**ISSN: 448X - 2750**
**Volume 9, Number 2, 2022**
**Journal of Innovations in Accounting and Information Management**

# THEORIES OF CORRUPTION AND THEIR APPLICATIONS IN BUSINESS ENVIRONMENT

**Ukpong Uduakobong Cletus**
**PhD Student, Department of Office and Information Management**
**Faculty of Management Sciences, Ignatius Ajuru University of Education**
**Port Harcourt, Rivers State, Nigeria**

## ABSTRACT

*Corruption, some people believe is becoming a culture but this paper admits that it is a culture in Nigeria and in other parts of the world as well. Culture is the way of life. Corruption is found and practiced everywhere and is even entrenched virtually in all segments of the society with many people (if not all) deeply involved in it, corruption then is a culture. Corruption is a global devil that has devoided human intelligibility in its social context. As an anti-social behavior and a plague that has eaten so deep into the entire Nigerian society, it confers undue benefits on few people contrary to legal and moral norms of the society. This paper then examines definitions of corruption, theories* ***and concepts*** *of corruption as a 'die-hard' phenomenon that has caused terrible retrogression in Nigerian society. The paper therefore concludes by saying that 'due process' and 'fair play' are the only antidotes that can fight this monster called corruption. The fight must be a genuine one (i.e. act what we preach and preach what we act) if Nigerians desire economic and democratic growth and this can only be possible by a determined, firm, organization (business) and resolved government.*

***Keywords: Corruption, theories, organization, business.***

## INTRODUCTION

Corruption is a common word used by both adults and children because it is commonly found globally in the entire world. Corruption is a global phenomenon. It is not the exclusive preserve of any nation, race or section of the world but transcends national boundaries and frontiers and symbolizes phenomenal universal unwholesomeness politically, Aluko (2009) opined. This menace has led to situations like slow movement of files in offices, police extortion of toll fees, port congestion, queues at passport offices and petrol stations, ghost workers syndrome, election irregularities, among others (Dike, 2005, Ihenacho, 2004, Oliyide and Odeku, 2002 and Oloja 2002 in Aluko, 2009).

Government officials further still corruptly enrich themselves by converting Government money in their custody to their own use, force citizens to pay bribe money, and citizens also induce the officials with bribes to get whatever they want from Government or company offices. Though corruption is found in every society, it is very common in Nigeria, and no one seems to be free from it either as a doer or as a victim. Corruption is a social problem found in various "degrees and forms in all but the most primitive societies". Staats (1972) noted in Ekiyor (2005) in his broad view of corruption defined it as the unlawful use of official power or influence by an official of the government either to enrich himself or further his course and/or any other person at the expense of the public, in contravention of his oath of office and/or contrary to the conventions or laws that are in force. It is very unfortunate that this menace knows not any time nor period; it happens anytime or period of any nation's history. According to Gould and Kolb (1964) in support of the above contend that corruption is not a characteristic of a one period in political history nor of any one country, it is endemic in both authoritarian and party systems of government. Further still, the history of corruption is as old as the world; Scott (1972) is of the view that corruption 'must be understood as a regular, repetitive and integral part of the operation of most political system'. Another view about **corruption is that; it is intentional**. This view was indicated by Brooks in

(1970) who believed the corrupt official knows his duties "but it is neglected or mis-performed for reasons narrower than those which the state intends. He went further to say the difference between a corrupt official and inefficient one is that "the corrupt official must know the better and choose the worse (but) the inefficient official does not know any better". He further maintained that "in either case the external circumstances may appear to be closely similar, and the immediate results may be equally harmful" (ibid).

Corruption still as a common phenomenon found not only in the so called developing countries and societies, but also in the developed societies such as Europe, America, Japan. Some authors have argued that corruption is rampant in third world countries however, evidence has shown that corruption is even prevalent in developed countries and each country be it in developing or developed world devices suitable method to deal with corruption.

**Theories that explain corruption**

As corruption is a complex phenomenon, no one theory explains it all. This part of the study reviews the main theories used to explain why corruption occurs in business and its applications.

**Principal-agent theory**

The desire for **personal gain** is often understood as the primary cause of public sector corruption, but this is an over-simplification of the complex relationships between individuals and the State. There are several theories that help to analyse these relationships. Two of the most popular theories on corruption in the economic literature are the principal-agent model and the related agency problem (see, e.g., Klitgaard, 1988; Shleifer and Vishny, 1993). The principal-agent model assumes that agents (public officials) serve to protect the interests of the principal (whether the public, parliament, or supervisors). However, in reality, the interests of the agents often deviate from the interests of the principal, and while the former can prescribe the pay-off rules in the principal-agent relationship, there is informational irregularity to the advantage of the agent, which could be used by him or her for personal benefit (Groenendijk, 1997). In this situation, an agency problem occurs where the agents choose to engage in a corrupt transaction, in furtherance of their own interests and to the detriment of the interests of the principal. To limit the agency problem, the principal can design incentives and structures (e.g. monitoring, bonding and oversight) to curb the agent's potential abuses.

**Collective action theory**

For decades, the economic literature referred to the principal-agent model to explain corruption (Groenendijk, 1997). More recently, collective action theory emerged as an alternative explanation for why systemic corruption persists despite laws making it illegal, and why corruption resists various other anti-corruption efforts in some countries. The collective action theory goes beyond traditional principal-agent relationships and emphasizes the importance of factors such as trust and how individuals perceive the behaviour of others. Persson, Rothstein and Teorell (2013) regard systemic corruption as a collective problem; people explain their own behaviour based on the perceptions of what others will do in the same situation. When corruption becomes a social norm, everyone starts seeing it simply as the way to get things done. People are aware of the negative consequences of general corruption, but they engage in corrupt actions as they believe that "it doesn't make sense to be the only honest person in a corrupt system" (Marquette and Peiffer, 2015). In such an environment, anti-corruption measures based on the principal-agent model will not be effective, as there are no "principled principals" who will enforce anti-corruption norms (Klitgaard, 2004; Persson, Rothstein and Teorell, 2013). An institutional or organizational culture of corruption leads to the normalization of corrupt practices at a societal as well as individual level, and to impunity for violating or ignoring formal anti-corruption rules (Appolloni and Nshombo, 2014). To combat corruption in these circumstances, there is a need for collective and coordinated approaches, such as reform coalitions or positive deals of like-minded organizations. These approaches are often called "collective action".

### Institutional theory

Institutional theory - also known as institutionalism - uses country and government institutional characteristics, such as pre-existing rule of law, well-defined anti-corruption norms, and independent anti-corruption institutions with enforcement powers, to explain corruption in the public sector. Institutional theory "examines the processes and mechanisms by which structures, schemas, rules, and routines become established as authoritative guidelines for social behaviour" (Scott, 2004). In relation to understanding corruption, institutional theory brings in the social context and provides taxonomy for understanding how corruption might become rooted in organizations, in institutions and in society, despite the existence of an anti-corruption framework (Luo, 2005). Institutional theory considers that corruption influenced the character, design and transparency of the political system and its institutions. At the same time, it acknowledges that the relationship between corruption, institutions, political systems, culture and gender is highly complex (Debski and others, 2018; Stensöta, Wängnerud and Svensson, 2015).

Related to this is the "institutionalist" view of political corruption that was developed by Thompson (1995) and Lessig (2018). This view stresses that while corruption can occur on an individual level, it can also be institutional in nature in cases where institutions are structured in a way that makes them deviate from their original purpose. A typical example is private financing of political campaigns in the United States, as explained by Ceva and Ferretti (2017):
In the USA, candidates that run for elections are allowed to receive financial support from such a diverse set of private sources as ordinary citizens, private corporations, and either cultural or religious groups. It may thus happen that, once elected, a politician who has received financial support from, say, a private company pushes forward some regulation that aims at reducing the fiscal pressure in the area where this company operates.

In this example, the combination of unlimited financial support and lack of transparency is an issue because even if candidates do not act illegally on the individual level, it is clear that the practice of private donation is liable to political corruption. It can thus be argued that the institution of democratic elections is corrupt since the institutionalised practice of receiving private funds for electoral campaigns makes the institution of democratic elections depend on the arbitrary influence of financial powers" (Ceva and Ferretti, 2017). The institutionalist approach accordingly, suggests that in the study of corruption we should focus on the "bad barrel" (distorting institutional practices and mechanisms) rather than concentrating on the "bad apples" (individual misbehaviour).

### Game theory

Another theory that explains the occurrence of public sector corruption is the game theory. This theory borrows from economic literature and seeks to provide justifications for corrupt decisions by public officials. In particular, Macrae (1982) suggests that corruption is part of a rational calculus and an integral and often deeply rooted method by which people take decisions. In this context, individuals face a " prisoner's dilemma", which "illustrates a conflict between individual and group rationality" (Kuhn, 2019). The individual fears a disadvantage if she refuses to engage in corrupt practices while other individuals do not refuse to do so in the same situation. As a result all individuals obtain some sort of benefit which, however, is always less than the benefit that each of them would have obtained if they refused to engage in corrupt practices. This is illustrated, for example, in the area of public procurement, where participants in corruption include private sector actors that are unsure of the actions of others. The fear of being outdone by competitors acting illegally or unethically thus motivates otherwise ethical companies to engage in procurement corruption. It should also be noted that various situational and psychological factors could play a role in fostering unethical behaviour, sometimes despite an individual's best intentions to act ethically.

**Application of Theories to business**

1. **Principal Agent Theory:** Agency theory addresses disputes that arise primarily in two key areas: A difference in goals or a difference in risk hatred. For example, company executives, with an eye toward short-term profitability and elevated compensation, may desire to expand a business into new, high-risk markets. However, this could pose an unjustified risk to shareholders, who are most concerned with the long-term growth of earnings and share price appreciation.

2. **Collective Action Theory:** Reflecting this collective theory into a business, for example, a firm that is into selling and repairing of electronic devices. A sales manager will know fully well that a particular gadget is faulty and the duration will be short as a result of that fault, they will still repackage it and labeled it four years guarantee, simply because he/she want to give out the product and get the fund with a slogan "is all about business, it doesn't make sense to be the only honest person in a corrupt system, the manager will starts seeing it simply as the way to get things done. In this illustration, collective theory of corruption is being applied into the business, you see a thing that is ethically wrong and the penalties if the buyer discovers it, there will be nothing like patronage again and thereby causing a setback in the business, you stiff-necked and do it, collective theory of corruption will be promoted.

3. **Institutional Theory:** This can be applied in a business as it provides a non-economic explanation of organizational behaviours and strategies. It regulates economic activities by setting the rules of the game as the basis for production, exchange and distribution**.**

4. **Game Theory:** Game theory can be applied as it will help companies (business) make strategic choices within or outside of their organizations, especially against competitors. Different situations are presented through simple games that set up hypothetical scenarios meant to simulate real-world conditions and predict a player's behavior.

**Strategies of preventing corruption in a business (organization)**

- **Codes of conduct:** Corruption prevention mechanisms often start with rules that prohibit certain types of conduct. Rules include legal prohibitions against corruption, criminal and civil penalties directed at both the public and private sectors (Williams-Elegbe, 2012), but also include codes of conduct and ethics for public officials. According to article 8 of UNCAC, such codes are to be used for promotion of personal standards (integrity, honesty and responsibility) and professional responsibilities for correct, impartial, honourable and proper performance of public functions. Codes provide guidance on how public officials should conduct themselves in relation to these standards and how they may be held accountable for their actions and decisions. In addition, other initiatives of regional and international organizations also recognize and promote the implementation of codes of conduct. An example of this is the International Code of Conduct for Public Officials, adopted by the UN General Assembly in 1996.
- **Systems of rewards and incentives:** At a basic level, all countries should establish a system that rewards appropriate behaviour and penalizes corrupt behaviour in the public sector. The system should include extrinsic motivations such as a decent wage and merit-based appointments and promotions. Research compiled by the United States Agency for International Development (USAID, 2017) suggests that an invariable link between lower wages for public officials and corruption does not exist in all countries, but that, in some

cases, higher wages and merit-based promotions are associated with a lower probability of the acceptance of illegal payments. In terms of intrinsic motivations, a high staff morale is crucial for anti-corruption efforts to succeed, and there is a lower tolerance for corruption among persons who find their jobs satisfying (Kwon 2014). Penalties for corrupt behaviour are included in the anti-corruption laws of many countries, and research has shown that, in some cases, higher or harsher penalties for corrupt behaviours can lead to a decrease in public sector corruption (Fisman and Miguel, 2007; Hasty, 2005).

- **Accessibility:** This refers to the ability of all firms to access government contract opportunities (OECD, 2016). Full accessibility is required to increase competition in public procurement and foster the participation of small and medium-sized enterprises (SMEs) in public procurement. Access is fostered by reducing the bureaucracy inherent in the tender process, cutting the cost of participation in public procurement and streamlining the tender process. Limiting bureaucracy is particularly important in public procurement. Access to public contracts by SMEs and other target companies can be facilitated by rules requiring a portion of government contracts to be awarded to SMEs, women, minorities and other target groups.

- **Human resources management:** The rules and procedures for hiring, rotation, promotion, professionalization, and training of civil servants also play a role in the combating of corruption in the public sector. For example, staff rotation in jobs that are vulnerable to corruption is expected to assist in preventing corrupt relationships from forming and in disrupting established corrupt relationships. Rotation may also lead to reduced incentives to engage in corruption for private sector actors, as there might not be the future guarantee of the corrupt partner's continuation in a particular position. Merit-based recruiting is another example of a human resources management system designed to disrupt corruption. Article 7 of UNCAC stipulates that the human resources management system of the civil service must be based on the underlying principles of transparency, integrity and efficiency. This includes ensuring the prevalence of objective criteria for the recruitment, retention, promotion and retirement of public officials, as well as continuous learning opportunities and adequate and equitable remuneration and conditions of employment for staff in the civil service. As with all anti-corruption measures, rotation must be balanced against other concerns, such as building competency and commitment to public service.

## RECOMMENDATIONS

The study recommends as follows:

1. Organization should establish a system that rewards appropriate behavior and penalizes corrupt behavior in the sector.
2. The organization should also include extrinsic motivations such as a decent wage and merit-based appointments and promotions.
3. Organizations should make use of the above stated theories of corruption (e.g principal agent theory, collective action theory institutional theory, game theory) as it will help in addressing corrupt act in the organization (business).
4. Organization should also observe their surroundings by keeping a close monitoring of their agencies.
5. The organization should check out trends – see if there are any changes in lifestyle or market needs.

## CONCLUSION

Corruption causes inefficiency and injustice. It is a symptom that the political system is operating with little concern for the broader public interest. It indicates that the structure of government does not channel private interests effectively. The economic goals of growth, poverty alleviation and efficient, fair markets are undermined by corruption. Corruption erodes political legitimacy and the protection of rights. Twenty years into the global fight against corruption, there has been progress in both policy and research, but much remains to be done. Attempts to measure corruption – imperfect as they are – have exposed especially corrupt governments and industries, spurring reform toward transparency and more ethical dealings in the public and private sectors, but most governments still receive failing grades on the control of corruption. Our goal is to further understand the circumstances that contribute to corruption and the policies that can help to combat corruption, but there is no one-size-fits-all anticorruption program.

## REFERENCES

Afolabi, G.K (2007). Contextual perceptions of corruption in contemporary Nigeria. John Wiley & Sons.

Agbaje, A. (2004). Corruption, accountability and good governance: reflections on governance in Nigeria Fourth Republic 1999-2003. International Review of Politics and Development, 2(2).

Agubamah, E. (1990). Corruption in civilian and military regimes in Nigeria: A comparative anti-corruption reforms in Nigeria since (1999): Issues, challenges and the way forward. University of Ibadan Press.

Akanbi, M. (2004). Current policy Initiatives and Framework for combating corruption. Ola Publishers.

Akinyemi, B. (2004). Corruption: A battle Nigerian must win' this day. Pearl Publishers.

Alanamu, A.S (2009). The role of Religions in combating corruption in Nigeria 2009 is Anti corruption reforms in Nigeria since 1999: Issues challenges and the way forward. IFRA Special Case Arch Issues, 3(2), 5-13.

Aluko, Y.A. (2009). Corruption in Nigeria: Concept and demission in anti corruption reforms in Nigeria since 1999: Issues, challenges and the way forward. IFRA Special RESOURCES Issues, 3(1), 1-16.

Bamberg, G., & Klaus, S (1987). Agency theory, information, and incentives. Springer-Verlag.

Bowie, N.E., & Edward, R.F (1992). Ethics and agency theory: An introduction. Oxford University Press.

Brooks, C.R (1970). Apologies for political corruption. In Arnold J. Heldenheimered (Ed.), Political corruption, reading in comparative political analysis. Holt Rhinehart and Winston, Inc.

Doig, A., Lynskey, I., & Nolan, E. (2009). The corruption of British politics and public services. Journal of Law and Society, 23, 36-56.

Egwakhe, J.A (2007). An "empirical insight into the impact of corruption on nigerian economy from (1990-2003", 2007), in corruption and the challenge of human development: A publication of the program on Policy conflict and strategic studies Babcock University, School of Management and Social Science. Babcock University Press Ltd.

Ekiyor, H.A (2009). Corruption in Local Government Administration: An historical summary" as found in Local Government Administration in Nigeria. Old and New Vision.

Fama, E., & Michael, J. (1983). Agency problems and residual claims. Journal of Law and Economics, 26(1983), 327-349.

Ghosh, B.B (2013). Business: Buying or selling of goods. Prentice Hall.

Gould, J., & Kolb, W. L (1964). A dictionary of social science. Macmillan Publishing Company.

Hayne, Leland E. "Agency Costs, Risk Management, and Capital Structure." Journal of Finance, August 1998.

Jensen, M.C., & William, H.M (1976). Theory of the firm, managerial behavior, agency costs, and ownership structure. Journal of Financial Economics, 3, 305-360.

Myers, S., & Nicholas, M. (1984). Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics, 13, 187-221.

Ndokwu, J.N (May 26, 2004). Corruption, corrupt practices and honest leadership in Nigeria. http:/www.corruption,newscorrupt.org/printer

Okojie P. (2005). Corruption and crisis of development in Nigeria. Paper presented at a conference on redesigning the state Manchester UK, Nov.

Onongha, K. (2007). Intersections of corruption and Christian ethics: Towards a solution to A national problem in corruption and the challenge of human development. A publication by school of management and social science, Babcock University"

Scott, C.J (1972). Comparative political corruption. Prentice Hall Inc.

Shankman, N.A. (1999). Reframing the debate between agency and stakeholder theories of the firm. Journal of Business Ethics, 4(2), 56-67.

Skinner, I., & Ivancevich, E.  (2012). Business: Business is the exchange of goods, services or money for mutual benefit or profit. John Wiley & Sons.

Stiglitz, J.E (2002). Globalisation and its discontents. W.W Norton and Company.