

CORRUPTION IN INTERNATIONAL MARKETS AND ITS IMPACT ON INTERNATIONAL MARKET ENTRY

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INTRODUCTION

ICAC defines the general nature of corruption as: “Corruption commonly involves the dishonest or preferential use of power or position which has the result of one person or organization being advantaged over another...” Corruption takes many forms; bribery, official misconduct, conspiracy and theft are among the more common. The influence of corruption has been shown to affect the trade export structure of leading exporting and importing countries as well [1] [2]. At the end, companies that are willing to engage in corrupt practices gain a competitive advantage thereby creating a barrier to entry for other companies.

Objective

The economic globalization has led to a growing international concern over the internationalization of corruption. A CIA report claims that between May 1994 and April 1998, bribes were used to influence 239 international contracts totaling \$108 billion. Consequently, there is a growing international resolve to combat corruption as demonstrated by initiatives undertaken by institutions such as ICAC, the Council of Europe and OECD. The objective of this study is to gain insight into the way US businesses perceive corruption. In particular, this study evaluates how corruption affects the overall business practice of US companies in the international markets.

FINDINGS

To evaluate the perception of small American companies of international corruption and its impact on international marketing activities a mail survey was used to collect data directly from US businesses operating internationally. Since engaging in international corruption and un-reported knowledge of it are illegal in the United States, efforts were made to elicit responses anonymously. Of a total of 115 mailed surveys, 20 usable surveys were collected. The wide majority of respondents employ fewer than 500 workers, were in business for over ten years and generated over 25% of their sales from exports particularly to Western Europe, Mexico followed by Asia and Canada.

It was found that the small US companies feel what they face is not necessarily different from what the larger businesses encounter in international markets. It was also found that corruption is expected to exist everywhere and it can serve as an anti-competitive measure that adds to the fixed cost of international business and cannot be easily eliminated since it benefits companies to non-competitively acquire or maintain contracts internationally. Both private and public sector corruptions exist worldwide with Latin America and the former states of the USSR posing the most corrupt environments to conducting international business. The results further provide international marketers with an alarming picture of the world and pose a series of questions: how to secure contracts and sales agreements, how to

access many lucrative international markets and how to operate in such a world where corruption appears to be so prevalent?

Respondents confirm encountering corruption in their international business activities. Only North America, Oceania and Western Europe do not pose a significant level of corruption and commissions, entertainment, kickbacks and “speed money” are mentioned as at least somewhat frequently used to win new contracts, keeping existing contracts, bypass regulations and acquire licenses.

Although a small number of companies report not losing business due to other firms’ engagement in corrupt practices, the majority reports the potential of international business losses if they refuse to match competitors’ offers. Wide majority of respondents report that corruption adds between 6-25% to an average cost of a secured contract. Most firms in our survey themselves appear to have been forced to somewhat match the competitors’ incentives not to lose foreign contracts. Corruption is illegal in USA and when asked, the wide majority of the respondents stated that they would never consider corrupt practices. Nevertheless, a small number of firms still reported that they might consider such acts if unavoidable and as the last resort.

A majority of businesses surveyed confirm that the existence of corruption leads to either increased costs of international business or lost business opportunities. This raises the notion of the role of perceived corruption in market assessment and in particular, the market entry choice and strategy.

REFERENCES

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