

Maintaining high status can spur bribery

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Credit: University of Michigan

Understanding what causes and predicates the bribery of government officials by high-level corporate executives has always been tricky. Self-reporting, even on anonymous surveys, is unreliable and data hard to come by.

Jordan Siegel, associate professor of corporate strategy at the University of Michigan's Ross School of Business, and Yujin Jeong of American University examined a trove of information released in South Korea that sheds light on when companies are likely to engage in bribery.

Siegel and Jeong used court verdicts from two high-profile bribery trials, publicly available financial information, and a social network of the country's leading business families to find patterns of behavior that can help predict when a company may resort to bribery.

"Once we put it together, there were some obvious patterns that were staring straight at us," Siegel said. "It wasn't the same companies paying the most in bribes every year. It varied. And we found that it wasn't the firms that were most secure in status or had low status, but ones that had high status and were encountering economic difficulties."

The government of South Korea released extensive documents after the trials of former presidents Chun Doo Hwan and Roh Tae Woo. Both received bribes from business groups during their terms in office from the 1980s and early 1990s, and the documents provided detailed information on who paid what to whom and when.

Chun and Roh were tried for corruption and ordered to pay back millions, and a significant number of business group leaders were found guilty of corruption charges.

Siegel and Jeong then looked at social network relationships involving the country's leading [business](#) families.

"Marriage is a way in which powerful families have come together to form long-lasting ties," Siegel said. "Business in many cultures is based on trust, particularly in emerging economies. So we built a relational database based on the marriage ties between the families that controlled businesses."

They found that when a company with high status—with many connections in the relational database—lagged behind its industry peers financially, that [company](#) was more likely to choose large-scale bribery as a nonmarket strategy.

"When you're in a high-status position you want to stay there," Siegel said. "There were a number of benefits to high status in terms of government support and you want to continue to have your children be part of the elite. There's really a high return to keeping your [status](#) and a big downside—professionally and personally—to losing it."

The study is one of the first to use empirical data to show how social dynamics can contribute to illegal corporate activity. It also can serve as a guide to government and media watchdogs—especially in emerging economies—and give them an idea of which companies to more closely monitor.

"There are fewer monitors and watchdogs in many places that need them, so knowing what kinds of specific conditions create ripe conditions for [bribery](#) can be a big help in simply knowing where to start looking," Siegel said.

More information: Threat Of Falling High Status And Corporate Bribery: Evidence from the Revealed Accounting Records of Two South

Korean Presidents: drive.google.com/file/d/0B16dM...SWt5ZzM3UWlfVk0/view

Provided by University of Michigan

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