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ELIMINATING BRIBERY - AN INCENTIVE-BASED APPROACH

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ABSTRACT

This article discusses the potential role of incentive systems in combating bribery. In particular, it uses an agency theory approach to show how a combination of bonus and malus payments could help to eliminate bribery in multinational corporations. Expert interviews with 35 anti-bribery specialists from Austria, Germany, Liechtenstein, and Switzerland were conducted and analyzed through qualitative content analysis. It was found that employees should be rewarded for both productivity and compliance. In addition, performance should be measured in a matrix and whistleblowers should receive a bonus for reporting undesired behavior. Conversely, significant risks associated with incentives for whistleblowing were also identified. Whilst the empirical findings focus on Europe, their implications could be applied globally.

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I. INTRODUCTION

Twenty years ago, bribery was still commonly accepted in many areas of the world. However, corruption leads to inefficient use of resources, unfair redistribution of income, and secessionist responses.[1] Frustration, unstable sociopolitical situations, and a lack of contentment among private citizens are just a few of the potential outcomes.[2] In addition, bribery requires secrecy, which makes the enforcement of agreements very difficult.[3] Given its many negative impacts on a country's development, multiple nations have outlawed bribery.[4]

However, bribery has not yet been eliminated, with multiple attempts to combat this phenomenon ultimately failing. This article will present an agency theory-based approach towards eliminating bribery. In particular, it will analyze and discuss whether incentive systems could be adjusted to more effectively fight bribery in multinational corporations, thereby helping to decrease corruption in developing countries.

II. LITERATURE REVIEW

For this study's purpose, the bribery definitions of the OECD Anti-Bribery Convention and Transparency International are amalgamated to define bribery as an act in which a party:

> *intentionally abuses entrusted power for private gain by offering, promising, or giving any undue pecuniary or other advantage, whether directly or through intermediaries,*

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1 Mark Levin & Georgy Satarov, *Corruption and institutions in Russia*, EUROPEAN JOURNAL OF POLITICAL ECONOMY, 16(1), 113, 114f. (2000); Antonio Argandoña, *The United Nations convention against corruption and its impact on international companies*, JOURNAL OF BUSINESS ETHICS, 74(4), 481, 482 (2007); Michael W. Collier, *Explaining corruption: An institutional choice approach*, CRIME, LAW AND SOCIAL CHANGE, 38(1), 1, 6(2002).

2 Christopher J. Anderson & Yuliya V. Tverdova., *Corruption, political allegiances, and attitudes toward government in contemporary democracies*, AMERICAN JOURNAL OF POLITICAL SCIENCE, 47(1), 91 , 104 (2003); Pak Hung Mo, *Corruption and economic growth*, JOURNAL OF COMPARATIVE ECONOMICS, 29(1), 66, 67 (2001); Jong Bum Kim, *Korean implementation of the OECD bribery convention: Implications for global efforts to fight corruption*, UCLA PACIFIC BASIN LAW JOURNAL, 17(2/3), 245, 249 (1999).

3 Paolo Mauro, *Why worry about corruption?*, ECONOMIC ISSUES 6. WASHINGTON, D.C.: INTERNATIONAL MONETARY FUND, 6 (1997); Pranab Bardhan, Corruption and development: A review of issues. JOURNAL OF ECONOMIC LITERATURE, 35(3), 1320, 1320 (1997); Paolo Mauro, *The effects of corruption on growth, investment, and government expenditure*, IMF WORKING PAPER, WP/96/98 WASHINGTON, D.C.: INTERNATIONAL MONETARY FUND, 86 (1996); John Bray, *The use of intermediaries and other alternatives to bribery, in*: The new institutional economics of corruption, 120(Johann Graf Lambsdorff, Markus Taube & Matthias Schramm eds., 2005).

4 Hongyi Li, Lixin Colin Xu & Heng-fu Zou, *Corruption, income distribution, and growth*, ECONOMICS & POLITICS, 12(2), 155, 156 (2000); Aart Kraay, Pablo Zoido-Lobaton & Daniel Kaufmann, *Aggregating governance indicators,* POLICY RESEARCH WORKING PAPER 2195 WASHINGTON, D.C.: WORLD BANK, 3 (1999).

> *to a foreign public official, for that official or for a third party, in order that the official act or refrain from acting in relation to the performance of official duties, in order to obtain or retain business or other improper advantage in the conduct of international business.*[5]

This definition is ideal for this study since countries throughout the world have based their national legislation on the OECD Anti-Bribery Convention. Moreover, Transparency International's definition is the approach employed in the best-known corruption index.

This study employs an agency theory approach. In particular, it will emphasize that "principals" and "agents" have differing interests[6], and that the former commonly desire to be compensated for acting in accordance with the latter's best interests.[7] Ultimately, principals bear responsibility for the outcome of a task delegated to their agents.[8] This is particularly problematic if agents are unsupervised[9], in which circumstance they might shirk or use the corporation's resources for their own benefit.[10] This constitutes a significant challenge as regards bribery, which is commonly conducted secretly, such that shareholders and CEOs (principals) may not always be aware of actions taken by the company's sales managers (agents). In this context, incentives could potentially prevent employees from simply reducing their risk and forcing the owners to bear a bigger share of it.[11] Of course, internal audits and control mechanisms could be used simultaneously to address agency problems.[12]

However, the use of incentives to fight bribery has not yet been investigated in depth.

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5 See *FAQs on corruption,* December 20, 2015, TRANSPARENCY INTERNATIONAL, http://www.transparency.org/whoweare/organisation/faqs_on_corruption (last visited 10 Oct. 2018), 1 (2015); OECD, *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and related documents*, 6(4), OECD WORKING PAPERS, https://www.oecd.org/daf/anti-bribery/ConvCombatBribery_ENG.pdf (last visited 10 Oct. 2018), 7 (2011).

6 Kathleen M. Eisenhardt, *Agency theory: An assessment and review*, ACADEMY OF MANAGEMENT REVIEW, 14(1), 57, 59 (1989).

7 Patrick McColgan, *Agency theory and corporate governance: A review of the literature from a UK perspective*, 6 (2001).

8 Stephen A. Ross, *The economic theory of agency: The principal's problem*, THE AMERICAN ECONOMIC REVIEW, 63(2), 134, 134 (1973)

9 Peter Wright, Ananda Mukherji & Mark J.Kroll, *A reexamination of agency theory assumptions: Extensions and extrapolations*, THE JOURNAL OF SOCIO-ECONOMICS,30(5), 413, 426 (2001).

10 Luis R. Gomez-Mejia & David B. Balkin, *Determinants of faculty pay: An agency theory perspective*, ACADEMY OF MANAGEMENT JOURNAL, 35(5), 921, 923 (1992).

11 Henry L. Tosi, Jr. & Luis R. Gomez-Mejia, *The decoupling of CEO pay and performance: An agency theory perspective*, ADMINISTRATIVE SCIENCE QUARTERLY, 34(2), 169, 169 (1989).

12 Michael B. Adams, *Agency theory and the internal audit*, MANAGERIAL AUDITING JOURNAL, 9(8), 8, 12 (1994).

The overwhelming majority of literature on wages and bribery has focused on the public sector and on adequate wages in general, rather than on incentives.[13] For instance, it has been analyzed whether tax collectors openness to bribery may be increased by using incentive systems.[14] It has also been discussed whether graders in Burkina Faso are more or less likely to accept bribes under bonus or malus systems.[15] In contrast to previous studies, this article will analyze whether incentive systems could help to eliminate bribery in multinational corporations.

III. METHODY

Due to the significant research gap identified above, it was not possible to form hypotheses that could be quantitatively tested. Therefore, an explorative approach was chosen.[16] Thirty-five formal interviews were conducted with anti-bribery experts from Austria, Germany, Liechtenstein, and Switzerland, aiming to answer the following research questions:

> *How could incentive systems help to prevent corruption in multinational corporations?*
>
> *Which risks are associated with anti-bribery incentives?*

The interviewees were recruited through the author's personal network, and the interviews were transcribed and analyzed using qualitative content analysis.[17] The recruited interviewees have various backgrounds. First, 15 white-collar criminals were interviewed in

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13 Rajeev K. Goel & Daniel P. Rich, *On the economic incentives for taking bribes*, PUBLIC CHOICE, 61(3),269, 269f. (1989); Rafael Di Tella & Ernesto Schargrodsky, (2003). *The role of wages and auditing during a crackdown on corruption in the city of Buenos Aires*, JOURNAL OF LAW AND ECONOMICS, 46(1), 269, 269f. (2003); Gary S. Becker & George J. Stigler, *Law enforcement, malfeasance, and compensation of enforcers*, THE JOURNAL OF LEGAL STUDIES, 3(1), 1, 6 (1974); Caroline Van Rijckeghem & Beatrice Weder, *Bureaucratic corruption and the rate of temptation: Do wages in the civil service affect corruption, and by how much?*, JOURNAL OF DEVELOPMENT ECONOMICS, 65(2), 307, 307 (2001).

14 Timothy Besley & John McLaren, *Taxes and bribery: The role of wage incentives*, THE ECONOMIC JOURNAL, 103(416), 119, 137 (1993); Dilip Mookherjee, *Incentive reforms in developing country bureaucracies: Lessons from tax administration, in:* Annual World Bank Conference On Development Economics, 103 (Boris Pleskovic & Joseph. E. Stiglitz eds., 1997).

15 Olivier Armantier & Amadou Boly, *On the effects of incentive framing on bribery: Evidence from an experiment in Burkina Faso*, ECONOMICS OF GOVERNANCE, 15(1), 1, 13 (2014).

16 Robert M. Bowen, Andrew C. Call & Shiva Rajgopal, *Whistle-blowing: Target firm characteristics and economic consequences*, THE ACCOUNTING REVIEW, 85(4), 1239–1271 (2010); Kevin Buckler, *The quantitative/qualitative divide revisited: A study of published research, doctoral program curricula, and journal editor perceptions*, JOURNAL OF CRIMINAL JUSTICE EDUCATION, 19(3), 383–403 (2008); JOHN W. CRESWELL, RESEARCH DESIGN: QUALITATIVE, QUANTITATIVE, AND MIXED METHOD APPROACHES 183 (4th ed., 2013).

17 PHILIPP MAYRING, QUALITATIVE INHALTSANALYSE: GRUNDLAGEN UND TECHNIKEN, 10f (11th ed., 2010).

order to understand the perspective of those committing bribery. Subsequently, 20 prevention and law enforcement experts were interviewed. Eight interviewees were recruited from big four consulting firms prominent in the field of anti-bribery compliance in multinational corporations. This allowed particular focus on fraud investigation and dispute services. Eight compliance officers of multinational corporations, responsible for designing and implementing anti-bribery policies, were also interviewed. Finally, four law enforcement experts were interviewed. In analyzing the interviews, a category system was formed and assessed on its objectivity, reliability, and validity through triangulation. [18]

IV. EMPIRICAL RESULTS

According to the partners of the big four consulting firms, both productivity and compliance should be remunerated, since employees are expected to be productive and act compliantly. By only paying them for productivity, employees may seek non-compliant ways of increasing their output. In this context, current incentive systems may even encourage employees to break compliance rules.

However, the compliance officers in multinational corporations contended that rewarding both productivity and compliance can be rather challenging, given the difficulty of determining whether an employee has acted compliantly or not. Therefore, it is important to use performance matrixes that include several types of output.

The partners of the big four consulting firms also suggested introducing a bonus and malus system, as well as a bonus bank. Employees could then be rewarded for productivity and compliance, with small compliance violations (those that are not grounds for terminating employment) resulting in a malus deduction from their bonus bank. This could help to partially overcome the lack of transparency commonly associated with bribery, since acts of non-compliance may be discovered several years after their commission. Bonus banks could, thus, help to ensure that employees paying bribes are not rewarded economically for their actions.

The white-collar criminals suggested rewarding whistleblowing as an additional control mechanism. The underlying reasoning is that employees (agents) can control one another but need an incentive to be willing to report their peers. Hence, a bonus could be paid for whistleblowing.

Conversely, the compliance officers emphasized that bonus payments for whistleblowing could lead to false accusations and, hence, unnecessary investigations. In addition, such

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18 Marilyn Healy & Chad Perry, *Comprehensive criteria to judge validity and reliability of qualitative research within the realism paradigm*, QUALITATIVE MARKET RESEARCH, 3(3), 118, 118f (2000).; Nicholas Mays & Catherine Pope, *Assessing quality in qualitative research*, BRITISH MEDICAL JOURNAL, 320(7226), 50, 50 (2000); Janice M. Morse, Michael Barrett, Maria Mayan, Karin Olson & Jude Spiers, *Verification strategies for establishing reliability and validity in qualitative research*, INTERNATIONAL JOURNAL OF QUALITATIVE METHODS, 1(2), 13, 13f (2002).

whistleblowing bonuses could have a negative impact in team-based cultures, since people could stop trusting one another.

V. CONCLUSION

Incentive systems could play an important role in eliminating bribery. In particular, employees should be rewarded for both productivity and compliance, with performance measured through matrixes. In addition, a combination of bonus and malus payments could help to reward compliant and sanction non-compliant behavior. Bonus payments for whistleblowing could also help to establish an additional control mechanism. In this context, however, it should be kept in mind that whistleblowing bonuses could lead to false accusations and destroy the team-based cultures central to many corporations. Finally, it should be recognized that a study with a larger sample conducted in different countries or at a different time could produce different results.[19]

19 Janice M. Morse, Michael Barrett, Maria Mayan, Karin Olson & Jude Spiers, *Verification strategies for establishing reliability and validity in qualitative research*, INTERNATIONAL JOURNAL OF QUALITATIVE METHODS, 1(2), 13, 18 (2002); FABIAN M. TEICHMANN, ANTI-BRIBERY COMPLIANCE INCENTIVES, 10f (2017).