

Ethics in Business-to-Business Relations: a Literature Review

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Abstract

This research focuses on exploring the phenomenon of corruption, broadly understood as the abuse of a position for personal gain, and its role and impact in the private sector. Unlike much of the literature on corruption, this work focuses entirely on private actors, i.e., on business-to-business (B2B) corruption. The current article reviews the literature on business ethics and private-sector corruption, pointing out recent progress in exploring the topic, as well as remaining gaps. Ultimately, this work calls for expanding and accelerating research on B2B corruption to enable a common standard across the business world for understanding, addressing, and controlling this deeply harmful phenomenon.

Introduction

Today’s world is increasingly complex and interconnected, and relations between business, government, and society are rapidly evolving. Though not always easy to quantify, the direct and indirect impact of business activities on other stakeholders is indisputable. Economic actors, once viewed only from the narrow perspective of profit-making entities, are now widely recognized as active participants to the development of communities at all levels: local, national, regional, and global. Many of these companies, particularly large ones, have responded to this new reality by creating internal regulations, signing integrity pacts, and investing resources in projects or funds that benefit different communities. The mantra “doing

well by doing good” is more present than ever in the global business arena.

The purpose of this research is to explore the link between the field of business ethics and anticorruption policies, with a special focus on business-to-business (B2B) corruption. To this end, this article performs a review of the key literature on these topics and concludes by indicating possible avenues for further research.

In particular, scholars and policymakers alike have focused most of their efforts on documenting and combating corruption acts “on the demand side,” i.e., targeting public officials asking for bribes or other illicit gains [1], [2], [3]. Some work has also focused on “the supply side,” i.e., the private actors offering the aforementioned benefits [4].

The issue of business-to-business corruption, also known in the literature as “private corruption” or “corporate corruption,” has received even less attention. To avoid any confusion, this research prefers and henceforth uses the term “private-to-private corruption” or, for simplicity’s sake, “business-to-business corruption” (B2B corruption), which is to refer to a transaction between two private actors [5]. B2B corruption is a grave phenomenon with serious consequences, including: distorting market mechanisms, hurting equity holders’ interests, damaging corporate reputation, increasing inefficiencies in capital investments, reducing tax revenue, reducing transparency, etc.

For all these reasons and taking into consideration the very little attention received by private corruption in particular, in both policy and academic circles, this article seeks to contribute to filling the void by reviewing existing instruments (e.g., international conventions) and literature on the topic, while also proposing avenues for further research.

The next section defines the key concepts and places corruption in the more general framework of business ethics. Further, the article zooms into B2B corruption, summarizing the main articles that explore the topic, including key results and remaining gaps. The final section concludes and proposes several avenues for future research.

Business Ethics and Corruption: Definitions

The concept of business ethics is related to the broader field of corporate social responsibility (CSR). The first conceptualization of CSR came from Howard Bowen [6], who defined the social responsibilities of private actors as “[an obligation] to pursue policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.” This line of thinking was novel in 1953: suddenly, businessmen were called to take into consideration factors beyond the pure bottom line and respecting the applicable legal framework. The strongest and often cited rebuke of this view came from Milton Friedman [7] in 1970. Friedman argued that the only obligation of business actors is to generate value for shareholders, without taking into consideration other factors.

He also claimed that there should be a clear separation between the roles of a government and of a business. In practice, however, Bowen’s vision is better aligned to the current economic and political environment: there is no way to separate public and private actors in society. Through their work, governments shape businesses, and vice-versa. Indeed, their actions will inevitably influence each other and other stakeholders too. If there can be agreement around this basic tenet, then it follows that corporate social responsibility is indeed applicable and desirable. This is in line with the work of Mark Granovetter [8] and the idea of embeddedness: economic activity is inherently embedded in societies, and societies in turn shape economic choices.

More relevant is the concept of business ethics, defined as the requirement that “the organization or

individual behaves in accordance with the carefully thought-out rules of moral philosophy” [9]. Simply put, business ethics defines what a private-sector entity and its employees should and should not do, based on agreed-upon ethical or moral principles, rules, standards, and organizational norms. The field is extremely vast, and touches upon multiple functional areas: from human resources to finance, sales and marketing, procurement, production, intellectual property, etc. [10]. Several of these areas remain critical to the current research.

In this context, it is useful to also propose a definition of corruption, one of the most hotly debated topics in the literature. As noted by Leslie Holmes [11], cultural and legal differences across societies make it “impossible to produce a universally acceptable definition of corruption.” In a 2004 article on corruption in organizations, Anand, Ashforth, and Joshi [12] defined private corruption as “the misuse of an organizational position or authority for personal or organizational (or subunit) gain, where misuse in turn refers to departures from accepted societal norms.” This broad definition encompasses a variety of corrupt practices, from bribery to fraud, money laundering, abuse of power, kickbacks, favors, gifts, nepotism, and others, and is appropriate for the scope of the current research.

Business-to-Business Corruption: Literature Overview

The issue of corruption in the private sector has received increasing attention by business professionals, scholars, and public decisionmakers. There is also a growing regulatory framework that seeks to address this particular dimension of the phenomenon. Among others, it is worth mentioning the following: the Council of Europe’s Criminal Law Convention on Corruption (1999), the EU’s Joint Action on private corruption (1998), the Inter-American Convention against Corruption (1996), the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997), along with a range of other documents put forth by international organizations (codes of conduct, principles for conducting businesses, etc.).

Perhaps most notably, the 2005 United Nations Convention against Corruption (UNCAC) [13], under Article 21, refers specifically to corruption in the private sector, calling signatories to criminalize offences that include: "(a) The promise, offering or giving, directly or indirectly, of an undue advantage to any person who directs or works, in any capacity, for a private sector entity, for the person himself or herself or for another person, in order that he or she, in breach of his or her duties, act or refrain from acting; (b) The solicitation or acceptance, directly or indirectly, of an undue advantage by any person who directs or works, in any capacity, for a private sector entity, for the person himself or herself or for another person, in order that he or she, in breach of his or her duties, act or refrain from acting."

Importantly, the UNCAC deliberately chose not to include a definition of corruption, recognizing that the concept may refer to a wide range of practices. It does, however, specifically mention different potential violations: bribery, extortion, embezzlement, misappropriation of funds, abuse of power, trading in influence, illicit enrichment. UNCAC also includes a number of recommendations on how to deal with corruption generally and private-sector corruption in particular, including business-to-business corruption: codes of conduct, internal auditing controls, transparency standards, prevention of conflicts of interest, adopting and enforcing internationally recognized accounting standards (e.g., forbidding off-the-books transactions), etc.

In a 2007 article [14], Antonio Argandoña analyzed the UNCAC’s strengths and weaknesses. The author correctly points out that the convention is the first global, legally binding instrument focused on combating corruption. However, the UNCAC remains limited: it does not impose obligations on signatories to

criminalize certain acts, including bribery and embezzlement in the private sector, and it does not punish states that fail to abide by their commitments, also lacking an effective monitoring system.

The European Council Framework Decision 2003/568/JHA of July 22, 2003 on combating corruption in the private sector operationalizes the UNCAC at the European level [15]. The text of the decision is very similar to the UNCAC version, noting also that provisions apply to both profit-making and non-profit organizations. Recommended penalties include criminal and non-criminal measures. This legislation actually builds on a previous European Joint Action, adopted by the Council in 1998.

In 2003, Argandoña published what many hail as the first in-depth article on the specific topic of private-to-private corruption. By the author's own notice [5, p. 253], "the cases of corruption reported by the media tend to almost always involve a private party that pays or promises to pay money to a public party." He explains the lack of focus on B2B corruption by the belief that private entities, particularly in competitive environments, should be able to prevent such acts if shareholders seek to maximize profits. Equally important, B2B corruption scandals are very rarely disclosed publicly, as such issues tend to be resolved internally.

Argandoña also makes an extensive list of practices that count as private-to-private corruption [5, pp. 255-256]: "bribery (when it is the person who pays who takes the initiative); extortion or solicitation (when it is the person who receives the payment who takes the initiative, whether explicitly or otherwise); dubious commissions, gifts, and favors; facilitation payments (to speed up completion of an order, delivery of goods or payment of an invoice, for example); nepotism and favoritism (in the hiring and promotion of personnel, for example); illegitimate use or trading of information (trade or industrial secrets, for example); use of undue influence to change a valuation or recommendation; and an endless array of other possibilities born of human ingenuity over the centuries."

Argandoña's 2003 article also covers the legal treatment of private-to-private corruption, noting, however, that this varies greatly from country to country. Essentially, the legal arguments boil down to several aspects: (i) breach of fiduciary trust (i.e., employee harms shareholders' interests through his/her actions); (ii) breach of the principle of free competition and market protection (e.g., bribing a buyer to win a contract with a private company); (iii) fraud; and (iv) other special legal provisions (e.g., insider trading, industrial espionage, etc.).

Argandoña also offers some suggestions for how to battle B2B corruption. Under preventative measures, he lists: declaration of intent by management to uphold strictly all legislation, clear standards and procedures for decision-making and clear bright lines with highly specific examples of potentially problematic situations, reporting mechanisms, transparency, supervision and control, training, restitution of illicit payments. Under corrective measures, the author calls for strict sanctions and bringing into play all the preventative measures, reevaluating their effectiveness and reemphasizing their importance.

Vikas Anand, Blake E. Ashford, and Mahendra Joshi describe how private corruption occurs in organizations [12, p. 40], including through various rationalization and socialization tactics, which "allow perpetrators of unethical activities to believe that they are moral and ethical individuals, thereby allowing them to continue engaging in these practices without feeling pangs of conscience." The authors explain that there are a range of rationalization tactics, from denial of responsibility to denial of injury and balancing the ledger (entitled to such acts by their previous effort and results in the company) while, at a social level, dynamics often include cooptation, incrementalism, and some form of compromise [12, p. 40]. All these create a vicious cycle, whereby honest employees may be gradually excluded from a corrupt

organization, for internal reasons (i.e., their own moral compass tells them that something is wrong) and/or external reasons (i.e., they are actively pushed aside by the corrupt employees). This creates what some [12, p. 40] have called “a social cocoon,” with its own norms that deviate from moral behavior, but appear normal to those individuals who are part of the cocoon, whether “founders” or “newcomers.” The authors also list a number of tactics to reverse rationalization and socialization of corrupt behavior, which include: adopting codes of ethics (important, but not sufficient), fostering awareness, making whistleblowing mechanisms easily accessible, implementing performance evaluations that go beyond quantitative indicators, foster role models, and bringing in external change agents.

In a similar vein, Susan Rose-Ackerman [16] argues that private corruption results from the personal ethics of business people and the demands of their jobs. She goes on to suggest several measures that can help mitigate private corruption: personnel policies that focus on hiring people with strong morals and whistleblowing reinforced by a company culture that explains that peer reporting is part of every professional role. The author also discusses the interaction between personal values and professional behavior, citing studies with apparently conflicting conclusions [16]: one noted that when faced with a hypothetical situation, a majority of test subjects chose the unethical behavior if it increased company profitability; other studies, however, show that “personal standards are the most important source of guidance when respondents face ethical dilemmas.”

Helena Lindskog, Staffan Brege, and Per-Olof Brehmer [17] focus on procurement processes and related opportunities for corruption, comparing public and private-sector processes. The authors argue that there is scope for corruption in both business-to-business (B2B) and business-to-government (B2G) procurement processes, and risks exist at every single phase: from the identification of the need to acquire something (which could be irrelevant or nonexistent) to the actual bidding and award steps (e.g., biased evaluations, bribery, etc.). The model of the buying center is presented, focusing on the people who actually make the decisions on procurement, throughout the various stages.

With respect to B2B corruption, the authors note [17, p. 186]: “When private companies carry out procurements of similar types, they neither need to give any account of the logic behind their choice of suppliers nor the steps in the procurement process need to be shown.

That gives a bigger structural scope for arbitrary decisions. However, this does by no means imply that corruption is excluded within the private sector.” Ultimately, the conclusion of the study is that the main factor accountable for corruption is not whether the transactions are B2B or B2G, but rather relates to political and cultural differences.

There are also a couple of notable articles that assess the issue of B2B corruption based on survey data and perceptions. A 2016 study [18] of private-to-private corruption in Denmark and Estonia, co-funded by the EU, surveyed 1000 managers in the private sector to determine: common forms of B2B corruption (e.g., kickbacks, conflicts of interest, bribery, fraud, and extortion); acceptability of corruption and primary excuses (most often cited are pressure from higher management and competitors’ practices); perceived costs (reputation, loss of business, personal career development, etc.); potential control mechanisms, from anonymous hotlines to codes of conduct, etc. Responses vary based on the specific type of corrupt action: for instance, kickbacks (mediating fees) and conflicts of interest (hiring or contracting a friend) are in a grey zone of acceptability, while bribery and fraud are considered much more serious (and less common).

Finally, a flagship 2008 study by C. Gopinath [19] sought to answer three critical questions: (i) are individuals able to recognize an ethical issue in a private (B2B) transaction? (ii) what arguments are used to justify unethical behavior? and (iii) would individuals act differently when faced with public and private

corruption? The author surveyed business school students by providing them with hypothetical scenarios and prompting them to note how they would react (e.g., pay a bribe, pay a kickback, etc.). The author makes several important inferences based on these results. For one, the lack of a common definition for what constitutes unethical behavior increases the risk of B2B corruption. Second, ethics courses in business schools are ineffective in preparing future managers for such delicate situations.

Third, cultural differences matter, and adaptability to local norms is important, within reason.

Conclusions and Next Steps

This brief literature review helps shed light on the status of the literature on B2B corruption, starting with the definition of the concept. Indeed, some authors continue to argue that corrupt activities have to involve a public-sector party. This view is both limited and limiting, and fails to capture the highly damaging effects of private corruption as a type of anti-competitive practice, including potential spillover effects – i.e., corrupt B2B practices will also affect B2G transactions and overall societal wellbeing.

Upon close analysis, this is a typical case of an understudied critical phenomenon, despite its recognized harmful consequences not just for a particular business but for the private sector and society as a whole. Most of the scholars working on this topic underline the gaps in the literature, but only a few have made unique contributions to addressing these shortcomings. Some authors have taken a few very promising first steps by creating innovative surveys to determine perceptions of B2B corruption and potential solutions.

To conclude, the literature on the topic of private corruption is recent and growing, but has already successfully shown that the phenomenon warrants significant attention from both policymakers and academics. The proliferation of international instruments to combat corruption (e.g., treaties, conventions, etc.) and even national-level initiatives like integrity pacts and Clean Business Coalitions demonstrates that such efforts are paying off [4]. Studies deploying survey data have also been able to show that managers have very different understandings of what constitutes corruption, and often resort to excuses for corrupt behavior, especially when dealing with another private party. Based on all this, there is still a lot to be done to identify the best mechanisms for combating B2B corruption.

Avenues for potential future research include: surveys of business leaders to collect both quantitative and qualitative data on B2B corruption (prevalence, perceptions, solutions for addressing it); surveys of business school students in various cultures to test for variances in their responses and the causes behind them; piloting and scaling up of innovative solutions

such as Clean Business Coalitions, as self-regulatory clubs of private actors committing to certain corruption-free standards. The current literature has laid the groundwork to highlight the importance of taking B2B corruption seriously. Now it is time to take this research effort several steps further, providing businesses with the know-how and practical tools to combat private corruption and contribute to competitive, clean markets and well-functioning societies.

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