Strategically corrupt: Businesses break the law to stay competitive

January 14 2016, by Kevin Manne

Companies may strategically use corruption to gain a competitive advantage against rivals, according to a new study of formally registered Indian technology firms conducted by the University at Buffalo School of Management.

Forthcoming in *Strategic Management Journal*, results of the study show that contrary to the notion that entire countries or companies may be culturally corrupt, firms pick and choose when to ignore laws and regulations and pay bribes to government officials to compete with smaller rivals who are not formally registered.

"If the guy on the corner hasn't registered his business and doesn't pay taxes, or pays bribes to operate without hindrance, he can install your network or repair your equipment much faster and less expensively," says study co-author Rajiv Kishore, PhD, associate professor of management science and systems in the UB School of Management. "We found that the larger local firms chose to play dirty when they were competing for the same customers as the little guy."

The local companies didn't engage in corruption in all situations, however. According to the study, when the formally registered Indian companies were competing with foreign multinational corporations, they chose to train their employees instead of engaging in corruption.

"To compete with the likes of IBM or Accenture, you need employees with deep expertise," says Kishore. "By providing professional development opportunities, you increase the expertise of your workforce, improve job satisfaction and reduce employee turnover for these experts, allowing you to compete with multinational rival firms."

For U.S.-based companies entering the Indian tech marketplace, the researchers say that lower-cost, easier-to-produce products are the way to go.

"Corruption allows small Indian businesses to evade regulations, reducing time to market and production costs," says study co-author Debabrata Talukdar, professor of marketing in the UB School of Management. "By creating lower-cost versions of products, American companies can compete with smaller unregistered rivals without violating the Foreign Corrupt Practices Act."

The study analyzed a World Bank survey of 360 formal Indian IT firms with information on firm age, diversification, number of employees, patenting activity, advertisement activity, public or private status, foreign ownership share, access to public infrastructure and finance, as well as senior managers' perceptions and reports of competitive threats, government policies and regulations, informal gifts or payments expected or requested by government officials, and training provided by their firms to their employees.

Kishore and Talukdar collaborated on the project with Akie Iriyama, PhD, associate professor at the Waseda University Graduate School of Commerce in Tokyo, Japan.

Provided by University at Buffalo

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https://phys.org/news/2016-01-strategically-corrupt-businesses-law-competitive.html