- ✓ *in violation of a formal or implicit rule*: the action or omission may go against the law or some other formal regulation, or simply against a brief, custom, moral standard or implied agreement.
- ✓ The rule or agreement requires that *the person who does or omits to do should always act in accordance with certain interests inherent in her post or position*. This rule may be stated in a contract (for example, the employment contract of a public official, manager or employee), in a law or regulation, or in a professional code of conduct etc., and it may be explicit or implicit...
- ✓ *to the benefit of the person who pays or a third party* (for example, a relative, friend, acquaintance, member of the same tribe or ethnic group etc., or a political party, group, company, non-governmental organization etc.).
- ✓ *And it tends to be done in secret*.

Thanks to the quite exhaustive definition he gave to the term corruption, and in order to create an image about the spread, frameworks and dimensions of the phenomena into a globalized world, where we can no longer talk about time and space borders for corruption of any kind, the above mentioned author is arguing that,

generally speaking, **corruption** can be **classified** in many different ways (see Argandona, A., 2005):

- ✓ *public* (if one of the parties is a public official or politician; implying misuse of power in public office) or *private*;
- ✓ *national* (if the corrupt act and its effects are confined to the territory of a single country) or *international* (if the parties belong to different countries, or the payment is made in another country or through intermediaries in another country);
- ✓ *grand* (involving large payments and large effects) or *petty* (facilitating payments);
- ✓ *political* (if it affects politicians then the amounts involved and the effects tend to be significant) or *bureaucratic / administrative* (if it concerns the minor decisions of an official it tends to be petty);
- ✓ *demand-driven* (the initiative comes from the person who receives the payment: i.e. extortion) or *supply-driven* (the initiative comes from the person who pays: i.e. bribery);
- ✓ *individualized* (isolated cases) or *systemic* (when a system is created that fosters permanent corruption);
- ✓ *based on coercion* (if it involves a somewhat violent attempt by one party to dominate the other) or *collusion* (if it is done by mutual agreement between the parties for their mutual benefit);
- ✓ *centralized and organized* (when it involves a hierarchy of actions at various levels of a public or private administration) or *decentralized and unorganized*;
- ✓ *derived from personal greed* or *stimulated by external events* (induced voracity);
- ✓ *predictable* (if the payer can be reasonably certain that the payment will achieve the desired result) or *arbitrary*;
- ✓ *to avoid a disadvantage* (or reduce a cost) or *to gain an advantage*;
- ✓ *by actual payment* (gift of money, goods, free or cut-price services etc.) or *based on the promise or hope of payment*;
- ✓ *for financial gain* or *for a gain of some other kind* (political power, for example);
- ✓ *to obtain a legitimate benefit* to which one is entitled, or *to obtain something to which one is not entitled*;
- ✓ *for the benefit of the person who receives the payment, or of some other person or group* (relatives, friends, ethnic or religious community, political party etc.).

As Neelankavil J. puts it, „traditionally, *corruption* has been accepted as no more than a *cost of doing business* in many countries. Corruption takes place in industrialized countries, developing countries and less developed countries. The degree of corruption may vary from one group to another”. Whatever the definition and form, *corruption* was identified by the *World Bank* “as among the greatest obstacles to economic and social development. It undermines development by distorting the rule of law and weakening the institutional foundations on which economic growth depends”

(<http://web.worldbank.org>). Considering its spread and implications at individual, national and global level, we have to argue that corruption is a widely present syndrome and cost in everybody's life. Under these circumstances, "close attention and steadfast commitment to fighting corruption must come from the range of stakeholders in order to address its root causes, as well as its symptoms" (El-Sharkawy, A., Jarvis, M., Petkoski, D., 2006).

Private-to-public corruption

The relationship between corruption and business seems to be a relative strongly one because can it be seen as a two-way-street – each part helps and supports the other; additionally, it has been developed at two different levels: private-to-private (internal, exclusively business level, inside and outside the firm) and private-to-public (exclusively external, implying at least a representative from the firm and someone from an authority). During the last few decades, most of the attention was given (by researchers, NGOs, governments and international institutions as well) to private-to-public corruption – due to the amplitude of the phenomena and its consequences at global scale, in the context of economic globalization.

For illustrating the meaning of the **private-to-public corruption** concept we will mainly refer here to the article of *James Neelankavil* named *International Business Corruption: A Framework of Causes, Effects, and Prescriptions*. The equation of private-to-public corruption – which usually starts with the premise of „**abuse of power**” – involves three **actors** (see Klitgaard, R., *Controlling Corruption*, Bekley, C.A. University of California Press, 1991, according to Neelankavil, J.):

- ✓ the **principal** – which is the entity that has the authority to grant and approve projects (a government agency such as the ministry of industry);
- ✓ the **agent** – which is the intermediary who represents the principal and is actually responsible for granting the permission on behalf of the principal (a civil servant);
- ✓ the **client** – which is a company or an individual who seeks a grant or permit for projects or investments (a business entity).

In order to identify and analyze the situations that generate the private-to-public corruption Klitgaard discovered and proposed his well known formula which explains the circumstances and the way corrupt practices occur:

Corruption = monopoly + discretion – accountability.

The corruption mechanism will be the following: government officials can (ab)use the perspective of some future profitable contracts in order to obtain illicit pay offs – under the circumstances of exploiting a monopoly, for instance, the power to give contracts which are not available another place and the freedom to decide on this – the possibility to choose between different offers. The lack of responsibility means that it exists just a few ways to stop the exploitation and there is no possibility of arguing in justice for those who loose. More than that, the bribery suppliers given short circuit the competition based supply, reward the corrupt use of decisional freedom and undermine the transparent and responsible procedures (see Johnston, M., 2005).

Research has shown that the extent to which people abuse their position for personal gain is limitless; so, there are different **types of corruption** (see Elliot, K., *Corruption as an International Policy Problem: Overview and Recommendations*, in Elliot, K. (ed.), *Corruption and the Global Economy*, Institute for international Economics, 1997, according to Neelankavil, J., *International Business Corruption: A Framework of Causes, Effects, and perceptions*):

- ✓ **business related** (bribing officials, accounting irregularities, tax evasion, insider trading, money laundering, embezzlement, falsifying documents);
- ✓ **political related** (voting irregularities, holding on to power against the will of the people, nepotism and cronyism, rule of the few);
- ✓ **petty corruption** (made by the local low-level official taking small sums of money to expedite routine approvals or transactions);
- ✓ **grand corruption** (made by defense contractors paying billions of dollars to lawmakers for awarding major defense or transportation projects);
- ✓ **influence peddling** (taking the form of the huge campaign contributions to politicians or that of the contributions to government leaders).

As James Neelankavil says, the **causes of corruption** can be classified into three main areas:

- ✓ **environmental variables** – such as: lack of a clear distinction between what is considered "public" and what is considered "private", excessive administrative and discretionary power concentrated among a few, lack of transparency in the handling of public finances, lack of independent control agencies, absence of dependable legal machinery for preventing arbitrary application of regulations and laws, weak public institutions, over regulations, unclear regulations, lack of economic development, lack of competition, income inequalities;
- ✓ **individual variables** – greed, integrity/honesty, wages and salaries, the individual need to maintain the power;
- ✓ **firm related variables** – market expansion, profit maximization, supply of resources and low cost labor.

A lot of variables determine corruption, but the studies revealed also some **variables that hinder** private-to-public **corruption**: relatively efficient bureaucracy; free and open democratic system of governance; well functioning political system; access to public records; a well functioning legal system; high level of trust between citizens and their elected officials; low level of tolerance towards corruption.

The **effects of corruption** are felt in monetary terms from a business point of view, as well as in social and political costs, according to Neelankavil:

- ✓ **monetary costs of corruption – economic effects** – payments and/or bribe raise the overall cost of operations; corruption acts as a hindrance to growth by not allowing free markets to operate and hence creating inefficiencies that lead to lower outputs; corruption is a serious obstacle for investment and may result in reduced flow of FDIs; due to the reduction in flow of capital, corruption affects GDP growth; lack of foreign investments flow to a country increases financing costs for both private and public projects; reduction in tax revenues;

since bribery takes place in secret, access to market is artificially set and therefore it excludes competitive forces that could have put pressure for setting competitive quality and price;

- ✓ **social costs of corruption** – some of the social costs associated with higher corruption levels are seen in the areas of health, education and hygiene;
- ✓ **political costs of corruption** – politically, corruption leads to government leaders who are self-serving, amass wealth for themselves, allocate very little funds for projects that could benefit the country and its economic growth, perpetuate the rule of a few, and suppress the rights and voices of the majority of the population.

In conclusion, we have to agree with Klitgaard who said: „corruption is normal, which does not mean that it is good. People take advantage of government to qualify when they shouldn't, collude to create higher prices, evade requirements and taxes and laws, and pay for the services they shouldn't receive. Government officials may take advantages of monopoly plus discretion minus accountability to steal or to extort. In response, governments around the world have created an anti-corruption apparatus of public management, including the legal system, accounting and auditing, budgets, competitive procurement, and citizen oversight. Governments ought to invest in this apparatus up to the point where the social benefits of reduced corruption are equal to the social costs of the apparatus itself. This calculation will depend on the quality of the apparatus and on various aspects of the society itself" (Klitgaard, R., 2004).

Private-to-private corruption

Even if private-to-public corruption gained a lot of attention during the past few decades, we can not ignore the dimension of **private-to-private corruption**, because, as *Antonio Argandona* argued a few years ago, "there is good reason to suspect that private-to-private corruption is no less important, no less widespread, no less harmful and no less worth combating than private-to-public corruption" because „the subject has become increasingly important in recent years for a variety of reasons" (Argandona, A., 2003).

But, what is private-to-private corruption and which are its specific forms according to the above mentioned researcher?

- ✓ **private-to-private corruption is** the type of corruption that occurs when a manager or employee exercises a certain power or influence over the performance of a function, task or responsibility within a private organization or corporation. Because he has a margin of discretion, he can choose to act contrary to the duties and responsibilities of his post or job, and thus in a way that directly or indirectly harms the company or organization, for his own benefit or for that of another person, company or organization.
- ✓ private-to-private corruption may take a variety of **specific forms**: *bribery* (when it is the person who pays who takes the initiative); *extortion* or *solicitation* (when it is the person who receives the payment who takes the initiative, whether explicitly or otherwise); *dubious commissions, gifts and favors*; *facilitation payments* (to speed up completion of an order, delivery of

goods or payment of an invoice, for example); *nepotism and favoritism* (in the hiring and promotion of personnel, for example); *illegitimate use or trading of information* (trade or industrial secrets, for example); *use of undue influence to change a valuation or recommendation* (as in the case described above); and an endless array of other possibilities born of human ingenuity over the centuries.

In order to have a clear image about the most frequent forms that private-to-private-corruption takes we will stop at the specific examples of corrupted behavior offered by *Antonio Argandona* through one of his articles. We must note in this context that the paper we are referring to is one of the few available works on this subject (see Argandona, A., 2003). As Argandona said, a **typical example** of this type of behavior is that of a company manager or sales representative who gives, or promises to give, money, presents or other rewards or advantages to the purchasing manager or buyer of a client company in order to win an order. And the rest are „just details“:

- ✓ It may be the payer who makes the first move (bribery), or it may be the payee (extortion or solicitation). The distinction is not always clear, however, as what at first sight appears to be bribery may conceal an act of extortion (or vice-versa).
- ✓ The payment may be made (allegedly) to benefit the company that secures the order; to benefit the manager or employee who pays (by helping her to meet her sales targets and so avoid a penalty or earn a bonus, for example); or to benefit both sides.
- ✓ The payment may be made in various forms: in cash or in kind, such as a favor or service, or a promise to exert influence on another person so that this other person will do a favor to the interested party or to a third party, etc. In some cases an agent, broker or intermediary may be used to facilitate the transaction.
- ✓ The thing that the payment is supposed to obtain for the payer (an order, for example) may be something to which the payer is entitled, at least in terms of objective justice (e.g., because the terms offered are at least as good or better than those offered by other competitors); or it may be something blatantly unfair (e.g., when the aim is to persuade the payee to accept terms that are worse than those offered by other competitors in price, quality, service, etc.); or the payment may even be a means of self-defense against unfair treatment by the payee (e.g., because the payee threatens not to place any orders unless she is paid a certain amount of money, or threatens to remove the paying company from the list of potential suppliers, etc.).

There are also other *situations that commonly arise in this type of private-to-private corruption* (see Argandona, 2003):

- ✓ Offers of gifts to the buyer or purchasing manager of a client company not in order to obtain a special favor but to make the person receiving the gift more inclined to grant such favors in the future, if necessary. This practice is not

- always easy to distinguish from the legitimate custom of making (modest) gifts in recognition of legitimate favors, “to oil the wheels of business relations”, etc.
- ✓ Payments (or other types of rewards) to the managers or employees of a manufacturer, importer, wholesaler or distributor in order to obtain a distribution agreement, license or franchise.
 - ✓ Payments to the managers of a financial institution in order to obtain a loan or secure more favorable terms on a transaction (to guarantee the placement of an issue of shares, for example).
 - ✓ Payments to obtain insider information on a company's transactions that are likely to lead to a change in the price of the company's shares (sale of insider information).
 - ✓ Payments to obtain technical or commercial information (designs, customer lists, know-how, prices offered by other companies, terms offered by rivals in a competitive tender, etc.). Some of the means employed in these practices belong to the sphere of private-to-private corruption. They include: hiring managers or employees of other companies to obtain insider information; bribing managers or employees to obtain such information, etc.
 - ✓ Payments to the managers of retail distributors (supermarkets, hypermarkets, superstores, etc.) to obtain privileged shelf space.
 - ✓ Payments to a company's personnel director to ensure that a particular employee or manager is hired or promoted.
 - ✓ Payments to independent professionals who have specific duties (accountants, auditors, consultants, financial analysts, etc.) to induce them to act contrary to those duties.
 - ✓ Payments to journalists to induce them to report company news in a favorable light.

In conclusion, private-to-private corruption deserves to be taken seriously by companies because it has a **high cost** – not only **financial** (economic costs, inefficiency, fines, etc.), but also **legal** (accusations, suits and penalties), **social** (loss of reputation, creation of an atmosphere favoring corruption, etc.), and **ethical** (deterioration of the quality of the organization's people and of its rules and culture).

Making the shift: from Business corruption to Business ethics

A general definition of the term business ethics is implied in the description of **corruption** as a „form of unethical behavior or wrongdoing” (Eiras, A.L., according to Nwabuzor, A., 2005). That is right, because if we look at different forms of business corruption as we named them before, we will see that a common feature of each is the unethical behavior. Augustine Nwabuzor argues that if the dictionary gives the meaning of **ethics** as “the discipline dealing with what is good or bad” and, in general, we call **unethical** “those actions for which there is social consensus that they are a bad thing”, **business ethics** can be specifically defined as “a conversation about right and wrong conduct in the business world”; in this context, **corruption** may be seen as a form of anti-social behavior, which confers improper benefits to people in authority through a perversion of societal norms and morals” (Banfield, E., *The moral basis of a*

Backward society, Chicago, Illinois, The Free Press, 1998, according to Nwabuzor, A., 2005).

Formally stated, **business ethics** comprise principles and standards that guide behavior in the business world (<http://businessreality.org>). The three **domains** that business people need to remember – because they help to define what is right or wrong within business are:

- ✓ *individual* – it relates to the general ethics definition and moral values and rules of conduct (the term *ethics* has been defined as an "inquiry into the nature and grounds of morality where the term morality is taken to mean moral judgments, standards and rules of conduct". *Moral judgments* relate to "what is right and wrong and has been instilled into us by parents, church or synagogue leaders, relatives, and teachers");
- ✓ *company / corporate / firm* – the rules and standards that a firm has implicitly and explicitly taught their employees;
- ✓ *societal* – the rules and laws that have been enacted by governments as it relates to individual and corporate codes of behavior. These three domains interact with one another in a dynamic way: always moving and changing (for example, what once was legal today could be illegal tomorrow and vice versa).

According to the on-line *Business Ethics Library*, the major **classifications of business ethics** are: conflict of interest, honesty and fairness, communications, and organizational relationships (<http://businessreality.org>):

- ✓ a **conflict of interest** exists when differing domains define the same situation differently. Unethical conflicts of interest are of particular concern when they stifle fair competition among businesses. A conflict of interest exists when an individual must choose whether to advance his or her own interests, those of the organization, or those of some other group. To *avoid* conflicts of interest, employees must be able to separate their private interests from their business dealings. Organizations must also avoid potential conflicts of interest when providing goods or services.
- ✓ **honesty** (virtue) relates to truthfulness (virtue), integrity (virtue), and trustworthiness (virtue).
- ✓ **fairness** (virtue) is the quality of being just, equitable, and impartial. At a minimum, businesspeople are expected to follow the applicable rules and laws within the societal domain. In addition, businesses and their employees are expected not to harm customers, clients, or other employees through deception, misrepresentation, or coercion. Ideas of fairness are sometimes shaped by vested interests. One or both parties in the relationship may view an action as unfair or unethical because the outcome was less beneficial than expected. Issues related to fairness and honesty also arise because some believe that business should be treated as a game, separate from their personal values and the laws of society. As a result of such reasoning many conclude that anything is fair within the rules of the business domain, excluding all other domains. But many argue that business is not a game like

poker where it is acceptable to bluff, lie, misrepresent, and take advantage of employees, customers and other firms.

- ✓ **communication** refers to the transmission of information and the sharing of meaning and relate to advertising messages and information about product safety, pollution, employee work conditions, as well as other situations. Communications that are false or misleading can destroy the trust which is the glue that holds businesses together. Lying or exaggerating claims that cannot be substantiated have been the bane of advertising for decades; labeling is another issue that is on the ethical rise. Another form of advertising abuse involves making ambiguous statements whose words are so weak that the viewer, listener, or reader must infer the advertiser's intended message which can be used to deny any intent to deceive.
- ✓ **organizational relationships** relate to the behavior of organization members toward customers, suppliers, subordinates, superiors, peers, and others. Ethical employees maintain confidences, meet obligations, and avoid putting undue pressure on others to behave unethically. Such relationships infer that business has a social responsibility.

Business life is confronted with an enormous range and complexity of ethical problems. **Unethical practices** appear in many **forms** – besides outright fraud one finds unfair competition, unfair communication, non-respect of agreements and unfair attitudes towards / and treatment of / stakeholders through the abuse of power or due to conflicts of interest. As Yves Fassin says, it is important to try to **understand the reasons** that can lead managers and entrepreneurs **towards unethical behavior** because „there are different sets of reasons for the rise of the unethical behavior in business: some are the consequence of the *general evolution of society*, others are basically due to the *evolution of the business environment* and to its *internal organization*” (Fassin, Y., 2005):

- ✓ the evolution of society in recent decades has been characterized by the increasing individualism of people and a result has increased the importance of money in society and the glorification of material consumption;
- ✓ the media have acquired a great importance, and the models offered by television have not always represented good examples;
- ✓ the globalization of the economy has had harmful side effects; it has lead to larger structures, with more centralization, and a greater concentration of power:
- ✓ the race to increase productivity leads to depersonalization as the distance between head office and the anonymous workers increases;
- ✓ the economic system is now focused on the short-terminism of the stock market, and business leaders have learnt to use the system;
- ✓ every important deal is signed and laid down in a contract, but a perfidious side effect is that many business people use the letter of the contract rather than the spirit of it;

- ✓ the inefficiency of the law and the slow pace of justice make it very difficult, costly and time-consuming to win a court case and even then, it will not restore the harm done to the company;
- ✓ some entrepreneurs deliberately abuse the imperfections of the juridical system to perpetrate unethical actions, because they know that the cost of a lawsuit is disproportionate to the loss of a deal;
- ✓ the rewards and evaluation systems of business and of managers are not always in line with the long-term vision;
- ✓ modern business is subject to pressures from all stakeholders on top of time pressure, scarce resources, social and financial pressure, and stiff competition;
- ✓ greed and the pursuit of profit; the nature of competition and the desire to beat the other party in a competitive environment; the need to insure or restore some standard of justice that may have been violated – at individual level.

All the above mentioned reasons explain the rise of the business unethical behavior – possible through a metaphor such as "the basic rule is that bad behavior drives good behavior out of the marketplace" (*Sam Price*, according to Khera, I., 2001), but they do not justify it. So, as a result of it (see Khera, I., 2001):

- ✓ „corruption has a considerable effect on our lives because it is around us. The emphasis on making money is so great, the emphasis on getting rich, no matter how, is so tremendous that it influences virtually every aspect of our society" (*Lawrence Ritter*, past president of the American Finance Association);
- ✓ „the problem is that a lot of people who are involved in corruptive behavior do not recognize it ... financial markets, the defense industry, and construction are areas where one finds a tremendous amount of corruption" (*Raymond Corey*, Harvard marketing professor);
- ✓ „ a lot of business crime and corruption involve individuals who are viewed as pillars of the community. The greed factor lowers the moral tone of society in general" (*Robert Bonner*, US Attorney in Los Angeles).

When analyzing **the ethical implications of a situation of corruption**, the **rules** normally applied are as follows (Argandona, A., 2003):

- ✓ a manager or employee may not solicit or demand an extortion, because it would commit her to carry out an immoral act – besides forcing the other party likewise to behave unethically, as her accomplice;
- ✓ a manager or employee may not accept bribes, for the same reason;
- ✓ nobody may offer bribes, as to do so is equivalent to instigating the other party to commit an unethical (and illegal) act;
- ✓ a person may not give in to extortion to obtain something to which she is not entitled;
- ✓ in certain circumstances, a person may give in to extortion (tolerate an injustice, but not cause one) in order to obtain something to which she is entitled. In such cases, the rules to be followed are:

- carefully weigh up all the available options to see if the problem can be solved without resorting to corruption (or causing any more serious problem);
- the extortion must be explicit or at least sufficiently obvious – in other words, an attempt at bribery should not be covered up as if it were a response to extortion or solicitation;
- the person must act with the intention of exercising a right;
- the person must do all he can to avoid causing unjust harm to others;
- there must be objective reasons of sufficient weight, in proportion to the harm caused;
- every effort must be made to avoid scandal and the bad example that the action may give rise to;
- steps must be taken to see to it that similar situations of collaboration with corruption are not repeated in the future.

In practice, each case need to be considered individually in all its circumstances and detail in order to fully assess the moral problem and propose solutions.

Organizational efforts in regard to ethics affect various stakeholders: customers, employees, suppliers, and investors: many stockholders want to invest in companies that have strong ethics programs, employees like working for a company they can trust, and consumers value integrity in business relationships. Stronger organizational ethical climate result in consumer and employee trust, employee commitment, and consumer satisfaction, which in turn leads to **profitability** (see <http://businessreality.org>).

The on-line **Business Ethics Library** argues that the first step in understanding and making better, a more informed, ethical decision is to understand when an ethical issue – a problem, situation, or opportunity requiring an individual or organization to choose among many alternatives that are judged ethically different – occurs. Given the four functional areas within business – **management, marketing, accounting, and finance**, associated with each one are their participants: **owners, employees, and customers**:

- ✓ within management some of the major ethical issues relate to the manager's obligation to owners, especially in the area of corporate takeovers, mergers, and leveraged buyouts. The greatest concern is when managers release confidential information to interested parties which causes unfair advantages. Managers also need to be concerned with ethical issues related to employee benefits, drug and alcohol abuse, dismissal, discrimination, health, safety, and privacy;
- ✓ marketing and customers' ethical issues revolve around the product, its price, how it is distributed, and its promotion. Ethical issues such as using inferior materials in production to pollution can be classified as marketing related ethical issues. Pricing ethical issues such as dumping which is selling products at below cost to increase market share is a problem internationally because

governments subsidize companies such that it becomes profitable in the long run to do such tactics. Also, pricing need goods extremely high is also an ethical problem for marketers. Distribution issues such as relationship marketing can also cause ethical conflict. For example, with the advent of more vertical marketing channels and the push to develop stronger relationships between channel members' competition can become reduced thus increasing the monopoly and pricing discrimination opportunities;

- ✓ the field of accounting has changed dramatically over the last decade. Because of increased competition, the large accounting firms within the U.S. have merged into even larger firms. The "club" mentality that pervaded the discipline has been changed by clients expecting reduced client fees, increased accountant advertising, and client requests for altered opinions. The spat of companies altering financial reports has also caused an increased number of lawsuits as well as a reduced perception of the credibility of the accounting profession. Other issues such as an increased complexity of tax codes, data overload, contingent fees, and commissions are the main ethics issues in accounting;
- ✓ with the increased amount of attention on stock markets, mergers and acquisitions more ethical issues have begun to appear. For example, pricing as it relates to financial managers has become a key issue in the form of antitrust activities. Other financial issues relate to how companies' financial positions are reported to current and potential investors, government agencies, and other interested parties. Inaccurate financial documents, whether intentional or not, usually result in lawsuits and criminal penalties. Finally, the financial community is being held more responsible for knowing whether large cash deposits are being "laundered" to hide a depositor's involvement in illegal activities.

Under these circumstances, A. Argandona emphasizes some suggestions for the companies that wish to protect themselves against corruption as lack of ethics, distinguishing between **prophylactic or preventive measures** and **curative or corrective measures** (see Argandona, A., 2003); by this way, he develops a conceptual as well as practical framework in order to deal with the private-to-private corruption issue:

- ✓ prophylactic or preventive measures
 - declaration of intent – the company's top management must state very clearly its determination to fully comply with all legislation, strictly prohibiting all forms of corruption, active or passive, in the company, regardless of who pays, who gets paid, how much, etc. This statement may be published in a code of conduct, a company credo, or in open letters to employees, public speeches, company newsletters, etc.
 - clearly defined responsibilities – it should be very clear at all times who is in control and who bears responsibility in areas of activity where there is any possibility of corruption: contracts, authorizations, etc.

- provision of general decision-making criteria – top management must be in a position to provide technical, economic, legal and ethical criteria for dealing with any problems that may arise in relation to corruption.
- consideration of specific situations, such as:
 - donations to charitable or cultural institutions should always be an expression of civic duty and should never be made in the hope of receiving favors in return;
 - the company should explicitly prohibit the offering of gifts, payments, tips, services, commissions, etc. beyond a certain amount;
 - if company personnel must accept such gifts, a procedure for what to do with them should be established; it is acceptable for managers or employees to pay or receive such commissions as are legal and customary for their services as intermediaries, provided that the company has authorized the commissions and they cannot harm the company;
 - if necessary, small gifts may be accepted, out of courtesy and to facilitate the normal conduct of business relations;
 - facilitating payments (such as tips to speed up an order or payment) should be prohibited;
 - limits should be set to managers' and employees' freedom to carry on a business outside the company that may come into competition with the company;
 - anonymity should be restricted;
 - strict criteria should be established for the approval of expense claims of all kinds;
 - the contracts the company signs with managers and employees who have access to privileged information should include clauses to prevent the use of this information for the benefit of competitors for a prudent period of time after the employee has left the company.
- reporting mechanisms – the company personnel must always know who they can turn to report corrupt behavior within the company, or attempts at corruption by people outside the company, or to obtain advice on specific conduct.
- transparency – all of the company's transactions that involve receipts or payments of money must be faithfully, accurately and promptly recorded in the company's accounts or in the appropriate books.
- restitution – it should be clearly established that the company will always return illicit payments and compensate those who have suffered as a consequence of corrupt behavior by its managers or employees.

- supervision and control – the company must allocate sufficient resources to monitoring the company's activities for evidence of corruption.
- training – because although company personnel are quite likely to have already a sound ethical training, this cannot be taken for granted.
- in search of excellence – the company must adopt an attitude of permanent rejection of corruption, wherever it comes from and whatever its causes and effects, even if it appears to benefit the company.
- corrective measures – the company must make it an opportunity to take its commitment to the fight against corruption one step further:
 - by formulating an anti-corruption strategy, for example, announcing it publicly and putting it into effect;
 - by scrupulously reviewing all earlier situations in which corrupt behavior may have occurred;
 - by redoubling its efforts to inform and train its employees (as well as its customers and suppliers), etc.

In a word, the company must seize the opportunity to give fresh impetus to the fight against corruption, turning what at first sight may appear to be an embarrassment, or even a serious problem, into a competitive advantage (see Argandona, 2003).

In conclusion, as a general rule, the **fight against corruption as lack of ethics** may be fought (Argandona, A., 2003): within the framework of *criminal law*, which makes corrupt practices a criminal offence; within the framework of *civil law*, which allows the victim to sue for damages; within a framework of *self-regulation*, which leaves it to companies themselves to deal with the problem by establishing internal codes and rules and by setting up inter-company or industry-wide agreements.

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