# CORRELATES OF BRIBE GIVING IN INTERNATIONAL BUSINESS

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*Using indices of bribe for 19 countries, this study examines the determinants of bribe paying in international business. There is a strong positive correlation between countries where bribe taking is highly prevalent and those countries that are most likely to offer bribes. The propensity to give bribes is determined by economic factors such as per capita income and degree of economic freedom in the country, cultural factors such as power distance and masculinity; and legal-regulatory factors such as accounting and tax treatment of bribes. It appears that, to eliminate international bribery, the supply side needs to be addressed in addition to the demand for bribes.*

## INTRODUCTION

Bribery in international business has rapidly become a major public policy issue around the world (U.S. Department of Commerce, 2003). Bribing public officials to obtain business favors and contracts is being recognized as a major social evil that undermines the stability of societies, endangers democratic and moral values, and harms economic advancement. The growth of international trade and investment has been accompanied by internationalization of corrupt practices including bribery. Because of its perceived threat to civil societies, reducing bribery has become a priority for national governments, international intergovernmental bodies, non-governmental organizations, trade associations, and business firms. While bribery is a worldwide phenomenon, evidence indicates that its incidences vary across countries (Husted, 1999). Since bribery involves at least two parties--the bribe taker (demand side) and the bribe giver (the supply side), the relationship between bribe taking countries and bribe giving countries merits closer examination. This paper looks at the likelihood that countries which are perceived to be more or less corrupt—with respect to bribe taking by its government officials—are also perceived to host firms most likely to give (or not give) bribes to obtain commercial advantages abroad. An understanding of the relationship between the demand and supply side of international bribery can clarify the nature of this issue and can assist policy makers and businesspersons in their efforts to combat it. Although the data available is for a relatively small number of countries (19), this study focuses on the statistical relationship between countries on two dimensions—bribe taking and bribe giving; whether the factors underlying them are similar; and the effect of anti-bribery laws and tax treatment of bribes. The next section reviews worldwide efforts to combat bribery. A section that provides a theoretical grounding to the discussion follows it. The subsequent sections discuss the nature and sources of the data used in the study, the statistical techniques used, and the results thereof. This is followed by a discussion

of the statistical results. The concluding section points out some additional areas of enquiry including certain shortcomings of this study.

## BRIBERY IN INTERNATIONAL BUSINESS

Bribery has been one of the enduring ethical challenges in international business. Instances of bribery scandals around the world are reported on a regular basis (World Press Review, October 2001). Bribery is defined as "the offering, promising or giving something in order to influence a public official in the execution of his/her official duties" (OECD Observer, 2000). Bribes can take the form of money, other pecuniary advantages, such as scholarship for a child's college education, or non-pecuniary benefits, such as favorable publicity. Thus, bribery involves a business firm from country A offering financial or non-financial inducements to officials of country B to obtain a commercial benefit. In this paper, the spotlight is on the giving of bribes in international business; it involves cross-border relationships.

Although it has been suggested by some that bribery contributes to economic development by removing hindrances to doing business, by encouraging competition for scarce resources, and by making available resources (the corruption proceeds) for investment in (hopefully) productive enterprises, the opposite views are more compelling (Rose-Ackerman, 1997). Bribery undermines public and business confidence, breeds cynicism, increases inefficiency, and leads to other crimes such as money laundering (Theobald, 1990). Honest businesses lose out in obtaining contracts, because of their refusal to acquiesce to corrupt practices. Bribes also add to the costs of doing business and poses difficult ethical dilemmas and legal problems for businesses (Aides and Di Tella, 1996; Donaldson, 1996). Extensive corruption in a country tends to depress investment and economic growth (Mauro, 1997).

International firms feel the need to engage in and justify corrupt practices because of three reasons (Carmichael, 1995). First, in certain countries normal business transactions cannot be initiated or completed without paying bribes. The firm may justify such conduct on the grounds of business necessity and that it is merely doing what is the norm in that country. Such a situation existed in Russia in the mid-1990s, as a press release by the American Chamber of Commerce in Russia (1995) noted, “While the practice of payoffs has traditionally been quite common in Russia, in recent years it has become so widespread and grown to such proportions that it has become a real and consequential hurdle to those Western companies seeking to invest.” Second, although a firm may recognize bribery as morally wrong, it may yet engage in it because “everybody does it.” Third, firms in desperate need for business may resort to unethical practices to obtain it.

In 1977, following the exposure that Lockheed, a U.S. aerospace company, had used bribes to sell its airplanes to foreign governments, the U.S. Congress enacted the Foreign Corrupt Practices Act (FCPA) (Pitman and Stanford, 1994). The law made it a crime for any American firm (and foreign firms which issue negotiable securities on U.S. stock exchanges) to offer, promise, or make payments or gifts of anything of value to foreign officials, politicians, and political parties with the intention of changing policies or to secure the suspension of a legal norm. An amendment to the law in 1988 allowed certain forms of bribery; certain types of bribes were permissible. For instance, payments made to speed up governmental actions by lower level officials are legal. Such grease payments may be made to hasten the installation of telephones, improve mail pickup and delivery, or accelerate loading and unloading of cargo. In

contrast, a payment or gift to a foreign government official to obtain a government contract is, by definition, illegal. The FCPA was the first national legislation designed to address the problem of bribery on the supply side.

Nearly 20 years later, member countries of the Organization for Economic Cooperation and Development (OECD) and five other nations signed the Convention on Combating Bribery of Foreign Public Officials in International Business, which came into effect at the end of 1998. The main goal of the treaty is to prevent bribery international business transactions by requiring countries to make it a criminal offence to bribe a foreign public official, and to have in place adequate sanctions and reliable means for detecting and enforcing the offence. They also include non-criminal rules for prevention, overall transparency, and cooperation between countries. In addition, signatory countries are also required to deny the tax deductibility of such bribes (Andelman, 1998).

Earlier, in 1996, 25 countries in North and South America adopted the Inter-American Convention against Corruption (www.oas.org/oasnews). It was the first anti-corruption treaty in the world. In its preamble, the Convention framed the problem of corruption as a threat to democratic institutions, economic stability, and moral well-being. The Convention requires signatory countries to adopt laws criminalizing certain activities, including the acceptance or solicitation of bribes by public officials and allow the extradition of corrupt officials to other countries for prosecution.

In addition to national laws and international agreements, opposition to corrupt practices has emerged in various quarters. Financial agencies such as the World Bank, Asian Development Bank, Inter-American Development Bank, and International Monetary Fund have linked aid disbursements to improvements in administrative practices to eliminate corruption (Lewis, 1997). Non-governmental organizations such as the Berlin-based Transparency International, through its annual rankings of perceived corruption among countries, focus the spotlight on this subject. As democratic practices have spread, opposition political parties in many countries have demanded greater openness in the awarding of contracts and the media have reported unethical conduct by public officials. Because of pressure from watchdog groups and attendant negative publicity, some firms have become more conscious of their ethical conduct and have created codes of conduct for their employees. Offshore banks, which have often been used by bribe recipients to keep such money, have been forced to disclose such accounts and freeze them on the order of courts. The International Chamber of Commerce has created the Rules of Conduct to Combat Extortion and Bribery for voluntary acceptance by business firms (Yannaca-Small, 1995).

The United Nations General Assembly adopted in 1996 a Declaration against Corruption and Bribery in International Commercial Transactions calling for criminalizing foreign bribery and denying tax deductibility of bribes. In 1998, the Assembly urged member countries to criminalize the bribery of public office holders of other states in international transactions. Other UN agencies such as the UN Centre for International Crime Prevention and the UN Development Program are focusing on strategies to detect and deter bribery of public officials. The World Trade Organization has been pushing for transparency in government procurement practices. The European Commission has a comprehensive policy on corruption inside the European Union as well as in its relations with non-member countries. Similarly, private sector bodies such as the Business and Industry Advisory Committee to the OECD, Business for Social Responsibility, Trade Union Advisory Committee and Centre for Innovation in Corporate Responsibility, and bilateral development agencies such as the United States Agency for International Development

are developing anti-bribery and anti-corruption programs (OECD online Anti-Corruption Division, www.oecd.org/daf/nocorruption/initiatives.htm). In short, combating bribery has become a priority at both national and international levels.

In general, the current worldwide effort has relied on publicizing corrupt practices, educating various stakeholders about the nature and effects of corrupt practices, and recommending education statutory and non-statutory reforms to reduce corruption levels in individual countries. In addition, multilateral and national legal regimes are being strengthened by making certain conducts illegal, imposing stricter penalties, improving accounting and disclosure requirements, reforming administrative practices such as those relating to the awarding of licenses, incentives, or contracts, requiring proper recording of transactions, and enhancing cooperation among national law enforcement officials (Lambsdorff, 1998). Laws such as the FCPA in the U.S. have led to heightened awareness about what is and what is not permissible in international commerce. The global focus on bribery in international business has now extended to countries whose companies are likely to give bribes as much on the officials of countries that tend to take the bribes, The emphasis on combating bribery extends to both the demand and the supply side of this phenomenon.

## A THEORETICAL FRAMEWORK OF BRIBE GIVING AND BRIBE TAKING

As noted earlier, bribery involves two interdependent parties -- the bribe taker and the bribe giver. International businesspersons want access to profitable markets and valuable resources and are willing to pay for that privilege, particularly in a competitive environment. Where access to markets is restricted, the price for the privilege is higher. Government officials and politicians in individual countries control access to these markets, serving as gatekeepers, and are in a position to collect "entrance fees." Thus, businesses are willing to offer bribes and officials are willing to accept bribes. Several factors affect and determine the extent of bribery, among them income levels, laws and regulations, economic deregulation, and cultural values. Low income levels of government officials and politicians tempt them to seek bribes so they can improve their standard of living. The presence of a regulatory or accounting and tax regime that sanctions bribery or where laws proscribing bribery are not enforced allows such practices to continue. To the extent an economy is deregulated and market forces are allowed to prevail, the role of government officials to ration resources is reduced and thus the propensity to accept bribes to permit entry into the market on the part of businesses. Simultaneously, businesses have little reason to offer bribes if entry into the market is unregulated. Finally, cultural factors influence how bribery is viewed in individual societies. Culture has been defined in many ways. One of the earliest and widely cited definitions, offered by Edward Taylor (1871), described culture as "that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society." One aspect of culture that is worth bearing in mind is that it is transmitted through the process of learning and interacting with one's environment and that people are not born with culture specific genes. Notions of ethics are not the same everywhere. Studies such as those by Hofstede (1980) have shown that societies differ in important ways along cultural fault lines.

Using indices of perceived corruption provided by Transparency International, a Berlin-based non-profit organization dedicated to combating corruption in the world, Husted (1999) correlated them with economic and cultural factors and found that bribery was significantly

associated with low per capita income, high power distance, high masculinity, and high uncertainty avoidance. Similar findings were reported by Sanyal and Samanta (2002) who concluded that cultural (power distance and masculinity) and economic factors (income levels and income distribution) were important in equal measure, by themselves and jointly. Thus, bribe taking is likely to be more prevalent in countries that are economically less developed, have low incomes, and are also culturally are more hierarchical and place greater weight on material possessions, power, and success. High power distance, masculinity, and uncertainty avoidance creates the circumstances and the need to accept bribes--to reduce risks, to accumulate material possessions, and to emphasize differences from others in the society. The cultural variables are based on Hofstede's (1980) value survey model.

Both these studies examined the demand side (bribe takers) of the corruption equation. However, the empirical literature is silent with respect to the supply side (bribe payers) of this issue. That is, firms from which countries are perceived to be more likely or less likely to give bribes to win business contracts and how these countries rate with regard to their own proclivity to accept bribes.

Based on the theoretical construct and the literature review, the following two propositions are advanced:

*Proposition 1*: The factors--economic and cultural--that are determinants of bribe taking would also be related to bribe giving. Thus, countries that are ranked high as bribe-takers are also likely to be ranked high as bribe-givers.

*Proposition 2*: Countries that have laws and regulations that discourage bribe giving are less likely to have companies that give bribes than companies from countries that do not have such restrictions.

This paper addresses and tests these propositions by determining which countries (or more specifically firms from these countries) are likely to engage in bribe giving and why and thus fill a gap in the literature on international bribery.

## DATA

The principal data used in this study are the Bribe Payer's Index and Corruption Perception Index for the year 1999 published by Transparency International (www.transparency.org). The two indices are on a continuous scale from 0 to 10 where 10 represents no corruption and 0 high corruption. Data from 19 countries were available for both indices. Transparency International used an elaborate procedure and relied on multiple sources to develop its indices which are perceptions of corruption in the minds of international business managers. The Bribe Payer's Index ranked the leading exporting countries in terms of the degree to which their companies were perceived to be paying bribes abroad. The Index was the outcome of a special international survey of 770 respondents in 19 leading emerging market economies. The study was based on cross-sectional data, albeit obtained over a three-year period. These countries were drawn from all regions of the world and a variety of cultures. The respondents included executives of major companies, accountancy firms, chambers of commerce, commercial banks, and law practices. The 19 countries in the Bribe Payer's Index represent the major exporting countries in the world and thus the likely "supplier" of bribes. While the number of countries is small, this is the information that is currently available. However, these countries are among the major players in international trade.

The Corruption Perception Index (CPI) ranks countries in terms of the degree to which corruption (in the form of bribe taking) is perceived to exist among their public officials and politicians. This composite index drew on 17 different polls and surveys from 10 independent institutions carried out among businesspersons, risk analysts, the general public, and country experts. The Corruption Perception Index assessed 85 countries. The 1999 Index was based on data from the Economist Intelligence Unit (Country Risk Service and Country Forecasts), Gallup International, the Institute for Management Development (World Competitiveness Yearbook), the Political and Economic Risk Consultancy in Hong Kong (Asian Intelligence issue), Political Risk Services (International Country Risk Guide), the World Bank (World Development Report and Private Sector Survey), and the World Economic Forum (Global Competitiveness Survey) collected over the previous three years. All these studies have a section on the problem, prevalence, pervasiveness, extent, and the number of cases of bribery in various countries. By being a single composite score, the CPI has increased the reliability of the data of each individual source. While one could have used the scores or rankings provided by several of the surveys used to calculate the CPI, we believe the CPI score is more valid and reliable and best captures the perception of the level of bribery in a country as it affects the international businessperson. In this study, we use the CPI of the 19 countries for which BPI was available.

Table 1 provides the list of 19 countries and their scores on both dimensions. The Bribe Payer's Index (BPI) ranks the countries (or firms from these countries) in terms of how they are perceived with respect to giving bribes (the supply side). The CPI lists these same countries with respect to how they are perceived in terms of bribe taking (the demand side). The scores indicate that firms from Sweden are perceived to be least likely among this list of countries to give bribes to foreign officials. Similarly, Swedish officials are also perceived to be least likely to accept bribes from foreign firms. At the other end of the spectrum are Chinese firms and Chinese government officials.

**TABLE 1**

**Country Indices 1999**

| Country | Bribe Payers' Index | Corruption Perception Index |
|---|---|---|
| Sweden | 8.3 | 9.4 |
| Australia | 8.1 | 8.7 |
| Canada | 8.1 | 9.2 |
| Austria | 7.8 | 7.6 |
| Switzerland | 7.7 | 8.9 |
| Netherlands | 7.4 | 9.0 |
| United Kingdom | 7.2 | 8.6 |
| Belgium | 6.8 | 5.3 |
| Germany | 6.2 | 8.0 |
| U.S.A. | 6.2 | 7.5 |
| Singapore | 5.7 | 9.1 |
| Spain | 5.3 | 6.6 |

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|---|---|---|
| France | 5.2 | 6.6 |
| Japan | 5.2 | 6.0 |
| Malaysia | 3.9 | 5.1 |
| Italy | 3.7 | 4.7 |
| Taiwan | 3.5 | 5.6 |
| South Korea | 3.4 | 3.8 |
| China | 3.1 | 3.4 |

Note: 10 represent little or no bribery; 0 means highly corrupt.
Source: www.transparency.org

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It should be noted that these indices represent perception of corruption and not actual levels of corruption. Also, all countries of the world are not included in the surveys that go into determining the scores. However, the scores developed by Transparency International are the most consistent and best yet that are available as measures of corruption.

Since previous studies have indicated that Corruption Perception Index (CPI) is highly correlated to certain economic and cultural factors, we use it as a proxy for those factors in our analysis. Three other variables are included. One is the Economic Freedom Index (EFI), which measures how open and transparent a country is to economic activities. The annual index, prepared by The Heritage Foundation, an U.S. think tank, is based on a scale of 1 to 5 where 1 refers to maximum freedom and 5 to minimum freedom. Countries with high degree of economic freedom are less likely to see corrupt practice, as bribery as the rules of business are transparent, the rules are enforced, impartially at that, and market forces play a greater role (www.heritage.org). The two other variables are whether a country's laws allow for bribes to be deducted as a business expense and whether a country's law considers bribery illegal by making the giving of bribes a criminal offense. These two variables are dummy-coded.

National accounting and tax rules differ with respect to the treatment of bribe as a business expense. Some countries (e.g. Sweden) do not allow deduction of bribes to reduce corporate tax liability. Other countries (e.g. Belgium) permit partial deduction while in another set of countries (e.g. Spain) businesses could deduct payments of bribes (www.oecd.org). (Note that since 1999, many countries have been enacting legislation that no longer allows bribes to be considered a legitimate cost of doing business).

There are countries with laws that have made bribe giving a criminal activity and that prosecute corporations and firm employees for engaging in such activity; there are also countries that don't. It can be argued that countries that allow bribes to be considered a legitimate business expense and where bribe giving firms and their officers are not subject to criminal prosecution are more likely to engage in bribe giving. The information obtained from documents of the OECD's Anti-Corruption Division (www.oecd.org). Of course, presence of laws by themselves may not mean much if their enforcement is lax.

## RESULTS

The data was first examined to determine whether the BPI countries were similar to the CPI countries with respect to the consistency of their rankings. In other words, do countries that

are perceived to be high as bribe takers (demand for bribes) also likely to have companies that would be perceived to be more likely to give bribes (supply of bribes)? Second, the study looked at the extent to which the BPI score of countries were explained by the four independent variables. Because we argue that bribe taking and bribe giving are inter-related activities, we tested for simultaneous effects. Rank correlation and multiple regression analysis are the techniques used to ascertain the various relationships.

Spearman's rank correlation was used to capture the relationship between BPI and CPI countries. As noted earlier, we have analyzed the data for 19 countries (although the CPI data is available for more countries, BPI data is not). The computed correlation coefficient between the ranks of BPI and CPI of the respective countries is 0.85. We conducted a test of no correlation (null hypothesis) between the rankings of the BPI and CPI. The appropriate test statistic is Quantile for Spearman Test Statistic (Conover, 1980). For the sample size of 19 and the level of significance of .05, the critical correlation coefficient is 0.46 (for a two-tailed test). Since the obtained rank correlation coefficient is 0.85, the null hypothesis of no correlation can be rejected. This indicates that there is a strong positive association between the rankings of BPI and CPI countries—that is, a country ranked high in CPI will also rank high in BPI and a country ranked low in CPI will commensurately be ranked low in BPI.

This conclusion is further corroborated by conducting a z-test for the rank correlation. The critical z value is 1.96 (at 0.05 level of significance), whereas the computed z-value is 3.70. Thus, the CPI rank and BPI rank of countries listed in Table 1 are positively correlated, and this correlation is very strong. It indicates that countries (or companies based in these countries) that are considered to be more likely to give bribes are also the same countries whose officials are perceived to be more likely to accept bribes. In fact, the regular correlation coefficient (Spearman's product moment) between CPI and BPI is 0.86 and we cannot reject a test for perfect correlation (where correlation coefficient is assumed to be equal to 1) between these two variables (computed t value is 1.11 whereas critical t value is 2.11).

A multiple regression analysis was conducted to answer the second proposition. The four independent variables included were: Corruption Perception Index; Economic Freedom Index; tax treatment of bribery; and laws on prosecution of bribe giving. The initial ordinary least squares estimation results are presented in the Table 2. Since the data is cross-sectional, the problem of possible heteroskedasticity exists, to address which, the robust errors technique was used in the model.

**TABLE 2**

**Regression Results: Dependent Variable – BPI**

| Variable | Coefficient | t-value | Significance |
|---|---|---|---|
| Constant | -0.39828 | -0.13 | 0.90 |
| Corruption Perception Index | 0.80048 | 3.56 | 0.00* |
| Economic Freedom Index | 0.33654 | 0.40 | 0.69 |
| Tax deductibility of bribes | 0.2112 | 0.29 | 0.77 |
| Bribery as a criminal activity | -0.1032 | -0.17 | 0.86 |

R Square 0.725 Adjusted R Square 0.647 F value 9.25*
*significant at the .05 level

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The results indicate that the overall model is quite robust. However, none of the variables, apart from the CPI, has any significant relationship with the BPI. The coefficient of the CPI is positive and highly significant. This significance suggests that countries perceived to be major bribe takers (demand for bribes) are also countries (or companies from those countries) that are more likely to offer bribes to foreign officials. Similarly, countries perceived to be less corrupt are also less likely to have their companies offer bribes. Recognize that the CPI which is a composite score is largely explained by factors such as per capita income, power distance, and risk averseness as indicated by previous studies and discussed in the literature (e.g., Husted, 1999). Indeed, a Pearson correlation analysis for these 19 countries showed that the CPI is highly and significantly correlated with income level, power distance, and uncertainty avoidance (see table 3). It confirms the inference drawn by other authors.

**TABLE 3**

**Correlations between CPI and Per Capita Income, Uncertainty Avoidance and Power Distance**

| Variable | Coefficient | p-value |
|---|---|---|
| Per capita income | 0.63959 | 0.00* |
| Uncertainty avoidance | -0.66727 | 0.00* |
| Power distance | -0.55305 | 0.01* |

* significant at the 0.05 level

Since it is established that BPI and CPI are highly correlated with each other, we address the question of whether there is a simultaneous effect in the multiple regression model, the results of which have been presented in Table 2 above. If there is such an effect, then the estimates reported in Table 2 are biased and the relevant test statistics are not reliable. To check that, the Hausman test for simultaneity was conducted. From this test, we conclude that our original regression model is not a single equation model; rather it is a part of simultaneous equations system (the critical t-statistic for the regression residual is -18.087, thus rejecting the null hypothesis of no simultaneity). So, our previous inferences regarding the relation between BPI and other four independent variables are no longer reliable. To examine the proper relevance of the three variables other than CPI, we conducted an instrumental variable estimation leaving the CPI out. The results of this reduced form model are consistent with previously stated propositions. See Table 4. Two of the independent variables are statistically significant as is the overall model, though its explanatory power drops compared to the previous model. The two

stage least squares estimation of the model where BPI and CPI are both endogenous variables and the other three are exogenous variable shows that the CPI is such a strong explanatory variable that it tends to overwhelm the EFI and Tax Deductibility of Bribes (see Table 5). The adjusted r-square is 0.734 as compared to 0.3052 reported in table 4.

**TABLE 4**

**Regression Results (Reduced Form Model): Dependent Variable – BPI**

| Variable | Coefficient | t-value | Significance |
|---|---|---|---|
| Constant | 9.7463 | 5.32 | <0.00* |
| Economic Freedom Index | -1.8336 | -2.15 | 0.05* |
| Tax deductibility of bribes | 1.8641 | 2.24 | 0.04* |
| Bribery as a criminal activity | -0.1032 | -0.76 | 0.46 |

R Square 0.421 Adjusted R Square 0.3052 F value 3.64*
*significant at the .05 level

**TABLE 5**

**Regression Results (Two Stage Least Squares Estimation): Dependent Variable - BPI**

| Variable | Coefficient | t-value | Significance |
|---|---|---|---|
| Constant | 0.5834 | 0.56523 | 0.58 |
| CPI | 0.76344 | 5.2932 | 0.00* |

R Square 0.74 Adjusted R Square 0.734 F value 50.34*
*significant at the .05 level

## DISCUSSION

The results lend support to the two propositions posited in this paper. There are clear indications that countries that are perceived to be less corrupt are also less likely to have their firms offer bribes to win international commercial contracts and privileges. Similarly, countries that are perceived as highly corrupt are more likely to host firms that offer bribes. Thus, it can be surmised that firms based in countries where bribe taking is widespread are more likely to offer bribes in their foreign business activities than firms based in countries where bribe taking is less common. This suggests that in highly corrupt countries, domestic firms consider bribery a normal and accepted business practice and tends to carry it over when they engage in

international transactions. In contrast, firms in less corrupt countries carry abroad their sense of probity. Companies based in less corrupt countries such as Sweden, Australia, and Canada are less likely to give bribes. Countries, which are perceived to be more likely to take bribes such as China, South Korea and Taiwan, are also more likely to have firms that engage in bribe giving. Thus, the environment of the home country determines the likelihood of whether firms in that county will use bribes to obtain business abroad. The high degree of correlation in the rankings of the countries on the two indices and the significant role of the CPI variable in the regression equation are indicative of this. It should be noted that not all countries have the same rank on the two indices. Singapore, for example, is rated highly on the CPI but is lower on the list for the BPI. Part of the explanation lies in what the two indices are measuring. CPI looks at the propensity of public officials and politicians to accept bribes in a country, whereas BPI focuses on the bribe giving behavior of business firms from the country But such cases are the exception.

As noted earlier (see Table 3) and as per other studies (e.g., Husted, 1999), the CPI is significantly correlated with per capita income and several cultural factors. Less developed countries where public officials earn low salaries are particularly vulnerable to bribe taking. Countries with high scores on power distance, masculinity, and uncertainty avoidance are perceived to be more corrupt. Given the interdependence of CPI and BPI, it can be concluded that firms based in countries with these economic and cultural characteristics are more likely to have their corporate culture so imbued that bribe giving is a part of their operating norm.

The EFI was significant in the partial model. This indicates support for the view that economies that have fewer governmental restraints and interventions rely more heavily on market forces, which in turn inhibits corrupt conduct such as bribe giving and bribe taking. In an open system, bribery is less likely to occur. The role of bureaucrats and politicians to give favors and impose restrictions is reduced.

Similarly, Tax Deductibility was significant. This means that where firms are unable to count the cost of bribery towards the cost of doing business, it does not pay to bribe. The firm does not benefit through reduced tax liability and may indeed find it embarrassing to explain any bribes paid. On the contrary, the bribe adds to the cost of doing business.

No support was found for the role of laws to prosecute and punish bribe giving corporations and officers. The presence of such laws in certain countries does not appear to affect the propensity to offer bribes. Several explanations may be offered--these regulations may not be enforceable or are not enforced, the penalties may be inadequate to deter inappropriate behavior, or that bribes can be disguised and thus escape the ambit of the law. Other explanations include deficiencies in implementation, definitions of foreign government officials, different standards of bribery in different countries, statutes of limitation, and inappropriate defenses ("I was coerced"). These suggest that mere enactment of laws against bribery may not have the desired public policy effect unless the practical issues surrounding identification of bribery, enforcement of laws, and deterrent sanctions are addressed.

The statistical results reported here indicate that economic, cultural, and legal factors in the home country affect the propensity of firms in those countries to offer bribes to foreign government officials to obtain business advantages. It is also apparent that bribes are more likely to be offered to officials in countries that are more likely to take bribes, which are usually poor and have certain cultural characteristics. In countries where the propensity to take bribes is low, giving bribes is also low, and vice versa. In countries where taking bribes is high, giving bribes is also high. Firms are influenced by the business, cultural, and legal environment of the country

in which they are located and the values they learn and practice at home are carried abroad. This finding emphasizes the symbiotic ties between demand for (bribe taking) and supply of bribes (bribe giving).

Since cultural factors are deeply embedded in a society. They are harder to change and the pace of change can be slow. Rapid economic development with rising incomes would reduce bribe taking (and thus bribe giving) but to the extent that bribery reduces economic growth in bribe taking countries, it becomes difficult to break out of this cycle. In contrast, a legal and ethical framework offers the prospect of a faster remedy to control bribe giving. A focus on strengthening the laws and its vigorous enforcement including stiffer penalties as well as not allowing bribes to favorably affect a firm's bottom line would go a long way to discourage bribe giving. It is likely that as signatory governments to the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions enact enabling legislation to criminalize bribery of public officials in the conduct of international business and enforce the statutes, the results over the next few years would show a diminution of bribe giving.

## CONCLUSIONS

This study focuses on understanding the phenomenon of the hitherto neglected supply side of bribery—bribe giving. Unlike previous studies, this one looked at countries whose firms give bribes and relates that to the same countries' propensity to take bribes. It identifies several determinants of bribe giving. Given the growing importance of this subject for both policy makers and corporate conduct, the findings reported here provide new insights about which country's firms are more or less likely to use bribes to obtain a competitive advantage. Thus, for instance, firms from Sweden, Australia, and Canada are less likely to offer bribes to foreign officials. In contrast, firms from China, South Korea, and Taiwan are more likely to give bribes. This paper suggests that the behavior of the firms is rooted in and influenced by the economic, cultural, and legal environment of their home country.

The BPI and CPI are the best available numerical information about bribery in a country. There are certain limitations to the construction of the indices, what it measures, how it measures, and what it signifies. For instance, it does not measure the corrupt practices of businesspersons in their home country. More crucially, it is a measure of the perception of corruption in a country, not actual levels of corruption. The indices do not distinguish petty from grand corruption or political from business-related corruption. However, these indices have rapidly emerged as suitable data set for academic research and are widely reported in the media when it is announced annually.

The study suffers from several inadequacies which future research may be able to address. The sample of countries studied is limited, though they represent the most important countries in terms of global trade. Availability of data from additional countries would make such studies more comprehensive. While we acknowledge that legal frameworks and lawful penalties may affect the level and nature of corruption, the present study did not include the effect, if any, of the ratification of the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions which came into force in 1999. Future studies can integrate the role of laws and punishments in the analysis of bribe giving. Since the perception of bribe giving by a country can change over time, as may the durability of the independent variables, a pooled cross-section time series analysis is necessary to make the

conclusions more robust. This would mean obtaining comparable data over a period of time. With Transparency International planning to provide data on an annual basis, a longitudinal study of corruption should be feasible. Also, given some of the deficiencies of the BPI and CPI, should other more valid measures of corruption become available, especially one that measures actual levels of corruption as opposed to merely perception, they obviously should be used in analysis of the kind presented here. Other measures of national culture can also be considered for inclusion. Furthermore, analysis of bribe paying by industry would shed valuable micro-level information. This information is hard to come by. Since the issue of bribery is now the focus of much attention, a compelling study might be to analyze the competitiveness of countries and the incidence of bribery there.

This study examined the symbiotic nature of corruption between firms offering bribes and foreign government officials accepting bribes. The focus here was on the first part of the equation and complements existing studies that have looked at the latter part of the equation. International bribery is a significant issue in international business and the findings here provide additional insights into the characteristics of countries that give bribes. It also raises questions and provides suggestions on how to control bribery among firms from countries where corruption is part of the operating milieu.

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