Chapter 35
Corruption, Business Climate, and Economic Growth

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ABSTRACT

Corruption is globally pervasive. Defined as abuse of entrusted power for private gain (Transparency International, 2013), corruption represents a set of economic, social, cultural, and political practices that are secretive and rooted in greed, ambition, or quest for power. This chapter reviews causes of corruption including the macro- and micro-level determinants of corruption such as leadership, management, and organizational culture. Various subjective and objective measures of corruption are discussed. Transparency International's Corruption Perception Index (CPI) and Heritage Foundation's Economic Freedom Index (EFI) are reviewed. The World Bank's Business Environment and Enterprise Performance Survey (BEEPS), Doing Business Indicator (DBI), and World Bank Institute's Governance Indicator (WBI-GI) are also reviewed, as is the role of global anti-corruption agencies and various instruments. Additionally, the relationship between corruption and foreign domestic investment, economic growth, and economic and political institutions are considered, as are anti-corruption intervention strategies for corruption and business ethics training.

INTRODUCTION

Corruption is pervasive globally and represents a set of economic, social, cultural, and political practices that are secretive and rooted in greed, ambition, or quest for power. These practices occur in government institutions, non-profit organizations, multi-national corporations, and private businesses (Kaufmann & Vicente, 2011). Some of these practices include bribery, embezzlement, money laundering, abuse of entrusted power, trading influence, and diverting organizational funds or property for personal gain. Other corrupt practices include avoiding taxes, skirting the law, financial fraud, insider trading, money laundering, manipulating the system using legal loopholes, nepotism, and discrimination. Some examples of the political corruption include voter fraud, political finance, political payback and retribution. Cor-

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ruption is a very large global 'underground industry' in both emerging economies with high growth rates and developed economies with relatively small growth rates.

Corruption is defined as abuse of entrusted power for private gain (Transparency International, 2013). The abuse of power, secret dealings, and bribery continue to ravage societies around the world. An international survey of 114,000 respondents in 107 countries revealed that more than one in four people (27%) reported having paid a bribe in the last 12 months (Global Corruption Barometer, 2013). The scale of corruption varies significantly from country to country. While many developing countries face the challenge of addressing systemic corruption, some emerging economies, in fact, have lower levels of corruption than some wealthy countries (Kaufmann, 2013).

Corruption is not a victimless transaction as the victims of corruption are outside the parties who participate in a corrupt act and benefit from it. Corruption is associated with increased income inequality in a country, and may be viewed as unreported white-collar crime that is often considered a way of doing business. The World Bank estimates approximately US$1 trillion is paid in bribes each year around the world, representing 5% of world Gross Domestic Product (GDP). This estimate of annual worldwide bribery does not include the extent of embezzlement or 'leakage' of public funds. Corruption is equivalent to a 20% tax on foreign investors (World Bank, 2013). The African Union estimates the African continent loses 25% of GDP to corrupt practices.

A study on the causal relationship between economic growth and corruption in 42 developing countries concludes that adequate institutional facilities must be in place in developing economies to reduce losses from corruption especially within and after periods of economic growth (Wright & Craigwell, 2013). The business sector grows significantly faster where corruption is lower and property rights and rule of law are safeguarded. Good governance and anti-corruption measures lead to an improved investment climate and business environment. Both the public and private sectors have responsibility in improving investment climate since they interface each other (World Bank, 2013).

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CAUSES OF CORRUPTION

Corruption is a social and cultural transaction between at least two parties motivated by rational calculations of individual gain (David, 2010). Once it reaches a critical mass point, corruption spreads like a virus and gets entrenched in an institution and spreads to other institutions within a country. One must understand corruption in the context of the national culture and the individuals involved in the corrupt act. Corruption affects public institutions and private businesses in all countries to varying degrees. Some practices are illegal in one country but can be perfectly legal in another country. These practices

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