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COMBATING CORRUPTION

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Introduction

This chapter studies efforts by governments to combat corruption between the Cold War and the 2010s. We show how Western powers shifted their stance toward corrupt activities of “their” multinational corporations (MNCs) abroad from turning a blind eye during the Cold War to gradually developing collective efforts to fight against corruption. The efforts to punish MNCs engaging in bribery abroad started in the United States of America with the adoption of the Foreign Corrupt Practices Act of 1977. For almost two decades, the United States was alone in this effort and the other Western powers did very little to fight against their MNCs’ corrupt activities abroad. In the 1990s, however, other Western powers (mainly members of the Organisation for Economic Co-operation and Development [OECD]) joined the United States in developing a common front and practices to deal with this problem. We argue that efforts to fight corruption of domestic firms operating abroad are closely related to (a) big scandals that created social pressures for the government to fight against corruption; (b) external and political shocks that brought up to the surface existing corruption previously overlooked or ignored; and (c) pressures from the private sector to make the field of global business more competitive. Our chapter uses secondary sources in addition to the Public Papers of the Presidents of the United States for the Jimmy Carter administration, the United States Senate Church Committee Hearings on corruption, the United States General Accountability Office reports on global corruption, and reports on corruption published by the OECD.

Corruption and global business

At the time of this writing, corruption remains one of the most pressing challenges in global business. In a 1996 survey of high-ranking public officials and key members of civil society from more than 60 countries, respondents cited public sector corruption as “the most severe impediment to development and growth in their countries” (Gray and Kaufmann 1998: 7). Today, bribery alone is estimated to cost \$1.5 to \$2 trillion annually (International Monetary Fund 2016). Corruption – defined here as the abuse of public power for personal or private gain – permeates every society and represents an economic, legal, and ethical problem for national governments, international institutions, and MNCs.² It is a multifaceted phenomenon that





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1 affects the public and private sectors in both developed and developing countries. In tandem
 2 with the prevalence of corruption, however, there have been a multitude of institutional initi-
 3 atives to reduce corruption. Although these initiatives have not eradicated corruption, they have
 4 shaped the landscape of global business practices and transactions.

5 There are various types of corruption in global business. The most common type of corrup-
 6 tion is bribery, in which money and/or gifts are provided to foreign public officials in exchange
 7 for the procurement of business contracts or the facilitation of business transactions. In addition
 8 to bribery, MNCs may confront extortion, illicit taxes, and pressures for favors when they
 9 operate abroad (e.g., Doh *et al.* 2003).

10 Economic, political, legal, and cultural factors influence the prevalence of corruption across
 11 countries. Economic factors are often considered the primary contributors to corruption. For
 12 instance, Leite and Weidmann (1999) find that an abundance of natural resources in a country
 13 is positively correlated with corruption given that windfall gains present greater opportunities
 14 for corruption. Gutterman (2015) and Berghoff (2017) add that most cases of bribery from
 15 MNCs to government officials take place in the infrastructure and natural resources sectors,
 16 where there are large quantities of money involved, contracts require government approval, the
 17 sector is highly regulated by the government, and contracts are usually signed with just one firm
 18 (a “winner takes all” situation). High levels of economic inequality in countries also increase
 19 corruption as large numbers of the poor are more likely to be the targets of bureaucratic extor-
 20 tion in order to secure basic needs and services (e.g., You and Khagram 2005). Not all industrial
 21 sectors are equally affected by corruption. Politically, corruption is more prevalent in countries
 22 where authoritarian governments maintain power. Furthermore, corruption increases in coun-
 23 tries where public officials have high levels of discretionary power (LaPorta *et al.* 1999; Rose-
 24 Ackerman 1997). Legally weak institutions also breed corruption as private property is not
 25 adequately protected (e.g., Rubin 1998). Culturally, corruption remains prevalent in high
 26 power-distance countries, in which less powerful members accept that power is distributed
 27 unequally, as subordinates often cover up scandals of their superiors due to an acceptance of
 28 questionable behavior (e.g., Husted 1999).

29 Corruption varies across countries on two general dimensions – pervasiveness (or level) and
 30 arbitrariness (uncertainty). According to Doh *et al.* (2003: 118), “the pervasiveness of corruption
 31 reflects the number and frequency of transactions (and individuals) with which (whom) the firm
 32 deals over the course of a fixed time period that involves illicit activities.” The second dimen-
 33 sion of corruption is arbitrariness, which refers to the predictability or uncertainty “of whom to
 34 pay, what to pay, and whether the payments will result in the promised goods or services” (Doh
 35 *et al.* 2003: 118). These dimensions intersect. If the pervasiveness of corruption is high but
 36 predictable, MNCs may perceive bribes as a tax or business expense. Conversely, when perva-
 37 siveness is low but arbitrariness is high, MNCs may not be able to estimate or budget for the
 38 costs of corruption.

39 All countries can be categorized along these dimensions. Attitudes toward corrupt activities
 40 of firms overseas have changed throughout time as well as efforts to fight against them. The fol-
 41 lowing sections provide an overview of these changes focusing on the processes that sparked
 42 global efforts existing in the early twenty-first century.

43 **So far away, so corrupt: denouncing corrupt activities overseas from the dawn of** 44 **capitalism to the British Empire**

45 The lack of control over the activities of firms or entrepreneurs abroad was considered for a long
 46 time a source of potential corrupt activities. This was apparent from when the newly created
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European nation-states started their expansion beyond their continent. One example is that of the Spanish conquerors who defeated the indigenous communities in what is now known as Latin America. The Spanish conquest was not the result of a systematic military strategy led by the Spanish crown, but rather the result of a large number of uncoordinated private enterprises that armed themselves, crossed the Atlantic Ocean in their quest for gold, and legitimized their land grabbing by claiming the Spanish crown sovereignty over those lands. The process was chaotic and had no direct control from the Spanish authorities, who saw those conquerors as a potential destabilizing force composed of gold-thirsty thugs who abused the indigenous populations and did not follow the Spanish laws. Both the Catholic Church and members of the Spanish *Cortes* (parliament) wrote documents that harshly criticized the conquerors and legitimized the crown's efforts to control or punish them for their behavior. For the Spanish crown, the solution was more government presence in the Americas to stop the process of conquest from being one driven by private profits (Coatsworth *et al.* 2015; Velázquez 1991).

Corporations involved in the creation of the seventeenth and eighteenth centuries European empires were not free of criticism at home. Both the British and Dutch East India Companies were the focus of attention by many considering that the independence they had abroad allowed these organizations to follow corrupt behaviors that included the personal enrichment of some of their officials or government officials ruling areas of operation of both companies. In the eighteenth century, critics in Holland argued that officials of the Dutch East India Company made fortunes resulting from fraudulent businesses with the local societies (Nierstrasz 2012). An attempt led by Edmund Burke to impeach in the British Parliament the first governor general of India, Warren Hastings, in 1788–1795 led to a national debate on whether the activities of the East India Company were corrupt or not. In the end, Hastings was not impeached because those arguing that the benefits for the empire compensated the costs of corruption justified the firm's behavior (Dirks 2006). O'Neill (2017) adds that while Burke's criticisms of corrupt activities focused on individuals, Thomas Paine went further and focused on the East India Company as a corrupt organization.

Given their peculiar characteristics, organizations such as the East India companies are not considered MNCs, but proto-multinationals (Jones 2005). In fact, lots of the debates described here pointed to corrupt activities in territories formally acquired or "protected" by the imperial powers. The next section explores the first criticisms to corrupt activities by modern MNCs after the 1860s.

Modern multinationals and corruption in the first global economy

The first operations of modern MNCs started in the 1860s (Wilkins 1970), with growth patterns that differed depending on their home country characteristics. For the British case, for instance, many large multinationals started as such, partially because of the relatively small home market, lack of natural resources in Britain, or the advantages offered by the British empire (Wilkins 1988). For the case of US-based multinationals, on the other hand, most of these firms became large at home before moving abroad (Chandler 1980; Wilkins 1970, 1974). This section shows how attitudes and policies toward corruption abroad by American multinationals mirrored the ones toward big firms at home, especially when the multinational was accused of corrupt activities in the United States as well as abroad. When no accusations existed of corruption at home, corrupt activities abroad were largely ignored. We focus on the case of American firms because the United States eventually became the first country establishing clear rules punishing corrupt activities of "their" firms abroad.



1890–1972: from the progressive era to Watergate – journalism, Cold War, and domestic corruption in the United States

The creation of the large American corporations in the nineteenth century happened without serious political challenges. The men who came to be known as the “robber barons” built their fortunes in a political environment in which they could openly intervene in politics in order to protect their businesses, payments to politicians were part of the normal way of conducting business, and investigative journalism did not exist (Gentzkow *et al.* 2007). This meant that between the 1890s and 1910s corruption was rampant, particularly when it came to obtaining contracts for public works (Wallis 2007). Some actions were taken only in extreme cases when fraudulent operations harmed average citizens (Balleisen 2017). However, it was only after the 1920s, when major actions came from the government to control corruption. Wallis *et al.* (2007) posit that the expansion of the federal government, particularly after the Great Depression weakened local politicians’ power to ask for bribes. The new role of the US government in the economy also translated into major pieces of legislation against bribery and fraud (Balleisen 2017). Additionally, in the 1920s the media became increasingly independent from politicians (corrupt or otherwise) and newspaper editors discovered that denouncing corrupt activities helped them to sell more newspapers (Gentzkow *et al.* 2007). As a result, being corrupt became too costly for politicians, leading to a general decrease of bribery in the United States (Glaeser and Goldin 2007).

A rise in the fight against corrupt activities of major corporations in the United States did not immediately translate into criticisms to their activities abroad. One example illustrates this divergence. During the first decades of the twentieth century, the US-based banana producing and marketing multinational United Fruit Company expanded its operations in Central America and the Caribbean. The high-handed way by which the firm conducted its businesses as well as its meddling in the host countries’ domestic politics led United Fruit to gain a notorious reputation in the producing countries, where it became a symbol of American imperialism in the region (Bucheli 2005). In the United States, however, the firm had a different reputation. Aside from the classic *Banana Empire* by Kepner and Soothill (1935) in which the authors apply Vladimir Lenin’s framework on imperialism to denounce the firm’s operations in Latin America, some consumer protection activist groups (including those advocating for anti-fraud policies) as well as the newspapers criticizing corruption and power of big corporations in the United States portrayed the firm as a virtuous organization, a civilizing force in “the tropics,” that provided the American working class with cheap food with high nutritional value and therefore deserved special treatment from the government (including no import tariffs) (Bucheli and Read 2006). Another illustrative example is the one related to the collusion of interests of some US senators with those of the Standard Oil Company of New Jersey in the 1920s, when the latter lobbied on Colombia’s behalf to have the United States pay reparations to that country for the support Washington gave to a separatist movement that succeeded at seceding Panama from Colombia in 1903, a move that gave the United States sovereignty over the area where the Panama Canal was eventually built. Criticisms focused on the fact that reparations were going to allow Standard Oil of New Jersey to increase oil production in Colombia pressuring oil prices to fall without this fall translating into lower prices for consumers (Duran and Bucheli 2017). The fact that Standard Oil had obtained those oil concessions through a series of dirty maneuvers against British investors was not part of the public debate (Bucheli 2008a).

The Cold War did not create a favorable environment in the West to fight against corruption abroad. The payment of bribes to high-ranking officials by MNCs was even justified as a necessary evil in the war against Communism during the Cold War. Notorious examples include



Indonesian head of state Sukarno (who ruled between 1945 and 1967). Sukarno was a strong ally of the West and followed a friendly policy toward foreign MNCs. During his regime, he created a scheme to enrich himself and his family from contracts with MNCs, loans from multi-lateral institutions, or by simply consistently looting the national coffers. Even though the West was aware of the corrupt nature of his regime, he continued receiving political and economic support due to the geopolitical importance of his country.³ Mobutu Sese Seko, president of Congo between 1965 and 1997 is another example. After taking over following the bloody defeat of the Belgian colonial forces, Mobutu quickly dismantled any resemblance of democracy and began a notorious authoritarian regime. After nationalizing the copper industry in 1967, Mobutu used the newly created firm as a source of personal income, which reached a level of \$250 million a year. Mobutu remained as one of the darlings of the Western powers in Africa due to his strong anti-Communism commitment. The Western support only ended with the collapse of the Soviet Union (Cockcroft 2012). A similar case can be found with the United States turning a blind eye toward corrupt activities of the United Fruit Company in Central America due to the firm’s close relationship with authoritarian anti-Communist regimes (Bucheli 2008b).

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1972–1977: laying the foundation for global anti-corruption efforts

In the early 1970s, corruption in global business was still a widely accepted practice. Some economic analysts asserted that “multinational enterprises are among the foremost practitioners of corruption, particularly in the less-developed nations where they operate” (Waldman 1973: 93). In order to win business contracts, ensure a smooth process in business transactions, and maintain an economic foothold in various countries, managers of MNCs routinely paid bribes to foreign public officials. In essence, engaging in a form of corruption was business as usual.

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The seemingly stable reality of global business was shaken following the Watergate scandal in the United States beginning in 1972 – a series of judicial investigations into illegal activities of President Richard Nixon’s administration. These investigations revealed that several US corporations and executives used corporate funds for illegal domestic and foreign payments. In the United States, several corporations concealed the sources of political contributions and failed to report such payments to investors, both of which were in violation of federal securities laws (Koehler 2012). Outside the United States, the Securities and Exchange Commission (SEC) discovered that secret “slush funds” existed outside normal corporate financial accountability systems. These secret funds were partially used for questionable or illegal foreign payments (SEC 1976). Investigations by the Church Committee, headed by Senator Frank Church (Democrat – Idaho), also revealed that major corporations such as Gulf Oil, Mobil Oil, Lockheed, and Northrup made questionable payments to foreign government officials and political parties for business purposes (United States Senate, Church Committee 1975). Another scandal revealing collusion of interests between the International Telephone and Telegraph Company (ITT) with the Central Intelligence Agency (CIA) to overthrow Chile’s elected president and a bribery scandal involving this same firm and high ranking members of the Republican Party only added fuel to the fire (Bucheli and Salvaj 2013). The February 3, 1975 suicide of Eli M. Black, CEO of the United Brands Company (known as United Fruit Company between 1899 and 1974 and re-named Chiquita Brands in 1989), following the discovery of a \$2.5 million bribe that he offered to Honduran president Oswaldo López Arellano in exchange for a reduction of taxes on banana exports, symbolized the extent to which bribery was a problem for US corporations (Kim and Barone 1981). Further investigations by the SEC showed that the bribery scheme went all the way to European consuming countries, where it was discovered that the firm had

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1 bribed European officials to gain favorable terms of import (Bucheli 2005). In all these cases the
 2 role of investigative journalists was crucial. Consistent with the development studied by Gentz-
 3 kow *et al.* (2007), the rise of investigative journalism helped to bring to light corruption cases.
 4 Watergate and the ITT scandal in particular emboldened investigative journalists who were seen
 5 by many as crusaders uncovering dirty operations at the highest levels of policy making and
 6 business (Feldstein 2010).

7 In 1975, the SEC announced a program whereby US corporations could voluntarily disclose
 8 questionable payments and activities without facing criminal prosecution or financial penalties
 9 (Kochan and Goodyear 2011) The SEC reported that “under this program more than 450 cor-
 10 porations admitted making questionable or illegal payments exceeding \$300 million” (U.S.
 11 GAO 1981: 1). This stark reality, coupled with the previous investigations into corporations’
 12 activities, prompted reform efforts in Congress.

13 In 1977, Congress passed the Foreign Corrupt Practices Act (FCPA). Although domestic
 14 anti-corruption initiatives existed in nearly every society, the FCPA was the first initiative to
 15 criminalize corruption in foreign contexts. It amended the 1934 Securities and Exchange Act
 16 and made it unlawful for registered issuers of securities to make payments to foreign government
 17 officials or political parties for the purpose of obtaining or retaining business. The FCPA also
 18 required that corporations have adequate internal accounting control (i.e., monitoring) systems.
 19 These systems entailed good bookkeeping and transparent disclosure of all payments. Both indi-
 20 viduals and corporations could be criminally charged if these requirements were violated. Anti-
 21 bribery violations could result in fines of up to \$1 million for corporations. Individuals could
 22 incur a maximum of \$10,000 fine and be sentenced to prison (Darrough 2010). The passage of
 23 the FCPA signaled a shift in the attitude toward corruption – in the United States at least, cor-
 24 ruption among corporations was no longer seen as business as usual.

1978–1988: the limited global response

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 27 Although the FCPA represented a victory for US policymakers, challenges remained in per-
 28 suading other countries to follow suit. Although representatives from 18 member countries of
 29 the United Nations drafted an international treaty on illicit payments in 1979, they failed to
 30 adopt the agreement (Kim and Barone 1981). Similarly, following a summit of executive politi-
 31 cians from seven countries, US President Jimmy Carter noted
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34 At the Venice Economic Summit meeting in June 1980 I urged that these seven indus-
 35 trial democracies renew efforts to work in the United Nations toward an agreement to
 36 prohibit illicit payments by their citizens to foreign government officials; and, if that
 37 effort falters, to seek an agreement among themselves, open to other nations, with the
 38 same objective.⁴
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40 Despite President Carter’s insistence on a collective effort, the attendees stated that they
 41 would engage in independent actions (Kim and Barone 1981). A major issue for several coun-
 42 tries, such as Germany, France, and Japan, was that their legal systems allowed for the tax
 43 deductibility of bribes. Other countries, such as Switzerland, maintained bank secrecy laws,
 44 which allowed for MNCs to hide money off the books (Rubin 1998). Legalized corruption
 45 in several countries resulted in resistance to international efforts at combatting corruption.
 46 With the exception of Sweden’s passage of a law criminalizing foreign bribery in 1978 (Inter-
 47 national Monetary Fund 2001), the United States was relatively alone in its efforts to combat
 48 corruption on a global scale.





The general lack of response by other countries resulted in negative consequences for US MNCs. For example, in a survey of 185 US corporations, more than 30 percent of respondents engaged in foreign business reported that they lost foreign business opportunities due to the FCPA (U.S. GAO 1981). Furthermore, 60 percent of respondents reported that they could not compete successfully against other foreign firms that engaged in bribery. Additionally, the Export Disincentive Task Force estimated that US MNCs could lose up to \$1 billion as a result of the FCPA (Kim and Barone 1981). Many corporate executives believed that the FCPA reduced the competitiveness of US MNCs given that they did not operate on a level playing field.

Congress eventually made amendments to the FCPA following criticism by executives and foreign policy experts. In 1988, Congress shifted the definition of “corrupt payments” to focus on the purpose of the payment rather than to whom the payment was made (Kaikati *et al.* 2000). Congress allowed for “grease” (i.e., facilitating) payments to secure the performance of a routine government action. These actions included issuing business permits and licenses as well as processing visas. To determine the legality of a “grease” payment, the Department of Justice considered the size of the payment and the seniority of governmental officials involved in the transaction, among other factors. This amendment put US multinationals on a more even playing field with respect to multinationals from other countries (Gutterman 2015). In her study on the evolution of anti-corruption policies in the United States, Gutterman (2015) posits that after initially lobbying against the FCPA, American corporations realized the political and social environment was not on their side and that defending corruption was too costly for politicians. As a result, she maintains, firms opted for a different strategy consisting of lobbying for actions from the US government to make other countries develop a similar type of legislation. The next section studies that change.

1989–1999: toward a reversal of fortune

The late 1980s witnessed democratic transitions in Latin America and reform following the collapse of the Soviet Union. However, the adoption of market-friendly regimes in different parts of the world did not eliminate corruption, but in fact in some cases created new incentives for more corruption. A very telling case is the privatization of state property in Russia after the collapse of the Soviet Union. This process created a looting mentality among those with important government positions and opened the door for organized crime to influence politics at the highest levels (Cockcroft 2012). The chaotic nature of the transition facilitated the rise of corruption (Levin and Satarov 2000).

As Hall (1999) shows, privatization and liberalization of markets created opportunities for government officials to gain bribes from foreign multinationals bidding for the large amount of government property that was for sale. He demonstrates how this not only happened for the case of poor or emerging countries, but also for advanced countries such as France, the United Kingdom, or the United States. Similarly, the radical pro-market reforms adopted in Latin America during the 1980s and 1990s, hailed as policies that would clean those countries of corruption in fact created new opportunities for those benefitting from corrupt activities (Manzetti and Blake 2008). Some of the most pro-market presidents in that continent were eventually charged with corruption, including Carlos Menem (Argentina), Alberto Fujimori (Peru), and relatives of Chilean dictator Augusto Pinochet (Pop-Eleches 2009; Agnic 2006).

Despite opportunistic behavior among a few actors during this time, the global attitude toward corruption began to shift. In particular, the OECD formed an ad-hoc working group in 1989 to comparatively review national legislations regarding corruption. The review revealed





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1 that although several countries had laws that, in principle, applied to the bribery of foreign
2 public officials, more effort was needed for effective action (International Monetary Fund 2001).
3 Continued work by this group led to the 1994 Recommendation on Bribery in International
4 Transactions, which encouraged OECD member countries to deter, prevent, and combat the
5 bribery of foreign officials.

6 The OECD initiatives eventually resulted in the 1997 OECD Anti-Bribery Convention.
7 This binding convention, signed by 29 OECD member countries and five non-members,
8 criminalized the payment of bribes to foreign public officials. It was the first international con-
9 vention to criminalize the bribery of foreign public officials. The convention came into effect
10 on February 15, 1999 and has since been signed by all member countries of the OECD. The
11 convention subjects its member countries to monitoring by the OECD Working Group on
12 Bribery. Phase 1 of this monitoring entails an evaluation of the extent to which member coun-
13 tries change their legislation to reflect provisions of the convention (Cockcroft 2012).

14 In parallel to the OECD's actions, several other initiatives took place during this time period.
15 Prior to the OECD Anti-Bribery Convention, 23 members of the Organization of American
16 States (OAS) signed the Inter-American Convention Against Corruption in 1996. This conven-
17 tion was the first international convention to address corruption, as it called for member coun-
18 tries to strengthen legal mechanisms to deter and detect corruption. However, this convention
19 did not require member countries to criminalize bribery. Similarly, the United Nations passed
20 a resolution in 1996 that, although not legally binding, focused on the need to criminalize cor-
21 ruption and eliminate the tax deductibility of bribes to foreign officials (Rubin 1998). Beyond
22 multilateral agreements, Transparency International was founded in 1993 with the goal of redu-
23 cing corruption globally. This global nongovernmental organization (NGO) produces the
24 annual Corruption Perceptions Index, which ranks countries in terms of perceived levels of
25 corruption that occur in the public sector. This index helps to publicize corruption across coun-
26 tries and has triggered public opposition to corruption (Rubin 1998).

27 These international efforts were representative of the shift in the attitude toward corruption.
28 Many of the major industrial nations adopted an anti-corruption stance under the assumption
29 that multilateral efforts were more beneficial to combatting this issue relative to unilateral efforts.
30 Multilateral efforts, in principle, leveled the playing field for all MNCs and increased the trans-
31 parency in governmental actions in countries that adopted the aforementioned conventions.

2000 and beyond: bearing the fruits of hard labor

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35 The beginning of the twenty-first century has witnessed continued progress in the global anti-
36 corruption agenda. Beyond improving their internal monitoring systems, some MNCs have
37 become more involved in the anti-corruption agenda by becoming signatories to the UN Global
38 Compact – an initiative to encourage MNCs to engage in sustainable and socially responsible
39 practices, with participating multinationals that include some firms often criticized for corrupt
40 activities such as Shell or Siemens.⁵ The 10th Principle of the Global Compact is “Businesses
41 should work against corruption in all its forms, including extortion and bribery” (United Nations
42 2004). The principle stemmed from the 2003 United Nations Convention against Corruption.
43 This convention required member countries to engage in preventative measures, criminalize
44 various types of corruption such as money-laundering, cooperate with one another to combat
45 corruption, and support the recovery of confiscated property or assets (United Nations 2017).

46 Besides the UN Global Compact, other organizations focused on particular industries
47 emerged, such as the Extractive Industries Transparency Initiative (EITI), which not only
48 focused on corruption, but also issues around environment destruction and human rights (EITI,





2017). During the 2000s, several multinationals directly participated along with different NGOs in the creation of the general principles defining guidelines for internal anti-corruption policies (Berkowitz *et al.* 2017). The presence of multinationals in the forums defining and evaluating actions against corruption is seen as problematic by some authors (Aaronson 2011; Van Altisne 2014; Smith *et al.* 2012), while others maintain that this leads to better and more efficient results (Baumann-Pauly and Scherer 2013; Hauffer 2010; Rasche 2012).

The work of the United Nations complements the work of the OECD. Following Phase 1 of the OECD Anti-Bribery Convention, Phase 2 of the monitoring entails assessment of whether or not the anti-corruption legislation of a member country was applied effectively (OECD 2016b). Phase 3 focuses on the enforcement of the provisions of the 1997 convention. Furthermore, in 2009 the OECD adopted a recommendation regarding the tax deductibility of bribes of foreign officials, as the 1997 convention failed to eliminate this issue (OECD 2016c). Phase 4 of the monitoring began in 2016. It focuses on determining the progress made by member countries with regard to weaknesses in legislation efficacy and enforcement identified in previous phases.

Both the United States and the OECD have increasingly prosecuted individuals and MNCs engaged in corruption since 2000. Between 1977 and 1999, the Department of Justice (DOJ) and SEC in the United States made a total of 49 prosecutions in relation to the FCPA. Between 2000 and 2016, 448 prosecutions were made (Stanford Law School 2017) – the rise of prosecutions is partially the result of the opening of an FCPA division at the US Federal Bureau of Investigation (FBI) and the enlargement of the FCPA divisions in the SEC and the DOJ (Berghoff 2017). To date, the largest fine paid by a multinational under the FCPA has been the \$1.6 billion Siemens paid both to the European and American authorities after being found guilty of creating a global bribery scheme to secure government contracts, followed by France’s Alstom with a fine of \$772 million in 2014 (Berghoff 2017). Similarly, as of 2016, nearly 400 individuals and more than 130 entities (e.g., MNCs) have been sanctioned in criminal proceedings since the implementation of the OECD Anti-Bribery Convention (OECD 2016a). As these trends suggest, there has been more emphasis on the enforcement of anti-bribery legislation since 2000.

Terrorism and fraud: twenty-first century challenges

Two major events forced society to re-evaluate how to fight against corruption at the global level. The first one was the terrorist attack from the Islamic radical group Al-Qaeda against several targets on US soil on September 11, 2001. Besides the American invasions of Afghanistan and Iraq and the creation of an internal security apparatus around the Department of Homeland Security, the September 11 attacks also had an effect on anti-corruption efforts. Shortly after the attacks, US Secretary of State Colin Powell showed the public a global list of illegal armed groups Washington classified as terrorists and enemies of the United States. Giving payments to these groups was equivalent to trading with the enemy, which generated problems for some American multinationals that could serve as precedent for future cases. One important example is the one involving the US banana marketing multinational Chiquita. Two of the groups Powell classified as terrorists included the right-wing militias United Self-Defense Forces of Colombia and the left-wing Colombian Revolutionary Armed Forces (AUC and FARC respectively in their Spanish acronym) (United States Department of State 2001). By the time of this designation Chiquita had been paying bribes to those two groups, so in order to avoid legal problems the firm came forward in 2004 and disclosed that for years they had paid money to both the AUC and the FARC, something they justified as a result of extortion or means to protect the lives of its employees (Baquero 2014). The disclosure of this information led to lawsuits by victims of the AUC and FARC against Chiquita (Frundt 2009), opening a new legal





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1 field in terms of how to fight against corruption. Legal scholars have debated whether payments
 2 to criminal groups threatening the lives of a multinational's employees should be treated in the
 3 same way as payments to a government official in exchange for a contract (Gaskins 2008). No
 4 other company came forward the way Chiquita did and to the date of this writing the legal
 5 challenges had not concluded. Some analysts even suggested that Chiquita did not benefit from
 6 being open about its activities (*Economist* 2012). However, the precedent of this case will surely
 7 guide future evaluations of corrupt activities.

8 The second event was the spectacular collapse of Enron, a major US-based energy firm in
 9 2001. The scandal surfaced when the firm was not able to keep falsifying the information it
 10 provided to regulators and shareholders. Post-mortem analyses pointed to an existing general
 11 corporate-wide corrupt culture that led to an unmanageable downward spiral of corruption
 12 (Arbogast 2008; McLean and Elkind 2003). The gigantic losses generated by Enron's fall led to
 13 calls for further and tighter regulations, which translated into the 2002 Sarbanes-Oxley Act. This
 14 piece of legislation made top executives responsible for the functioning of internal control
 15 systems, which made it difficult for those executives to turn a blind eye or claim ignorance of
 16 corrupt actions. This new legal environment led several multinationals to plead guilty to bribery
 17 schemes abroad including Monsanto in Indonesia, Titan Corporation in Benin, and Switzer-
 18 land's ABB in Angola, Nigeria, and Kazakhstan, while making others develop better internal
 19 control mechanisms (White 2009).

The road ahead

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 23 This chapter has reviewed the major institutional initiatives to combat corruption in global
 24 business. Beyond these unilateral and multilateral efforts, other initiatives on a smaller scale
 25 contribute to the global anti-corruption agenda. Although corruption remains a pressing
 26 problem, there has been rapid improvement in anti-corruption efforts, particularly over the
 27 past 20 years. Legislation continues to expand and monitoring of both governments and
 28 MNCs has been more transparent. This does not mean that these initiatives are free of chal-
 29 lenges. Before being elected president of the United States, Donald J. Trump showed disdain
 30 toward the FCPA by describing it as a "horrible law [that] should be changed ... the whole
 31 world is laughing at us" (Lynch 2016). Dismantling this piece of legislation, however, would
 32 not be an easy task. Other issues exacerbating corruption include the global growth of illegal
 33 drug trafficking that has shown its power to permeate all instances of government and the
 34 private sector from Colombia, Mexico, Brazil, and Italy to Guinea-Bissau, and the Balkans
 35 (Cockcroft 2012). This and the fact that new scandals keep emerging (such as the 2016–2017
 36 global bribery scheme by the Brazilian multinational Odebrecht) shows the problem has not
 37 gone away (Tegel 2017). Whereas anti-corruption initiatives largely affect the demand side of
 38 corruption, more multilateral and unilateral efforts are needed to reduce the supply side of
 39 corruption. By the time of this writing, it was still uncertain how protectionist and isolationist
 40 policies adopted by several Western powers and the reaction toward those changes by emerg-
 41 ing economies will affect global efforts to fight corruption.⁶ Anti-corruption initiatives rapidly
 42 developed for a relatively short period of time with tangible positive results. How a collective
 43 action is maintained in the twilight of globalization constitutes an interesting research agenda
 44 for scholars and something to be watched closely by policy makers, activists, and private firms.
 45 The retreat from or resistance to cooperate with multilateral or international organizations by
 46 some countries (e.g., United Kingdom or the United States after the Brexit vote or the elec-
 47 tion of president Donald Trump) can make global coordinated efforts harder to achieve. Pol-
 48 icies that put the interests of a country's firms first and the dismissiveness of ethical concerns





might create new temptations by firms to return to unethical behaviors. Some of the “global” efforts have been done at the OECD level. This made sense in times in which the countries belonging to this exclusive group controlled most of the world’s economy. However, the rise of emerging market multinationals that are not constrained by the OECD principles might generate new calls by OECD-based firms to either relax existing regulations or to pressure other governments to follow their initiatives. Moreover, some of the new large multinationals operating in the global scene do not come from democratic countries, but also from authoritarian regimes or countries notoriously corrupt (e.g., China or Russia). How to create global anti-corruption frameworks with those new actors can be a challenge.

Conclusion

The perception that many firms engage in what can be defined as “corrupt” activities when operating globally (or domestically) is not new. This chapter surveys governments’ efforts to fight against corruption in the context of a changing global political landscape. As the chapter shows, serious efforts started relatively late (the 1970s) when considering how aware the world was about the existence of corruption and became a matter of global concern even later. We hope this chapter provides the readers with a general framework and chronology that explains why at certain points in history firms operating globally did not seem to see corruption as a matter of concern and when, how, and why this changed. We show how big political or economic shocks often generate the right environment to create new anti-corruption measures. The emergence of new multinationals from non-Western powers in the post-1990s period provides an interesting area of research to understand how firms originating from countries not participating in previous anti-corruption efforts adapt to the existing anti-corruption legal framework.

Notes

- 1 We thank comments to a previous version by R. Daniel Wadhvani, Hartmut Berghoff, other participants at the Business History Conference (Denver, 2017), Teresa da Silva Lopes, and Christina Lubinski. We also thank Thomas DeBerge for his research assistantship.
- 2 Cockcroft (2012: 2) provides another useful definition of corruption, which is consistent with our study as the “acquisition of money, assets, or power in a way which escapes the public view; is usually illegal; and is at the expense of society as a whole either at a ‘grand’ or everyday level.”
- 3 Sukarno’s protection of foreign property rights was selective. British business were expropriated during the confrontation Indonesia had against British-backed Malaysia (White 2012),
- 4 Public Papers of the Presidents of the United States – Jimmy Carter, 1980–1981, Book 2. Ann Arbor, MI: University of Michigan Library, 2005, pp. 1693–1694. <https://quod.lib.umich.edu/p/ppotpus?key=title;page=browse;value=j> (accessed April 14, 2019).
- 5 The long list of signatories of the UN Global Compact can be accessed in www.unglobalcompact.org/what-is-gc/participants (accessed September 29, 2017).
- 6 The rise of nativist movements in the Western world, the election of an anti-globalization president in the United States in 2016, and the British decision to abandon the European Union have been pointed out as evidence that the second global economy that started in the 1970s as studied by Jones (2005) had come to an end (Agarwal and Raje, 2017).

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