

Globalisierung und Multinationale Unternehmen

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Gastvortrag:

Fighting Corruption in Global Business

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Research interests:

Organizational legitimacy, organizational corruption, global governance, corporate social responsibility, responsible leadership

Agenda

- What is corruption?
- Fight corruption at multinational companies (MNCs)
- Breakout session 1
- Fighting corruption in the global anti-corruption field
- Breakout session 2

What is corruption?

Corruption

Corruption: "Misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain, ..."
(Anand et al., 2004: p. 40)

→ One of the most insidious social phenomena

- Estimates: > 5% of global GDP (\$ 2.6 trillion) paid in bribes every year
 - Globally, over 7% of healthcare expenditure is lost to corruption
 - estimated that more than 140 000 child deaths a year are attributable to corruption



Corruption...

...hinders economic development

...erodes trust in public institutions

... has disproportionate impact on the enjoyment of human rights

...carries the risk of criminal prosecution, substantial penalties, blacklisting and damage to reputation.

...involves lengthy negotiations that add costs to a transaction (reduce efficiency)
→ by up to 10% on average.

...creates uncertainty in doing business

Sources: Council of Europe (2021); Transparency International (2019): The Ignored Pandemic; OECD, CleanGovBiz, 2014)

Radboud Universiteit



Fighting corruption at multinational companies (MNCs)

Research project published in Strategic Organization (2018):

- Organizational strategies in the context of legitimacy loss: Radical versus gradual responses to disclosed corruption
- Stefan Schembera & Andreas Georg Scherer

Research context and problem

Systemic corruption

- „bad barrel” approach (Ashforth et al., 2008)
- MNCs supplying corruption to foreign government officials



Problem:

- Process of globalization multiplies risk and scope of corruption.
 - Institutional expectations to fight corruption and the enforcement of anti-corruption laws (by Western authorities) are increasing.
- Challenge for multinational companies (MNCs) to maintain *legitimacy*

“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some *socially constructed system* of norms, values, beliefs, and definitions.” (Suchman, 1995, p. 574)

Research question

How and why do organizations respond to the loss of legitimacy in the context of disclosed corruption?

Decoupling

Creating differences between the formal structure and actual work activities ("policy-practice gap").

→ Radical departure from existing organizational theories

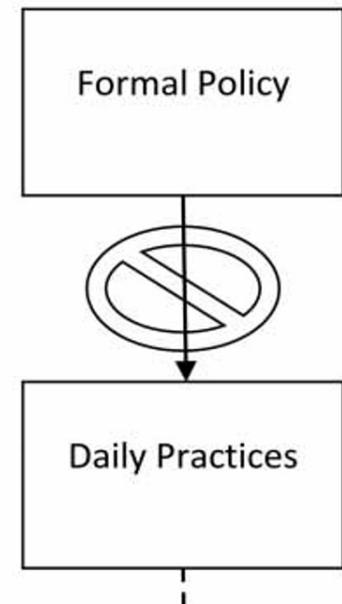
- Organizations try to signal trustworthiness, reliability and good intentions
- Organizations try to minimize reviews and evaluations by organization members and external stakeholders.

BUT: Strategy increasingly risky for the legitimacy of companies.

- Causes: Accountability trend; Commercialized media system; Economization of society (Bromley & Powell, 2012)



Policy-Practice Decoupling
Policies disconnected from daily practices



Isomorphic Adaptation

- = Companies change (step by step) their organizational practices and adapt to social expectations (Deephouse, 1996; Scherer et al., 2013).
- BUT, in global context:
 - “Conforming to the myriad regulatory, cognitive, and normative institutional expectations coming from multiple and conflicting sources is [often] not feasible.” (Kostova et al., 2008, p. 1001)
- Conclusion:
 - In times of globalization, companies are highly complex and networked organizations: Achieving legitimacy through isomorphism is difficult, if not impossible.

Moral Reasoning

Moral Reasoning

Organization participates in open discourse with stakeholders or social groups to discuss the acceptance of their status quo and behavior.

→ Deliberation process (Scherer & Palazzo, 2007)

- Goal: Joint solution based on a solid argument and for the benefit of society ("pro-social logic", Suchman, 1995)
- Negotiate the status of legitimacy with each legitimating actor
 - Negotiation = political process of interaction, communication, and exchange
- Outstanding role of language in legitimation processes (Berger & Luckmann, 1967).

Relating corruption control elements and legitimacy strategies.

Type	Corruption Control Elements	Legitimacy strategies		
Social/cultural corruption controls	<p>Leadership support</p> <ul style="list-style-type: none"> • SC: high-level personnel as overseer (see also: Pfarrer et al., 2008) • CC: strategic integration and leadership support <p>Training</p> <ul style="list-style-type: none"> • SC: effective communication • CC: training • See also OCC: self-controls <p>Whistle-blowing procedure</p> <ul style="list-style-type: none"> • OCC: vigilance controls; concertive controls (horizontal surveillance by coworkers) • CC: creation of a complaints procedure 	Moral reasoning		Substantial influence
Administrative corruption controls	<p>Bureaucratic controls</p> <ul style="list-style-type: none"> • OCC: formalized rules, policies (see also: Pfarrer et al., 2008), hierarchical and centralized structure, specialized positions • SC: compliance standards and procedures; due care in delegating substantial discretionary authority <p>Alignment of incentives</p> <ul style="list-style-type: none"> • OCC: incentive alignments • CC: alignment of incentive structures (see also: Pfarrer et al., 2008) <p>Monitoring and follow-up</p> <ul style="list-style-type: none"> • SC: monitoring, auditing, reporting; enforcement and disciplinary mechanisms; response upon detection • OCC: punishment (measuring, monitoring and sanctions) • CC: evaluation 		Isomorphic adaptation	
Interactive corruption controls	<p>Collective Action</p> <ul style="list-style-type: none"> • CC: quality of stakeholder relationships; level of participation in collaborative CC initiatives • <i>Beyond OCC and SC</i> 			

- CC = Corporate Citizenship Assessment Tool (Baumann-Pauly and Scherer, 2013).
- OCC = Organizational Corruption Control Circumplex (Lange, 2008).
- SC = Sentencing Commission Guidelines (USSC, 2010).

Siemens corruption scandal

- <https://www.youtube.com/watch?v=c5IYU-W9SA>



Siemens' staff Bribing and corruption scandal

SIEMENS



Home | Pre

U.S. Securities and Exchange Com

SEC Charges Siemens AG for Engaging in Worldwide Bribery

Linda Chatman Thomsen, Director of the SEC's Division of Enforcement, said, "This pattern of bribery by Siemens was unprecedented in scale and geographic reach. The corruption alleged in the SEC's complaint involved more than \$1.4 billion in bribes to government officials in Asia, Africa, Europe, the Middle East, and the Americas. Our success in bringing the

The SEC's complaint alleges that between March 12, 2001, and Sept. 30, 2007, Siemens created elaborate payment schemes to conceal the nature of its corrupt payments, and the company's inadequate internal controls allowed the conduct to flourish. Siemens made thousands of payments to third parties in ways that obscured the purpose for, and the ultimate recipients of, the money. Employees obtained large amounts of cash from cash desks, which were sometimes transported in suitcases across international borders for bribery. The authorizations for payments were placed on post-it notes and

DAIMLER

SEC Charges Daimler AG With Global Bribery

FOR IMMEDIATE RELEASE 2010-51 The SEC alleges that Daimler paid at least \$56 million in improper payments over a period of more than 10 years. The payments involved more than 200 transactions in at least 22 countries. Daimler earned \$1.9 billion in revenue and at least \$90 million in illegal profits through these tainted sales

U.S. Securities and Exchange Commission

Litigation Release No. 18775 / July 6, 2004

Accounting and Auditing Enforcement
Release No. 2049 / July 6, 2004

SEC SUES ABB LTD IN FOREIGN BRIBERY CASE

In its complaint, the Commission charged that, from 1998 through early 2003, ABB's U.S. and foreign-based subsidiaries doing business in Nigeria, Angola and Kazakhstan, offered and made illicit payments totaling over \$1.1 million to government officials in these countries. ... The complaint further alleged that the payments were made with the knowledge and approval of certain management level personnel of the relevant ABB subsidiaries



SEC Charges ABB For Bribery Schemes in Mexico and Iraq

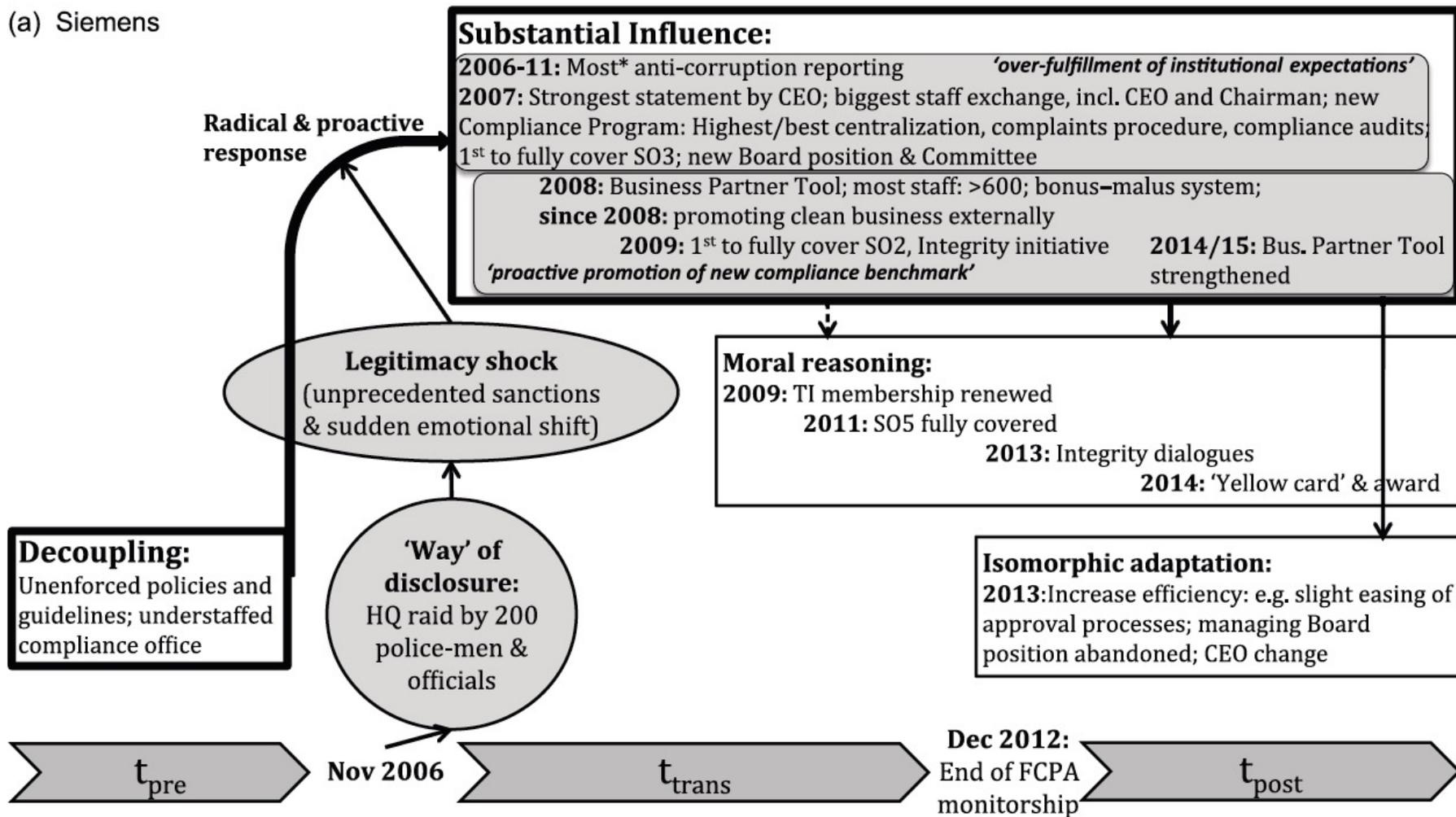
Washington, D.C., Sept. 29, 2010 — The Securities and Exchange Commission today charged ABB Ltd with violations of the Foreign Corrupt Practices Act (FCPA) for using subsidiaries to pay bribes to Mexican officials to obtain business with government-owned power companies, and to pay kickbacks to Iraq to obtain contracts under the U.N. Oil for Food Program.

Table 2. Classification of transgression sanctions.

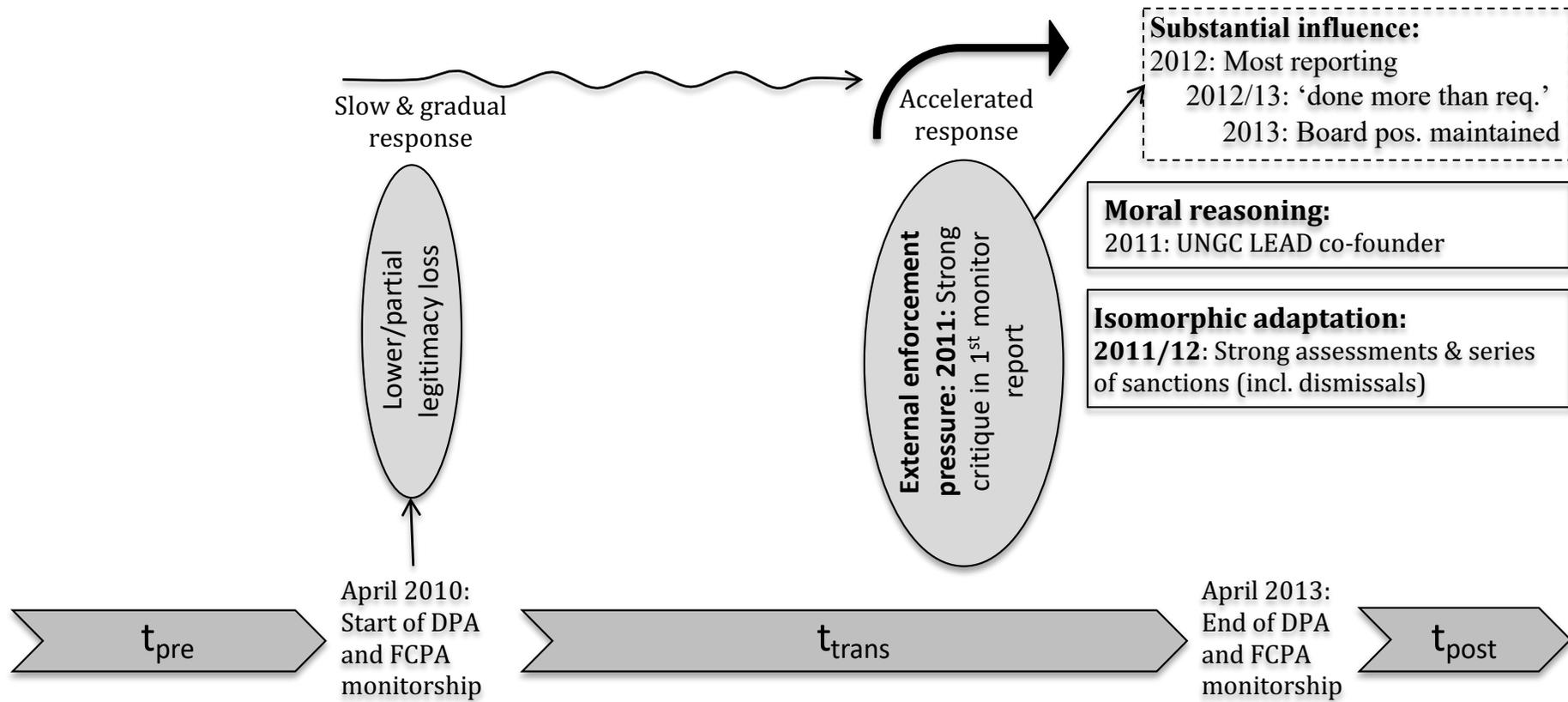
Company	Type of sanction	Magnitude of sanction
Siemens	Regulatory sanctions (fines and organizational compliance costs)	In December 2008, Siemens entered an agreement to settle the Foreign Corrupt Practices Act (FCPA)-related charges it had been called to pay, including the installation of an external monitor for a period of 4 years until December 2012 (SEC, 2008c). In a settlement with the World Bank in July 2009, Siemens committed to <u>pay US\$100 million over the following 15 years</u> to support anti-corruption work (World Bank Group (WBG), 2009). The fines imposed by the US and German regulatory authorities amount to more than <u>US\$1.6 billion</u> ; the organizational costs for rehabilitation are expected to surpass this figure. Altogether, we can ascertain with confidence that fines and costs involved in this Siemens corruption transgression are unprecedented.
	Social sanctions (reputation loss and prominence of transgression)	As we learnt in the course of our interviews, the disclosure of the transgression was rather unique and had an immense effect on social sanctions: in <u>November 2006, around 200 policemen and officials turned up at the Munich headquarters to confiscate material relevant to the corruption cases at Siemens and arrested Siemens employees of the communication sector</u> (SEC, 2008a). This “Dawn Raid” is likely to have made the magnitude of the problem obvious to almost every Siemens employee around the world and triggered an unprecedented level of negative media coverage on corporate corruption (see RepRisk, 2013). Even more, closely after this event, Transparency International, Germany, the prominent normative anti-corruption institution, terminated Siemens’ membership in December 2006. Overall, we perceive social sanctions to be by far the highest among our case firms.

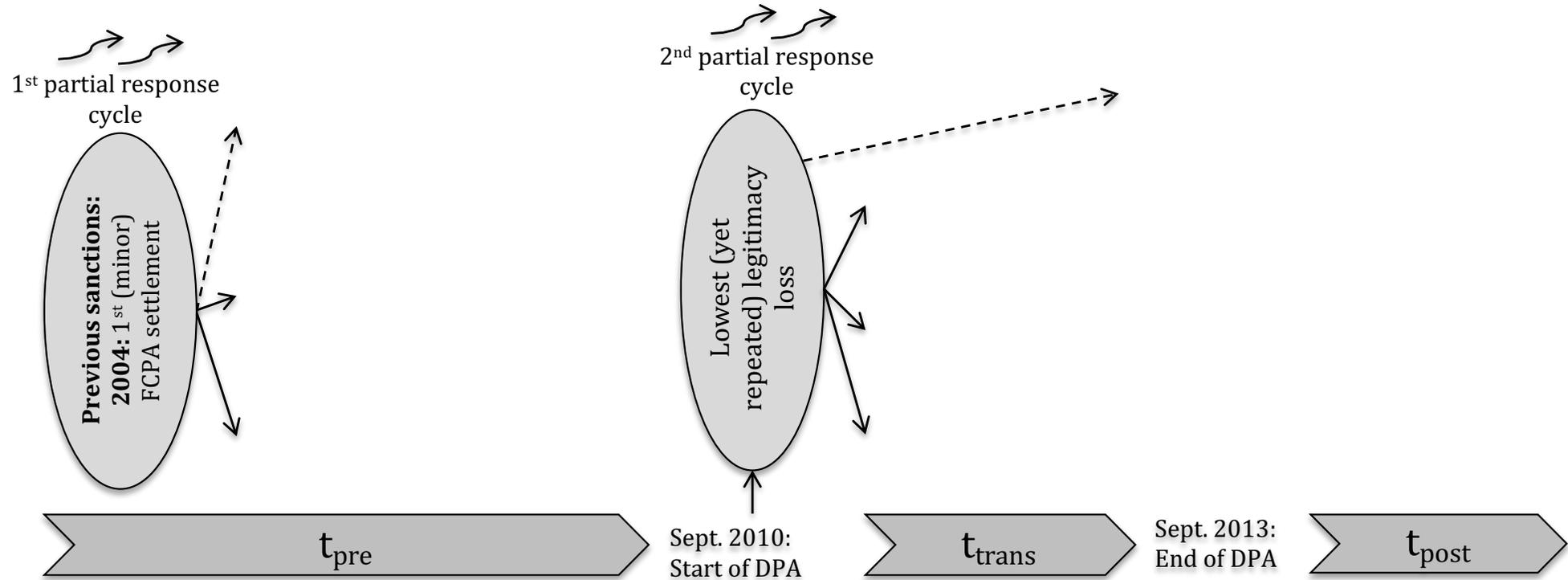
SIEMENS

(a) Siemens

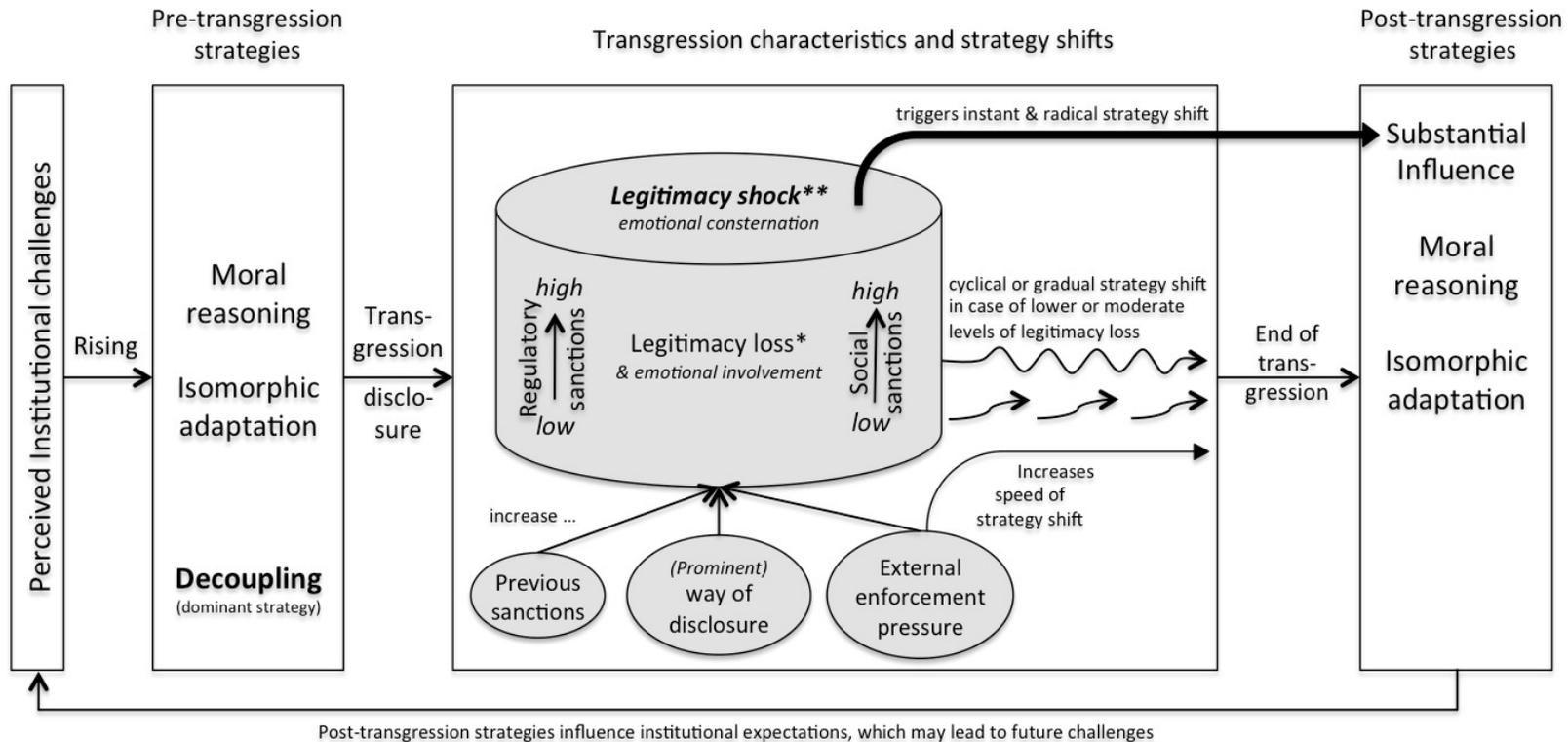


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Organizational strategies in the context of legitimacy loss



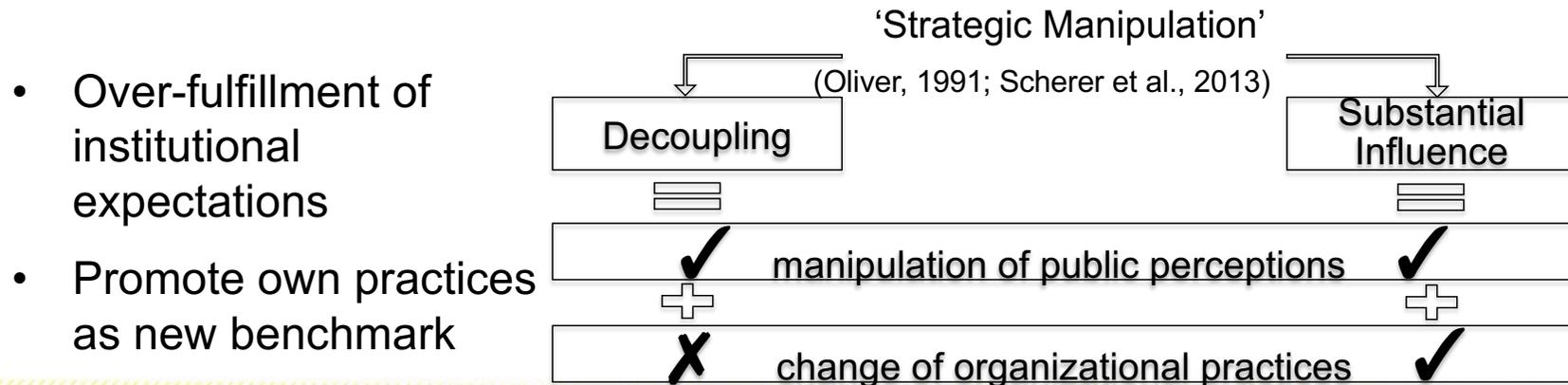
*The higher regulatory and social sanctions, the higher the resulting legitimacy loss. Lower or moderate levels of regulatory and social sanctions tend to affect mostly pragmatic legitimacy triggering predominantly rational considerations. Higher levels of regulatory and social sanctions increasingly affect moral and cognitive legitimacy triggering emotions in organizational responses.

**Organizational & personal emotional shock resulting from high levels of regulatory and social sanctions. All types of legitimacy (pragmatic, moral and cognitive) are affected.

Contributions: Legitimacy shock & substantial influence

- 1) A **legitimacy shock** triggers radical responses ‘over-fulfilling’ institutional expectations
 - 1) Involves **emotions** (guilt, shame, embarrassment): Facilitating versus ending corruption (see Smith-Crowe and Warren, 2014)
 - Helpful for triggering organizational and institutional change
 - But: inefficiencies for transgressor after ‘reintegration’ (e.g. organizational ruptures; strong commitments hard to fulfill; spotlight; ...)

2) Substantial influence = One of two extreme variants of:



3) Varying temporality

With legitimacy shock

- Sudden and radical response (no stage-process)

Without legitimacy shock:

- Reintegration follows patterns as described by previous literature on reintegration and organizational change
- BUT: Continuous or repeated external enforcement needed

Role of previous sanctions:

- Cyclical responses likely in case of low/moderate levels of regulatory and social sanctions

Breakout session 1

- How do you evaluate the responses to corruption at the three multinational companies?
- Can corruption be overcome globally by fully coupling organizational practices to existing anti-corruption policies?
 - What may be the shortcomings of such an approach?

Fighting corruption in the global anti-corruption field

Current research project:

- Making sense of compliance and achievement in global business: The case of anti-corruption
- Stefan Schembera, Patrick Haack and Andreas Georg Scherer
- 2nd revise & resubmit at Organization Science

Research problem

Decoupling research:

- **Policy-practice decoupling:** Gap between organizational practices and formal structures and procedures (Meyer & Rowan, 1977)
- **Means-ends decoupling:** Rules and policies have been implemented, but with uncertain relationship to outcomes (Bromley & Powell, 2012)

→ **Compliance-achievement trade-off:**

Remedying the decoupling of policies and practices (compliance) tends to jeopardize efforts to remedy the decoupling of means and ends (goal achievement).

(Wijen, 2014)



Decoupling Trade-offs

- Underlying causes and effects cannot be analyzed and predicted with sufficient certainty → difficult for policy-makers to formulate effective social or environmental policies that reach intended ends.
- Policy-practice decoupling may support the setting up of effective self-regulatory schemes.
- But:
 - Existing research perceives means, ends, policies and practices as structural elements, analyzing whether or not these fit together.
 - Static perspective of social reality that overlooks that understanding of compliance and achievement is subject to change and interpretation

Dynamic sensemaking perspective

- Procedural lens: Ongoing process study
 - focus on specific mechanisms “fueling” the dynamics of decoupling and decoupling trade-offs.
- *Sensemaking*:
 - social process through which actors interpret phenomena and develop a shared understanding of the world as a meaningful place
 - shaped by communicative interaction and recurrent practices of storytelling (Boje, 1991; Weick, 1995).
 - Here: Set of diverse actors with different interests and worldviews who continuously rationalize and lend meaning to certain policies, practices, means and ends

Research question

- **How and why does sensemaking about trade-offs between enforcing compliance and achieving ends help to induce change in the talk about the fight against corruption?**

Case context

(Anti-)corruption takes place in different local contexts with varying cultural norms and values, socialization processes, cognitive apparatuses and sensemaking practices of social actors

Corruption

”Misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain, **where misuse in turn refers to departures from accepted societal norms.**”
(Anand et al., 2004, S. 40, vgl. Ashforth et al., 2008, S. 671)

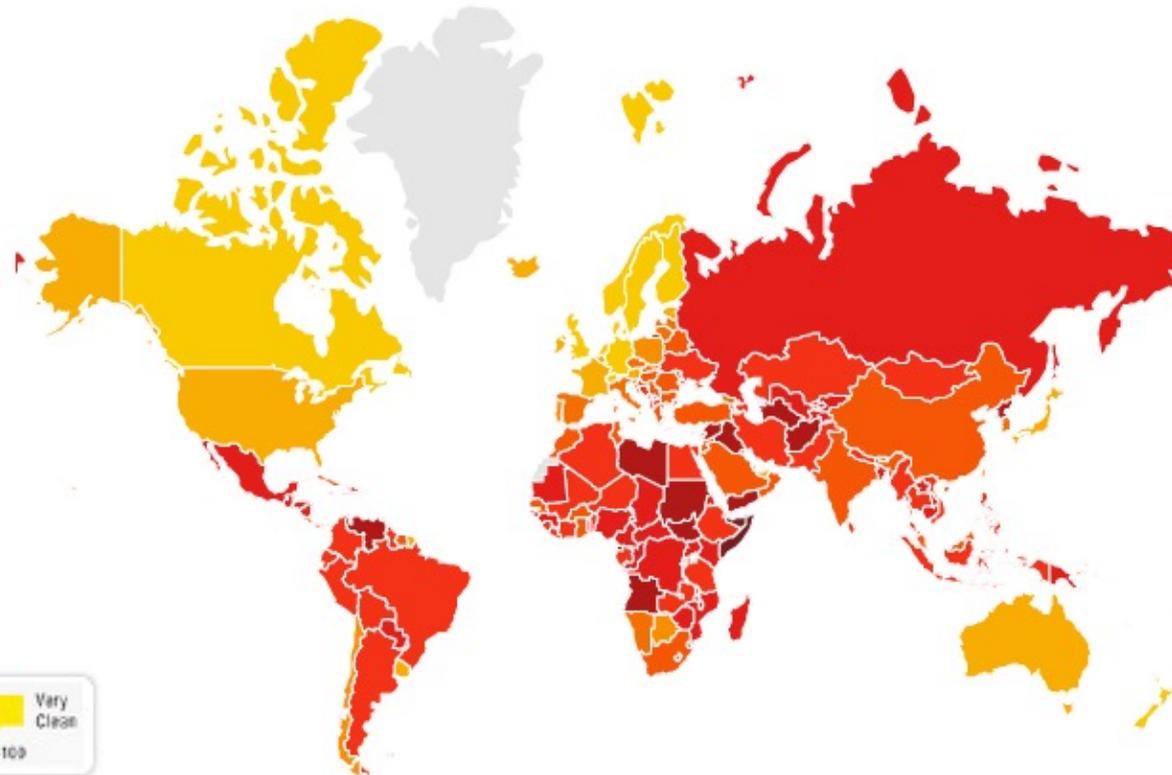
→ What actually counts as corruption is highly contested not only across but also within national boundaries
→ Exp: gift giving, tipping, lobbying ...



Heterogeneous corruption risks and challenges

CORRUPTION PERCEPTIONS INDEX 2017

Endorsement of anti-corruption regulation has fallen short of effectively preventing or stopping corruption



Western local context

- “West” (i.e., Western Europe and North America):
 - Reliance on contracts, rational planning, and top-down-enforcement of bureaucratic rules
 - Restriction of individual liberties is only acceptable when embedded in a binding legal system of formally and materially justified norms and procedures (Weber, 1980).

→ normally does not allow for deviations or pragmatic modifications from what is planned, regulated, or contracted.



Eastern local context

- «East» (i.e., Asia):
 - focus on individual duties (rather than rights) vis-à-vis the collective (local community, family, or clan structure)
 - implicit, informal social structures and practices
 - continuous consultation and improvisation to serve the collective
 - concepts of individual rights, rule of law, ... only imported from the West (Mauzy, 1997: 215)
- May involve sidestepping formal rules, contracts, or authorities that stand in the way.



Methods – Data collection: Interviews (2012 - 2019)

Organization Type	Organization Name
Companies	<ul style="list-style-type: none"> • Siemens (HQ GER & CH, Australia, ASEAN, ASEAN Pacific, Philippines, Thailand) • Daimler (HQ, Australia, Greater China Ltd.) • ABB (HQ, Australia & South Asia); Shell Philippines
Regional networks & NGOs	<ul style="list-style-type: none"> • Transparency International (GER, AUS, Malaysia, Philippines) • Global Compact Network (AUS, Singapore) • ASEAN CSR Network (ACN) • Integrity Initiative (Philippines), Integrity Network Initiative (Egypt) • IDEAS (Inst. for Democracy and Economic Affairs, Malaysia), IFBEC (Int. Forum on Business Ethical Conduct), IBLF Global (UK), Business for Social Responsibility
Government, IGOs, business chambers, regulators & prof. services firms	<ul style="list-style-type: none"> • Gibson Dunn (GER), GSK Associates (GER), Allens (AUS), prof. services firm (AUS), • Embassy of Switzerland (AUS), office of the Attorney General (CH), delegation of the EU (Singapore), Alliance for Integrity (GER) • ASEAN official, CPIB Singapore (Corrupt Practices Investigation Bureau), KADIN BSD Indonesia • UNGC (HQ USA), UNIDO (Vietnam), UNODC (Asia-Pacific)
Academia	<ul style="list-style-type: none"> • CBS Copenhagen, HTW Chur, Monash University • University of Malaysia

The Case Study

- ***Period 1 (2006-2012). Global: Compliance as achievement.***

A number of highly visible corruption scandals gave rise to an increasing focus on accountability and transparency. As a response, anti-corruption legislation has been increasingly enforced, and many globally operating MNCs have implemented strict programs whose core goal is compliance with anti-corruption rules. Today, compliance is a necessary and sufficient means in anti-corruption and has become the natural and ultimate end in the fight against corruption.

The Case Study

- ***Period 2 (2013-2015). West: Compliance despite non-achievement.***

Having overcome the recent wave of corruption scandals, we [Western actors] now promote our award-winning compliance programs globally. We do so by actively distancing ourselves from previous non-compliance. However, we also criticize the non-compliance that remains in many other parts of the world. As a result, we regard the prospect of achieving anti-corruption goals as uncertain. We nevertheless maintain a strict compliance focus to avoid incurring major penalties yet again.

The Case Study

- ***Period 2 (2013-2015). East: Non-compliance as a means of achievement .***

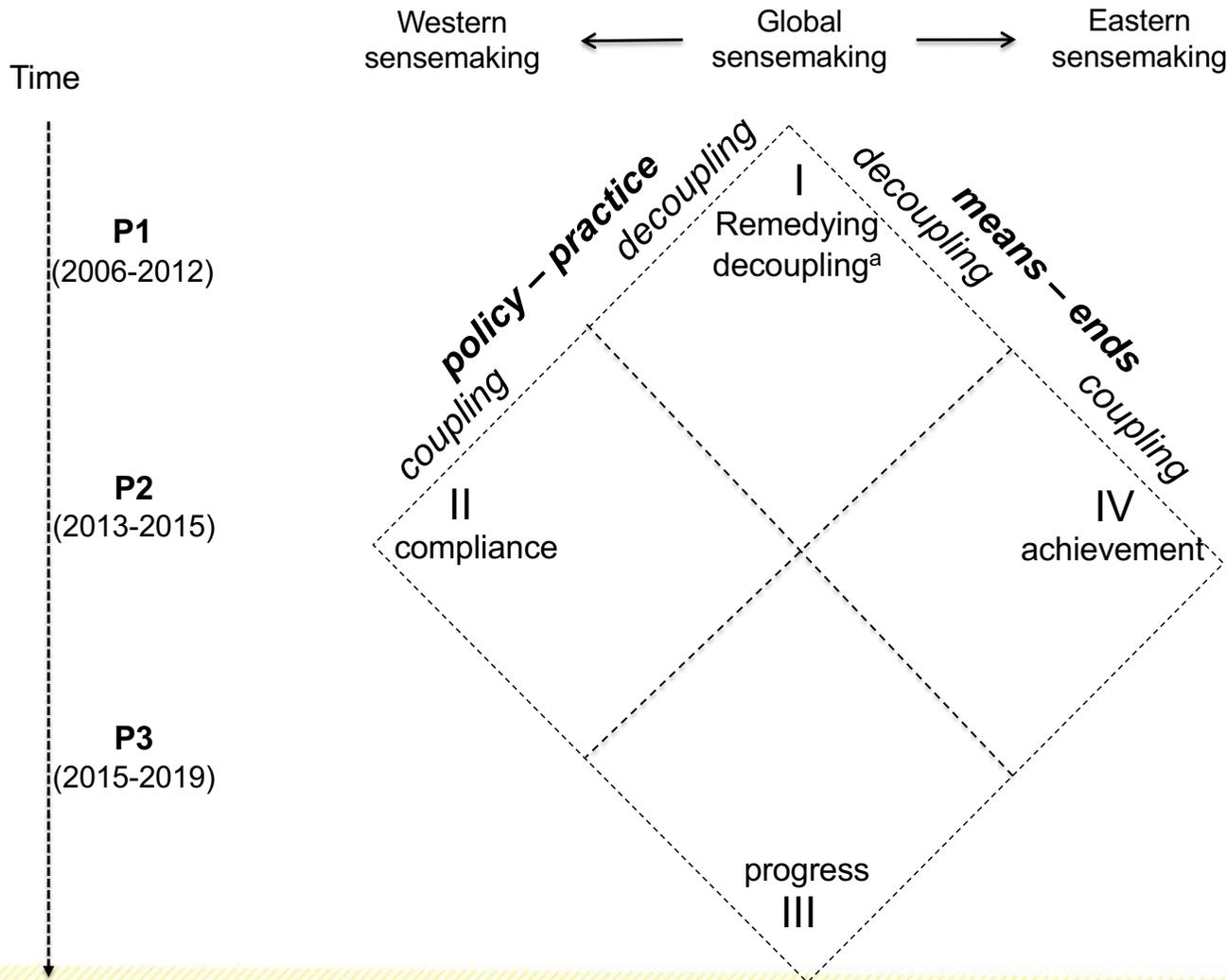
Quick wins in the complex and opaque fight against corruption are not always possible. Rather than enforcing compliance, we [Eastern actors] consider it crucial to get non-compliant actors on board and increase their participation in anti-corruption programs. This approach allows anti-corruption efforts to gain momentum and facilitate the achievement of anti-corruption goals.

The Case Study

- ***Period 3 (2015-2019). Global: Progress as achievement.***

Progress takes time, but anti-corruption efforts now start bearing fruit. Western MNCs such as Siemens have promoted the public discussion of corruption, which was not possible some years ago. Cases of corruption in countries where corruption is common are now disclosed in the media, and perpetrators go to jail. While progress is slow and gradual, views on corruption and how people and organizations handle corruption are changing for the better. Rather than aiming for a definitive endpoint, the ultimate goal in anti-corruption is embarking on an ongoing journey.

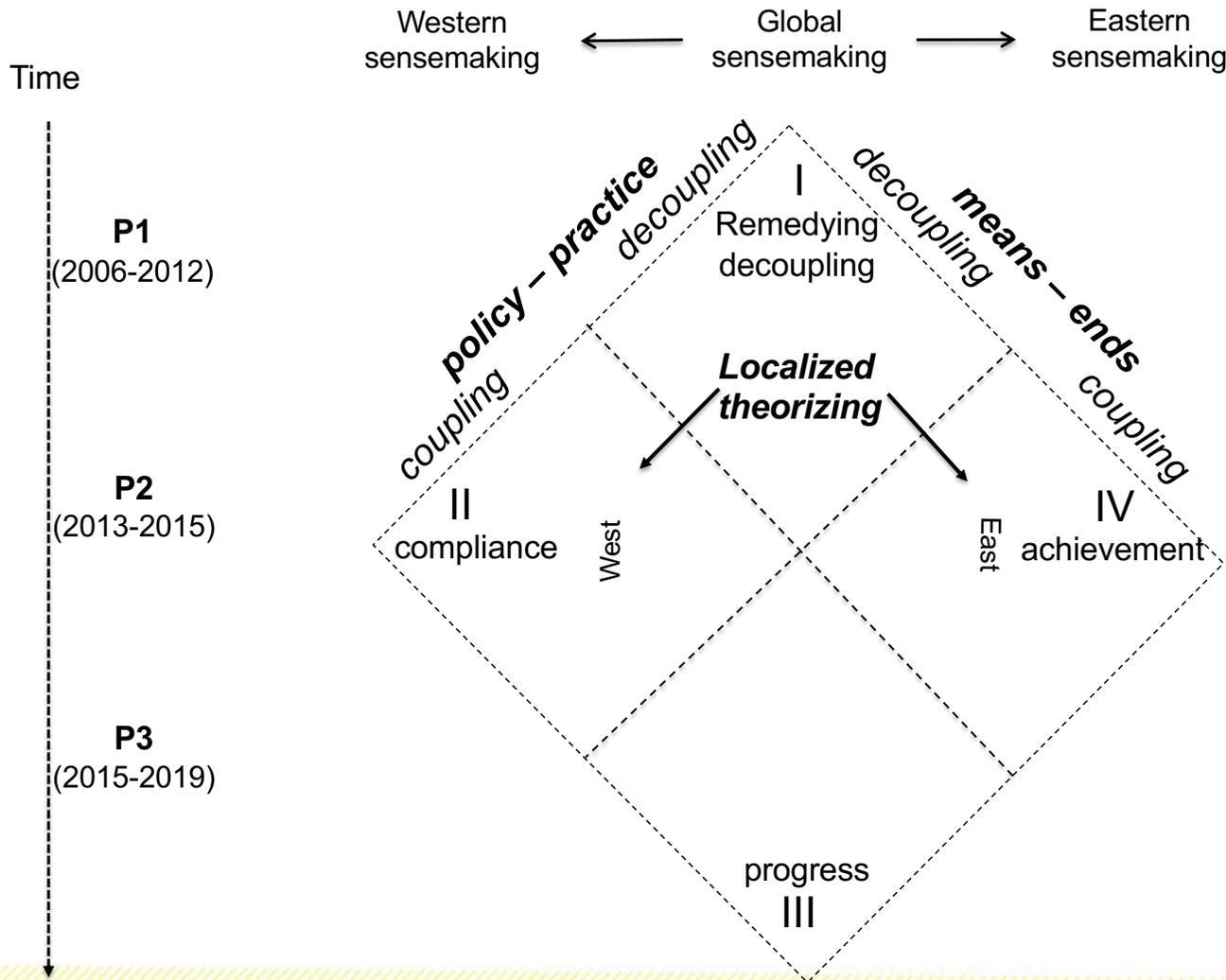
Toward an integrative model of decoupling



Sensemaking of policies, practices, means and ends at a given time and place

^aby globally interpreting compliance as achievement

Localized theorizing



Compliance not achieved globally; corruption still widespread...

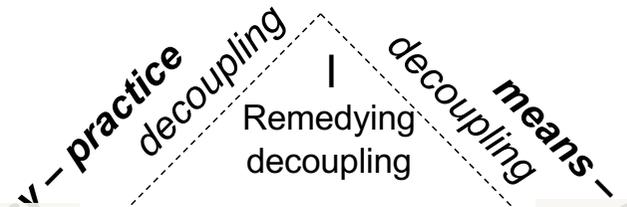
West: lack of alternatives to closely coupling policies with practices despite persisting global non-compliance and experienced non-achievements

East: less exposure to institutional pressure & corruption to be solved in conjunction with other grand challenges such as poverty, hunger, health and wellbeing

→ **compliance-achievement trade-off**

Leveling

Western sensemaking ← Global sensemaking → Eastern sensemaking

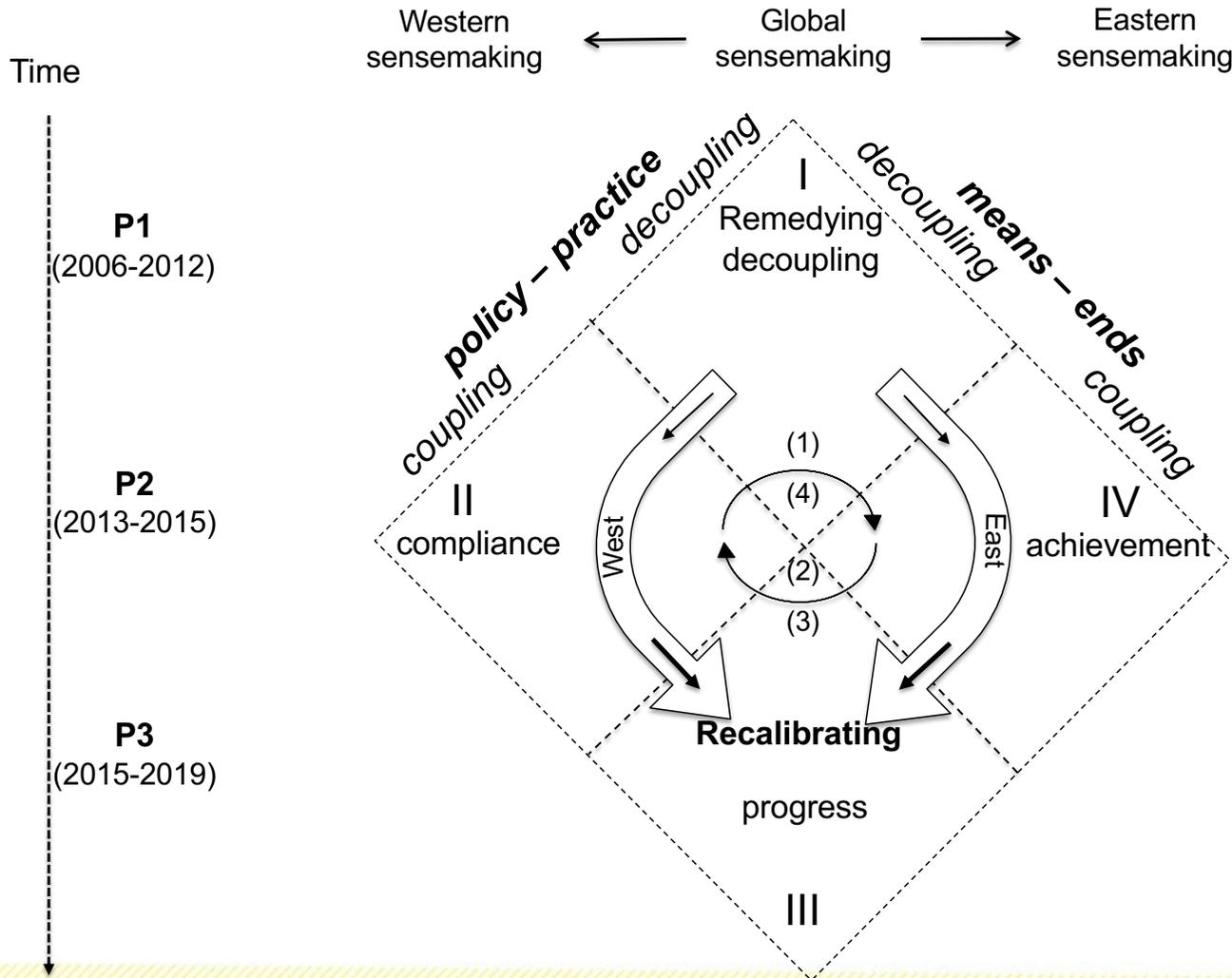


(1) Transferring: “Be the example: (...) We are trying to help the others to become wise by letting them learn from the mistakes we had in the past.” (Shell, Philippines)
(4) Admitting failure: “Compliance was previously governed by about 1,800 internal guidelines that caused “a lot of confusion,” (Hohmann-Dennhardt, Daimler)

(2) Contextualizing: “People are hungry, they are paid very poorly. It is not that people are stupid.” (Chinese anti-corruption expert, Copenhagen Business School)
(3) Problematizing: “You can work with the letter of the law, but leave out the spirit. So you can be 100% compliant, but no system is 100% perfect..” (TI Malaysia)

Result: less stereotyping; better understanding of complexities ...

Recalibrating



... driven by experimentation

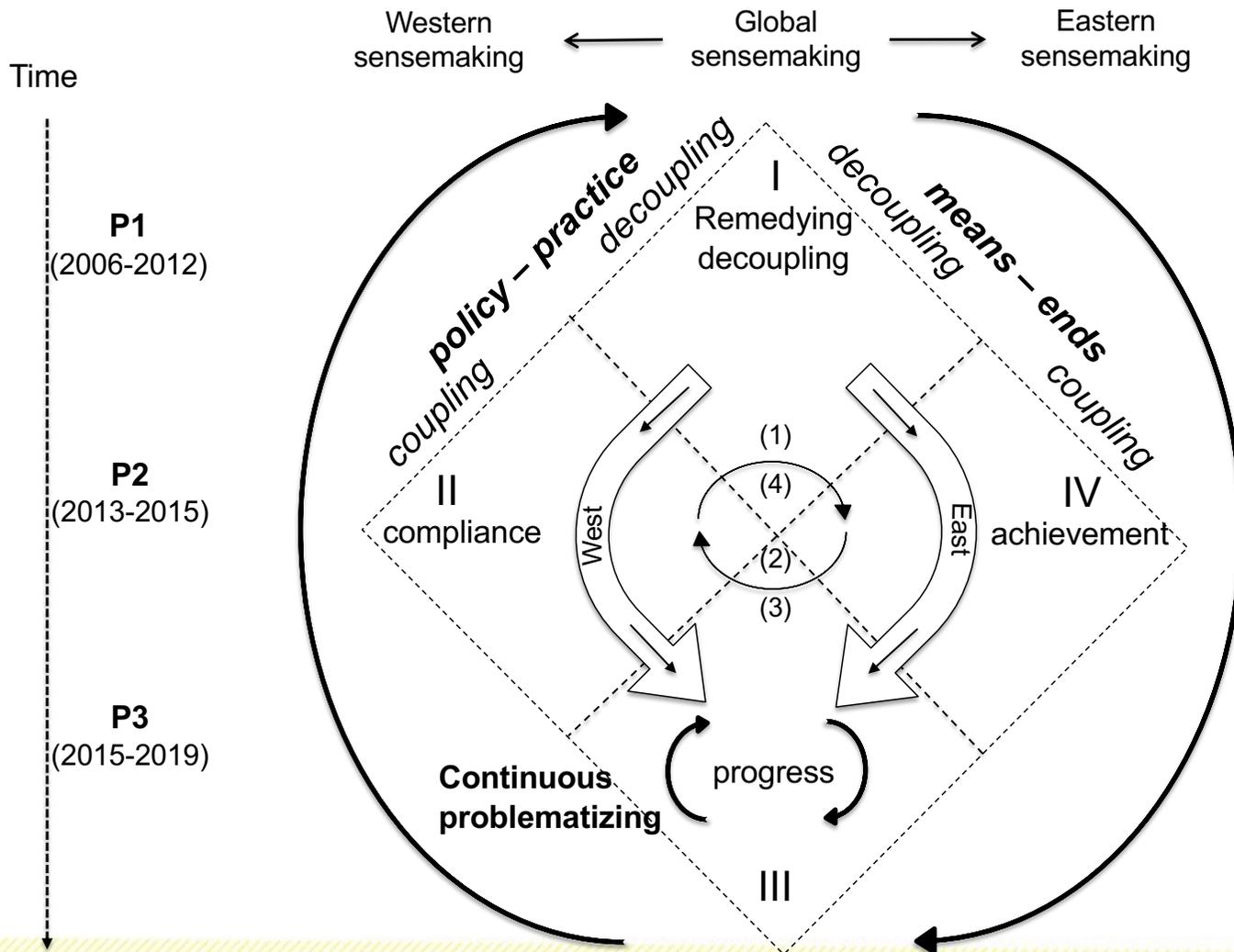
“We try here locally to tailor [our anti-corruption efforts] to their needs” (Daimler, Greater China, Mar 2014)

... “flowerbed, where it is uncertain which bulbs will bear fruit” (Siemens, Feb 2014)

“In this world, we [used to be] 173 ships, (but) nowadays, we have to be 173 cabins in a big ocean liner (...) jointly navigating across the ocean.” (TI Malaysia, Apr 2014)

→ enables progress towards ends.

Continuous problematizing



... ensures that the meaning of policy, practice, means and ends is continuously negotiated over time.

“It is very important for issues at the international level to just keep the fire burning, to keep the issues on the agenda of international institutions.”
 (Siemens HQ, AC workshop, Switzerland)

→ Roadblocks are used to maintain attention and motivation
 → conducive for sustaining local sensemaking processes

Contributions

From trade-off to progress: Decoupling as an Ongoing Sensemaking Process

- Discomfort experienced by compliance achievement trade-off provides opportunities for the emergences of alternative means for goal achievement (Farjoun, Ansell, & Boin, 2015; Wijen, 2014).
- Trade-off “only” snapshot in the dynamic relation between compliance and achievement - can be deconstructed over time
- Close coupling not (the only/inevitable) long-run equilibrium:
 - not only anti-corruption practices, but also policies and ends, will change over time → gap between policies and practices can widen at certain points in time, even as actors continuously aim to couple their practices to existing policies

Contributions

Mechanism-based theorizing in Institutional Theory

- open-ended sensemaking (through *localized theorizing*, *leveling*, *recalibrating* and *continuous problematizing*): necessary complement to strategic forces
- interactions with others and continuous exposure to different worldviews as essential drivers of change --> enables people to become more open
 - *continuous problematizing* allows for “defreezing” extant process and multi-level models

Fighting Corruption Effectively:

- Openly problematize experienced tensions and interact “at eye level” → sensemaking rather than rational choice issue.
- actively promote experimentation and the “testing” of flexible and tailored solutions (Ashforth et al., 2008; Malesky & Taussig, 2017)
 - Anti-corruption as a journey: Avoids frustration and cynicism among anti-corruption actors

Breakout session 2

- What implications may the observed shift from strict compliance to progress and communicative interaction have for the global governance of corruption?
 - What actors, structures and processes are relevant in this governance process?
 - What can the particular role of MNCs be?

Socioenvironmental governance

- Open and flexible perspective on governance: “different means can be used to achieve the same ends” (Wijen, 2014: 312)
- No single actor may ever be able to *silently* (i.e., isolated from other actors) predict the perfect governance measure to achieve certain ends
 - Silence is silver, but speech – and, here, sensemaking through communication with other focal actors in particular – is golden!
 - *leveling, recalibrating and continuous public criticizing* is central.
- Deliberations: Ideal type of communicative interaction (Chambers, 2003)
 - Deliberative governance
 - Experimentalist governance (Sabel & Zeitlin, 2012)

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