Introduction Corruption in organizations: causes, consequences and choices

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This introduction serves as a primer for the analysis of the causes and consequences of corruption in organizations, and the choices facing individuals, organizations and societies in their efforts to reduce corruption. It identifies central themes in this area and serves as an introduction to the more intensive chapters that make up the remainder of the volume. What do we mean by corruption?

Ashforth et al. (2007) define corruption as ‘the illicit use of one’s position or power for perceived personal or collective gain’ (p. 671). The following paragraphs identify some of the main theses relevant to understanding corruption in organizations.

The Ethics Resource Center in the US, in a survey of about 2000 employees, found that 56 percent had seen ethical failures, and 42 percent of those who saw these did not report them. Companies with weak ethical cultures had more misconduct; thus 98 percent of employees saw misconduct in organizations with weak ethical cultures versus only 24 percent of employees in companies with strong ethical cultures. An ethical culture, in their view, comprised four factors: ethical leadership, supervisory reinforcement of ethical conduct, co-worker commitment to ethics, and having ethical values embedded in the organization’s culture.

Individuals are likely to participate in corrupt behavior or turn a blind eye towards it in order to fit into or belong to the organization, and if they strongly identify with the organization. Organizations with a short-term financial emphasis were more likely to exhibit corrupt behaviors, and in particular, pay and incentive systems were more likely to foster corrupt practices.

Corruption includes terms such as ‘corporate wrongdoing’, ‘management fraud’ and ‘illegal corporate behavior’ (Zahra et al., 2005). When the individual benefits, the organization is typically the victim; when the organization benefits, society is typically the victim; and when both benefit, society is typically the victim. Examples of the first include embezzlement, and the padding of one’s expenses; the second, paying a bribe to get a contract, altering a financial document; and the third might involve individuals’ getting money or promotion for altering a financial document. Individuals can be active participants in the wrongdoing or passive observers – they know what illegal activities are going on but are unwilling to take action.

Zahra et al. analyze top management fraud by its nature, scope, antecedents and consequences. They define fraud as ‘the deliberate actions taken by management at any level to deceive, con, swindle or cheat investors or other key stakeholders’ (p. 804). Fraud can take a variety of forms such as ‘embezzlement, insider trading, self-dealing, lying about facts, failure to disclose facts, corruption, and cover-ups’ (p. 804). Fraud can vary in scope and is also likely to vary by industry. Fraud is also likely to take place in some organizations and not in others. Top management fraud is a white-collar crime. It

typically has a financial motivation, involves respected citizens, and does not entail physical violence. Zahra et al. develop a framework for understanding management fraud. It includes antecedents, individual-level factors, and effects. Antecedents fall into societal, organizational and individual categories. Individual factors include personal demographics such as age. Effects include impacts on employees, managers, shareholders and society at large.

Costs of corruption

Corruption has immense costs that affect individuals, organizations, society, and countries. Some individuals engaging in corrupt acts may feel pangs of guilt. Individuals convicted of taking part in corruption face penalties of varying degrees of harshness, including making financial restitution, serving a prison sentence, loss of reputation, loss of means of earning a living, and in some cases loss of family through divorce. Organizations lose money, reputation, and the chance of long-term survival (Clarke et al., 2003). Societies lose trust in their institutions (police, lawyers) and in their elected officials; fewer young women and men become interested in a career in these occupations. Cynicism is heightened. Finally, countries lose opportunities for growth, respect in the broader international community, and their influence in making the world a better place – the moral high ground. All of these contribute to a crisis of confidence in corporations (Child, 2002; Gioia, 2002; Kochan, 2002; Child and Rodrigues, 2003).

A recent PricewaterhouseCoopers Global Economic Crime Survey, focusing on Canadian data from 126 companies, reported that crime and corruption cost companies, on average, Can\$3.6 million in 2007, an increase from Can\$587,000 in 2005. During these two years, 62 percent of Canadian firms surveyed said that they had strengthened existing controls or put new measures in place to combat crime and corruption. Yet fraud has not decreased. Based on their international data from 40 countries, more than half the companies in insurance, retail and consumer, government and public sectors reported fraud.

In 2004, a Leger poll conducted in Canada found that only 44 percent of respondents trusted lawyers, down from 54 percent two years earlier; politicians were at 14 percent. A 2006 Harris poll in the US reported that only 18 percent of Americans trusted lawyers and 6 percent trusted stockbrokers completely. The Federation of Law Societies of Canada receive about one complaint about lawyers for every five lawyers in Canada. The most common complaint is that lawyers are greedy.

Firms guilty of corruption also risk a loss of reputation, greater scrutiny and diminished future performance, including dissolution in some cases (for example, the auditing firm Arthur Andersen). Sullivan et al. (2007) report, based on a sample of 200 large US firms, that the quality of a firm's network partners declined after a firm commits an unethical act, and this deterioration is greater for acts of greater illegitimacy. Declines in network prominence and cohesion were also observed for firms committing an unethical act.

There are also more dramatic costs of fraud and corruption. Rene-Thierry Magon de la Villehuchet, an investor with Madoff, committed suicide a few days after the Ponzi scheme collapsed. He had lost millions of dollars of his own money in the scheme as well as having friends and colleagues connected with Madoff.

Bad apples, bad barrels, and bad orchards

Individuals engaging in corrupt acts might be termed ‘bad apples’. Some may lack the moral development to understand the nature of corruption, others may be seduced to perform corrupt acts – the slippery slope – leading to wrongdoing. Organizations taking part in corruption have been termed ‘bad barrels’; several people work together to perpetrate the fraud. Toffler and Reingold’s (2003) depiction of Arthur Andersen before and during the Enron débâcle illustrates a ‘bad barrel’. Finally, when much of an industry participates in shady ways of operating one might term that sector a ‘bad orchard’. Exposés of the financial services industry in the late 1990s and early 2000s indicated an industry culture in which deception, lies and withholding of facts was widespread.

Pinto et al. (2007) make a distinction between corrupt organizations (COs) and organizations of corrupt individuals (OCIs) based on (i) who benefits from the corruption, and (ii) whether the corrupt behavior was undertaken by one or more than one individual. In COs, a group of employees carry out corrupt behavior on the part of the organization; the victims are outside the organization. In OCIs, individuals in the organization benefit and the organization is the victim.

Ethical work climates

Victor and Cullen (1988) were among the first to empirically study ethical work cultures. They collected survey data on ethical climates from 872 employees of four firms in the US. Ethical climates were found to be multidimensional and multidetermined. Five climate dimensions were noted: law and code, caring, instrumentalism, independence, and rules. Significant differences in ethical climates existed across and within organizations. Ethical climate perceptions also differed by position, tenure and work unit. Employees rating their work climate higher on ethics not surprisingly also reported observing fewer ethical lapses.

An ethical work climate rests on employee perceptions of the organization’s practices and procedures that relate to ethical issues. What is the correct response for an individual to make in a situation having ethical dimensions? Aspects of a work climate that spell out ethical behaviors at work, procedures that one should employ in these situations, and one’s professional and occupational ethics obtained from training and education come together in creating an ethical work climate.

Building on these findings, many organizations have introduced ethics training into their professional and leadership development offerings.

Show me the money

Before moving to a consideration of specific aspects of corruption, its consequences and how we fight control or reduce it, let us consider why corruption occurs. There is one theme that seems to run through the countless examples of individual and organizational corruption that I have examined – greed – that is, in the vast majority of cases of corruption, money was involved. Individuals and/or organizations engage in corruption for financial benefits, either directly or indirectly. Depending on the station of the individual engaged in corruption (hence opportunity), the financial gains ranged from relatively small (a few thousand dollars) to large (hundreds of millions of dollars). The accumulation of wealth in an increasing number of capitalist and materialist societies (new club members now include Russia, China, and India) is a sign that one has made it. And as the

Enron case showed, everyone was at the trough – executives, bankers, auditors, lawyers, security analysts, and credit rating agencies.

But suggesting that greed lies at the heart of most corruption does not qualify as a theory of why corruption occurs. Agency theory, however, has been offered to address the ‘why’ question. Agency theory suggests that top managers act as agents of the organization but their personal interests may not match the interests of the organization and shareholders. Top managers may instead be motivated by self-interest and self-preservation. Davis et al. (1997), for example, reported that executives committed fraud because fraudulent behavior was in their own short-term interests.

Moral development and moral disengagement

Individuals are obviously not all created equal as far as engaging in unethical behavior is concerned. Two stable individual difference factors have been found to be associated with ethical decision making: levels of moral development and moral disengagement.

Kohlberg (1984) proposed and validated a five-stage theory of increasingly complex moral development.

Individuals are more likely to make unethical decisions when moral disengagement occurs (Bandura, 1986). Moral disengagement frees individuals from self-sanctions and accompanying guilt from engaging in behavior that violates their internal ethical standards. Bandura identified eight interrelated moral disengagement mechanisms. Levels of empathy and moral identity were negatively correlated with moral disengagement; trait cynicism and a chance locus of control were positively correlated with levels of moral disengagement. Moral disengagement was also positively correlated with unethical decision making.

Detert et al. (2008) report findings from three studies of moral disengagement in ethical decision making. Six individual differences were considered, four having significant relationships with moral disengagement: empathy and moral identity were negatively related to moral disengagement; cynicism and chance locus of control were positively related to moral disengagement. Moral disengagement was again related to unethical decision making.

A betrayal of trust

There are some professions and occupations in which citizens willingly put their faith and trust. These include auditors, politicians, judges, and police officers.

Consider the following. Tehran’s police chief, General Reza Zarei, in charge of fighting vice, is under investigation after being caught in a brothel with six naked women and was forced to resign. Zarei was responsible for cleaning up corruption and had previously arrested young men and women for illicit relationships or not respecting the Islamic dress code. This sounds like Iran’s version of Eliot Spitzer, former New York State governor who resigned after it became public that he used the services of a prostitute.

Several politicians throughout the world have recently been investigated for corruption or have been successfully prosecuted. These include Ehud Olmert in Israel, Brian Mulroney in Canada, Bertie Ahern in Ireland, Jacob Zuma in South Africa, and many in the US.

Slayton (2007) chronicled the bad behavior of a small number of Canadian lawyers who engaged in theft and fraud, abused financial relationships, helped clients steal

money, and engaged in drug use and sexual relations with their clients. The stories that he provided offered a glimpse inside the legal profession and legal practice with its obsession with billable hours, how lawyers are trained in university law schools, how lawyers through their legal association govern themselves, and ways in which the laws themselves can fail.

Slayton tells the story of a Toronto immigration lawyer, Martin Pilz, who committed suicide when faced with charges of theft, fraud, forgery and conspiracy. Pilz had a chauffeured Rolls Royce and wore a Can\$20,000 fur coat and desperately wanted to be a 'big wheel' in the legal community. Overbilling, cheating on hours worked and billed to clients, is the most common complaint against lawyers.

Furthermore, there is an endless litany of corruption in police forces throughout the world. Toronto charged and has been prosecuting a six-man drug squad for almost the past decade. Lawyers for criminals reported to authorities in the justice system that the drug squad officers planted evidence, stole money from alleged criminals, undertook illegal search and seizures, and physically abused their clients.

One of the more notorious examples of police corruption involved the Los Angeles Police Department's Rampart Division in 1999. Rafael Perez, an officer in this unit, was arrested for stealing 3 kilos of cocaine that was obtained as evidence in a drug raid. In a plea bargain, Perez admitted to shooting a person in 1996 and planting a gun on him to support a claim that he was being attacked, and helping cover up two other unjustified shootings. His testimony implicated more than 70 officers in misconduct such as drug dealing, planting evidence, making false arrests, and covering up crimes that they had committed. Perez stated that 90 percent of the officers in his unit falsified information. Based on this information, the Los Angeles District Attorney's office reexamined thousands of cases in which these officers were involved. More than 100 convictions were overturned and Los Angeles paid out millions of dollars to settle lawsuits brought against the city.

Investigations as to why this unit became so corrupt offered several reasons: the pressure to produce arrests, mediocre performance of police officers, good officers seeing that 'bad apples' were not dealt with, inadequate screening of new recruits, failure to supervise officers in the field, 'bad apples', and the code of silence that exists among police officers. The justice system itself becomes suspect when police officers sworn to uphold the law break it and use their authority to convict innocent people.

Police corruption on a smaller scale is common in both Mexico and Russia. In Tijuana, Mexico, for example, it is typical for a police officer to stop a driver of a rental car from outside the area and accuse the driver of an infraction (for example, speeding, making an illegal turn). The police officer indicates that he will have to take the infraction to a judge, which will likely result in a \$600 fine – but for US\$50 the officer would 'take care of it'. Some police officers can stop 10 cars a day, making \$500. In Russia, a vocal critic of similar police action was severely beaten by officers.

The now defunct auditing firm, Arthur Andersen, was not only complicit in the Enron scandal, but also collected huge fees from corporate and government clients for providing a range of 'professional services'. Andersen received US\$25 million from Enron for auditing services and US\$27 million for other services, the latter raising potential conflicts of interest. In addition, Andersen asked its employees to shred documents that might implicate the firm in illegal or unethical activities. Andersen, in 2001, paid US\$110

million to settle a class action suit filed by shareholders of Sunbeam over grossly misstated corporate financial statements in the 1990s – without admitting legal responsibility – and paid US\$7 million in June 2002 to settle fraud allegations arising from an audit it conducted of Waste Management Inc.

The best science that money can buy

Recent lawsuits against Merck, the makers of Vioxx, have indicated the inner workings of the pharmaceutical industry. They have highlighted the manipulation of research findings, conflicts of interest, and serious concerns about confidence in the medical system and trust in medical research. Merck played down or misrepresented the risks of dying for patients taking its Vioxx medication. In 2007, Merck agreed to pay US\$4.85 billion to settle claims against them. In addition, Merck employees ‘ghost authored’ trial results and academic papers promoting the drug according to studies published recently (April 2008) in the *Journal of the American Medical Association* (JAMA).

Merck looked for academics and physicians willing to put their names on manuscripts before they were submitted to journals for publication. Ghost writers were paid honorariums by Merck – described as a form of prostitution by various writers of the JAMA articles, with one editor using the word ‘whore’ to describe this behavior. Most studies of the effects of drugs – termed ‘drug trials’ – are funded by the drug companies; negative results are typically never reported. Results of drug trials can be distorted in favor of a particular drug. Medical journals have become arms of marketing efforts. Drug companies will purchase thousands of copies of articles favorable to their products and distribute them to doctors who are too busy to undertake their own reading of the literature. Physicians and clinical scientists should have just said NO! An act that sadly is easier said than done by too many of us.

Pachter et al. (2007) report findings from the American Psychological Association (APA) task force on external funding. An increasing number of professional associations (including the APA) have become concerned about ways in which corporate funding can influence their activities. Corporate funding has the potential to reduce personal and professional integrity. Their report makes interesting reading but space constraints prevent me from reviewing some of their most scandalous reporting. However, I shall provide one such example. The pharmaceutical industry has come under scrutiny because of its wealth and efforts to fund various activities and projects. The pharmaceutical industry spent over US\$19 billion on marketing in 2001, in addition to US\$35 billion spent on ‘marketing masquerading as education’ and ‘marketing masquerading as research’ (Antonuccio et al., 2003; Angell, 2004). Tens of thousands of dollars are spent by pharmaceutical companies for booths at psychiatric conventions.

Two professors from York University (Toronto) estimate that the US pharmaceutical industry spends almost twice as much on advertising and promotion than it does on research and development. Marc-Andre Gagnon and Joel Lexchin’s work, published in *PLoS Medicine* in early 2008, found that pharmaceutical firms in the US spent US\$6,000 per physician in 2004. In addition, the number of meetings for promotional purposes increased from 120,000 in 1998 to 371,000 in 2004.

The *Canadian Medical Association [CMA] Journal* (March 25, 2008) called for a stop to the practice of drug companies giving doctors ‘perks’ to attend their lectures. The CMA believes that these sessions are really marketing efforts not continuing education.

Doctors have come to believe that they are entitled to these benefits (for example, family cruises, golf outings). Critics of this system, however, blame doctors – the medical profession – for accepting this way of doing business; doctors have the ethical problem in this case. In the US in 2006, US\$2.6 billion was spent on continuing medical education of which US\$1.4 billion came from drug manufacturers or device makers. Would you be more likely to recommend a product made by a company that sent you and your family on a cruise?

Is nothing sacred?

In December 2008 a corruption probe was launched over the awarding of the Nobel Prize to Harald zur Hausen. It is investigating whether pharmaceutical manufacturer AstraZeneca influenced the awarding of the 2008 prize in medicine. AstraZeneca sponsored two of the Nobel promotional companies.

At another level, there are institutions (universities) in some parts of the world that sell diplomas. For a few thousand dollars one can obtain almost any university degree. The names of recipients of bogus degrees from one such institution were obtained by authorities. This resulted in a woman who had gained entrance to a leading law school based on a phony undergraduate degree being removed from her academic program and not given the job that a law firm had offered her. It is likely that this act will tarnish her reputation for a while.

Making the numbers

An increasing number of organizations, across all sectors, are today being managed in ways that focus on meeting objectives and holding managers at all levels responsible for achieving these targets. Executives of public companies particularly face pressure from the stock market, shareholders and their competitors. CEOs may then place pressure on their managers for short-term results. When these financial gains prove difficult to achieve, managers may resort to aggressive or illegal accounting practices. Harris and Bromiley (2007), using a sample of financial restatements based on accounting irregularities, found that both top management compensation and poor organizational performance related to aspirations, increased the likelihood of financial misrepresentation.

When companies fail to meet their quarterly earnings forecasts, CEOs attempt to explain what went wrong, how it will be corrected, and what to expect in the upcoming months. It is widely acknowledged that companies fiddle with their numbers; sometimes those numbers are at best guesses, and at other times outright lies. Shiva Rajgopal, a professor at the University of Washington, and colleagues, in a US study (Rajgopal et al. 2008), found that between 1992 and 2004, CEOs missing two consecutive forecasts in a year had their bonuses reduced by 12 percent and their stock options by 26 percent; they also had a 28 percent higher than average firing rate. Companies that decided to voluntarily eliminate reporting of quarterly forecasts and results were more likely to have underperformed in the preceding year. Apparently not having a financial target seemed a better option than having a financial target but failing to meet it.

Thus these data show that failing to make the numbers results in senior managers increasing the pressure to ‘fudge the numbers’. It should come as no surprise that there has also been a corresponding increase in the number of organizations worldwide that have had to restate their earnings when ‘errors’ are discovered.

A drug company kept Leparin in the Canadian market though it knew its supplier was involved in a scandal in the US for using tainted ingredients linked to both illness and death. It took a month or more of testing before the product was recalled in Canada. The company obviously made profits from the continued sale of the product during this period.

Another striking example of this pressure is the Ford Pinto affair (Strobel, 1980; Gioia, 1992). Ford continued to manufacture the Pinto even though it was aware of fires that sometimes resulted in injury and death to drivers and their passengers from rear-end collisions, rather than redesign and retool the gas tank. Their cost-benefit analyses indicated that it was cheaper for Ford to settle claims and lawsuits against the Pinto than to invest in retooling the gas tank.

Hill et al. (1992), in a study of 174 US Fortune 1000 manufacturing firms, reported that top management's emphasis on rate of return was related to Environmental Protection Agency and Occupational Safety and Health Association violations between 1985 and 1988, as was company size.

Financial statement fraud

Financial statement fraud has become commonplace: Enron, WorldCom, Waste Management, Fannie Mae, Quest, Xerox, Tyco, Adelphia, Vivendi, Parmalat, and Royal Ahold, are only a few of a much larger group.

Albrecht et al. (2007) address the question of why fraud occurs. They suggest that three elements must be involved: perceived opportunity, perceived pressure, and rationalization:

- *Perceived opportunity* – individuals feel that they can commit the fraud without getting caught, there is limited internal and external monitoring and control, the system is complex and not well understood by others, or if they are caught, the penalty is small. Conrad Black, former CEO of Hollinger, is currently serving a six and a half year sentence in a Florida prison for fraud. The members of Hollinger's board of directors lacked the information and knowledge to understand complex financial transactions, were overworked, and one director (James Thompson, a former governor of Illinois) said that he only 'skimmed' the documents sent to him before board meetings.
- *Perceived pressure* – individuals have financial needs, they may feel pressure to report better results than actual performance, their responsibility as CEOs, their organization's compensation plans, external expectations, state of the balance sheet, and job insecurity (O'Connor et al., 2006; Zhang et al., 2008).
- *Rationalization* – individuals can justify their actions by various rationalizations such as 'good for the organization', 'had no other choice', 'not hurting anyone', 'for a good cause' and 'only a temporary move'.

In Canada, concerns have been raised about the efficacy of the regulatory environment and the justice system when charges of fraud and corruption are made. Some experts have described enforcement in Ontario as 'third world'. First, many of these cases are complex; it requires considerable manpower to get all the facts. As cases proceed, investigators and prosecutors change, causing gaps in case knowledge and delays. Second, the

regulatory agencies lack the manpower to do their job efficiently and adequately. Third, it sometimes takes several years to bring these cases to the courts, given the delaying tactics of defense lawyers and the complexity of the cases themselves. In Canada, it has taken up to 10 years to process and settle large and complex fraud cases (for example, Bre-X Minerals, Nortel Networks, Livent, Inc.). Fourth, in cases of guilt, the punishment seems to be so lenient that it does not serve as a deterrent to others. A study conducted by Utpal Bhattacharya (2006) of the University of Indiana's Kelley School of Business compared enforcement records of the Ontario Securities Commission (OSC) and the US Securities and Exchange commission (SEC). He reported, after adjusting for market size, that the SEC prosecuted 10 times more cases between 1995 and 2005, in cases involving insider trading, 20 times more cases than did the OSC. The SEC fines for insider trading were 17 times more than the OSC fines during this period. Punishment in the US also appears to be more severe. Consider the following: Bernard Ebbers (WorldCom), 25 years; Dennis Kozlowski (Tyco), 12 years; Samuel Waksal (Imclone), 7 years and 23 months; Jeffrey Skilling (Enron), 24 years and 4 months; Andrew Fastow (Enron), 10 years; Martin Grass (Rite Aid Corp), 8 years; Jamie Olis (Dynergy), 24 years; Michael Milken (Drexel Burnham Lambert Inc.), 10 years; and John and Timothy Rigas (Adelphia), 15 years and 20 years, respectively. These sentences will certainly get one's attention.

Government fraud and corruption

The Government Accountability Project (GAP) released a 10-page investigative report dealing with corruption at the World Bank (March 27, 2006) which was also reported in *US News & World Report* (April 3, 2006). This report identified extensive problems at the World Bank showing how kickbacks, payoffs, bribery, embezzlement, and collusive bidding were widespread on their international projects. The report estimated that more than 20 percent of World Bank loans, \$US4 billion annually, were linked to corrupt practices.

World Bank staff are rewarded for getting projects through as planned, not for reporting corrupt practices. Whistleblowers reporting corrupt practices are typically punished. The World Bank does not have enough staff to investigate their backlog of corruption complaints. Professionals at the World Bank are sometimes unable to travel to other countries to undertake investigations because of a lack of funds. And it often takes years before the World Bank begins an investigation of corruption allegations. Finally, political sensitivities discourage the World Bank from undertaking investigations of those holding political office or senior positions with non-governmental organizations (NGOs) or the UN.

The World Bank Institute has estimated that the total amount of bribes paid per year may be US\$1 trillion (Rose-Ackerman, 2007) and that this corruption costs US\$80 billion per year.

The costs of corruption include less organizational and country growth, lower levels of public spending on education and healthcare, lower taxes collected, greater political instability, and lower levels of direct foreign investment. Transparency International (2006) reported a strong correlation between corruption and poverty.

Fisman and Svensson (2007), using survey data collected in Uganda by the World Bank from 176 firms in 14 different industries from five different locations, reported that

increases in bribery payments were associated with lower annual growth rates among these organizations. Increases in taxes had a smaller but still negative effect on annual growth rates of these firms.

Rodriguez et al. (2005) consider ways in which government corruption impacts the entry strategy of multinational firms. Corruption affects the nature of business transactions; it rewards unproductive behavior by awarding contracts and privileges to firms in return for bribes, thus punishing efficient firms. The specific nature of corruption, while everywhere, varies across countries. Firms therefore need to understand and adapt to the type of corruption they encounter. Rodriguez et al. develop a two-dimensional model of corruption based on its pervasiveness and its arbitrariness. Pervasiveness refers to the likelihood of encountering corruption in normal interactions with state officials; the more common the corruption, the stronger the need to deal with it. Arbitrariness refers to the ambiguity – various interpretations of laws and approvals necessary to obtain via bribery or the number of bureaucrats in the situation – associated with corrupt transactions with state officials.

Rodriguez et al. provide country examples to illustrate the usefulness of their framework: India is high on both, Indonesia is high on pervasiveness and low on arbitrariness, Russia is high on arbitrariness and low on pervasiveness, and China is low on both. Rodriguez et al. do not condone bribery and corruption but illustrate the implications of country differences on the entry strategies of multinational firms. They do note that corruption has been shown to reduce investments into a country and is negatively associated with both economic and social well-being growth.

Every country in the world views bribery as a criminal act, yet bribery, though varying across countries, is commonplace. Bribery has both a supply and a demand side: individuals demand bribes and firms provide bribes. Some firms are more likely to offer or pay bribes than are others. Some firms seek a competitive advantage and are more willing to offer passive or active bribes. Passive bribes are used to avoid sanctions or punishments; active bribes are used to obtain influence (for example, to get contracts, favorable regulations decisions, and favorable government policies).

Firm-level bribery is affected by the context of a firm's home country and pressures faced by the firm. Martin et al. (2007), using anomie theory, examined the effects of cultural values and firm characteristics on bribery activities of local firms. Anomie theory proposes that cultural and social factors create the conditions in which pressures to reach goals using any means available override norms and values against illegitimate behaviors. Martin et al. considered data from 376 firms from 38 countries in examining the role of cultural factors, social institutions, and a firm's local financial constraints as predictors of propensity of a firm to offer bribes. They found that more individualistic countries were associated with higher levels of bribery, more social welfare-oriented countries were associated with less bribery, and that countries having stronger political constraints were associated with lower levels of bribery.

Ip (2008) lists the increase in corporate scandals in Taiwan over the past six years involving senior executives and the president and his family. The latter were accused of insider trading and accepting bribes. Business and government officials colluded in corrupt practices, Taiwan having a history of 'crony capitalism', which is a major feature within Taiwan. Taiwan has underdeveloped institutions (legal, political, authoritarian) which make it easier for corrupt practices to endure. A few families in Taiwan benefit

from crony capitalism (favors, special privileges). It paints a picture of corruption at all levels of Taiwan society, a function of Confucian familism, in which the family comes first.

Crony capitalism may also be alive and well in Canada. Finance Minister Jim Flaherty is currently under scrutiny (May 2008) for apparently awarding several untendered contracts totaling Can\$300,000 for consulting services to a man who worked on an earlier election campaign of his. In his defense, Flaherty indicated that he was not made aware of the rules.

Afghanistan is a country that has seen violence and strife for decades. In a recent report (Saturday, May 10, AA1, AA2) in the *Toronto Star* (2008), the Attorney General, Abdul Jabar Sabet, was asked how many top-echelon Afghan officials he had charged with corruption (the answer was 300) and how many were in jail (the answer was none). Not a single person in the Afghan government has the power to oppose others that are a law unto themselves. Billions of dollars in international aid have gone to warlords, ministers, parliamentarians, the military, police, tribal elders and entrepreneurs. Sabet admitted that even his own justice department had corrupt prosecutors in it.

In the US, Illinois governor Rod Blagojevich is under investigation for attempting to sell the vacant senate seat of President-elect Barack Obama. And New Mexico governor Bill Richardson withdrew his name as a nominee for Commerce Secretary in the Obama administration as he is being investigated for awarding a lucrative contract to a firm that donated heavily to his campaign funds. Apparently 'pay to play' is alive and well in the US – and elsewhere.

But some countries are taking action to combat corruption, sometimes in extreme ways. Captain Moussa Camara, leader of Guinea's 2008 coup, apparently said 'for the person who embezzles money, there won't be a trial. They'll be killed'. In 2008, China sentenced 11 individuals to jail for violating Microsoft copyright restrictions, and charged Tian Wenhua, chairwoman of one of the country's largest dairy producers, with selling fake and substandard milk products. She faces a life sentence or even the death penalty.

Conflicts of interest

Conflicts of interest abound. Consider the following:

- scientists/researchers who are paid to conduct drug trials or are paid to ghost write articles for prestigious medical journals by pharmaceutical companies;
- citizens who also work in marketing for companies that produce products that have been shown to be harmful to users of those products (for example, tobacco firms);
- citizens who see wrongdoing in their organization but are also concerned with their own career and the future of their employing organization;
- stock market analysts making a buy recommendation to clients of risky stock known to be 'junk' to other clients, to keep current clients happy;
- physicians referring patients to clinics or pharmacies in which they have an ownership stake;
- politicians deciding whether or not to pursue an issue raised by donors to their campaigns versus the needs of their constituents;

- executives given stock options for short-term results which may conflict with their organization's long-term survival;
- auditors avoiding giving accurate but negative audit opinions to executives who hired and pay them.

Accountants and auditors working for outside firms are expected to provide accurate and honest independent judgments. Yet Moore et al. (2006) argue that the US auditing system faces widespread conflicts of interest and is not truly independent. They list the 'usual suspects' of corporate scandals of the early 2000s as having conflicts of interest at their root, suggesting that corrupt management used flawed financial monitoring systems to perpetuate their fraudulent activities. Experts in any field likely face conflicts of interest between their own self-interest (what is good for them) and their professional obligations to provide honest and accurate advice (what is good for their client).

Focusing on the auditing profession, Moore et al. identify three threats to the independence of auditors: executives hire and fire auditors, auditors often take positions with client organizations, and auditors today provide more than just auditing services to clients. Clients are more likely to hire and retain auditors who support their actions. Auditors taking jobs with their clients create a common identity. And as auditors provide a wider array of services to their clients, they are more likely to support their own initiatives as satisfactory. These features operate to subtly color the judgment of the supposedly objective outsiders (for example, psychological processes such as selective perception, deniability, escalation of commitment, and inaccurate self-perceptions, are likely to operate). Moore et al. (2006) term these cognitive processes 'moral seduction'.

In addition, they suggest that a political process, which they term 'issue recycling', is also operating. When concerns about potential conflicts of interest reach a high level, actions are taken by regulators (for example, the passing of the Sarbanes-Oxley Act in 2002). When attention to conflicts of interest then dies down as it is being/has been addressed, it is back to business as usual.

Moore et al. (2006) and Bazerman et al. (2006) believe that conflicts of interest will never be eliminated but they can be reduced. First, they recommend more penalties for organizational corruption and greater punishment for corrupt individuals. And focusing again specifically on auditors, they advocate tighter regulation of them. They propose that auditors provide only auditing and not other services, that organizations change their auditing firm every five years, that auditors be prohibited from taking jobs with their clients, and that auditors make independent assessments of a company's financial statements rather than ratifying assessments of these made by the client organization, and that auditing firms be chosen by the boards of directors rather than by senior organizational executives.

Research by Kevin Weinfurt and his colleagues (Weinfurt et al. 2008) from the Duke Clinical Research Institute in Durham, NC, has shown that published studies on stents, the tiny medical device that keeps blood vessels open and prevents heart attacks, do not indicate whether the researchers have financial ties to stent manufacturers. There are different types of stent in this multi-billion dollar industry Weinfurt et al.'s article, published in the online journal *PLoS One*, examined 746 articles written by 2,985 authors in 135 journals and found that about 83 percent of these articles did not contain any disclosure of the relationship of authors to stent manufacturers. One author had even founded his own stent-manufacturing company.

The role of higher education

The Aspen Institute has reported that MBA students change their attitudes and values from the beginning to the end of their studies, becoming much more bottom-line oriented at the end of their studies (making the numbers). The business of business is business!

In addition, studies have been carried out in the US on the prevalence of cheating among university students and who does more of it. These studies have shown, first, that cheating by students is relatively common in higher education, and second, that business students cheat more than students in other areas of study.

Sheldon and Kruger (2004), in a longitudinal study of law school students in the US, found that law students had higher levels of subjective well-being (SWB) than other undergraduate students at the start of their program, but law students' SWB fell by the end of their first year. This decrease was associated with decreases in intrinsic motivation, increases in appearance values, and decreases in community service values. Intrinsic motivation was associated with higher grades, which in turn predicted shifts toward higher-paying and higher-stress careers and away from service-oriented and perhaps more satisfying law careers. These declines persisted over the second and third years of law school.

University graduates are more likely to occupy positions where they have opportunities to engage in unethical activities. The role of their study programs in fostering such attitudes needs to be better understood.

A world of cheaters?

There is evidence that corruption is widespread and worldwide. It often involves several people within a single organization. Corruption has been with us for decades – even centuries – in spite of efforts to limit or stop it. In fact one might conclude that corruption is on the increase. Corruption is also much more common in some countries than others. I receive e-mails once a week on average indicating that I have won a huge lottery (typically in Spain or Portugal), or that a person with access to huge sums of money in a foreign country (typically in Africa) would like my help in getting this money out and in return I would be well compensated. Police recently arrested 77 people in a cross-border internet sweep; most (61) were in the Netherlands. The scam letters offered a financial reward for helping someone get money from a foreign country (typically Nigeria) or that you have just won a lottery but have to pay advance fees. These efforts prey on the greed of the victims. I am constantly amazed at the creativity being unleashed by individuals as they search for new scams. Are we becoming a nation (or world) of cheaters?

Consider the world of athletics. The Olympic Games are supposed to emphasize the spirit of competition and excellence. Yet consider the following:

- In 1976, the East German women's swimming team won 11 of 13 gold medals. It was later disclosed that hundreds of East German athletes had been using banned steroid for years.
- In 1988, Canadian sprinter Ben Johnson was stripped of his 100 meter gold medal after testing positive for performance-enhancing drugs. His trainer, Charles Francis, was known as 'Charlie the chemist'.
- In 2000, American track star Marion Jones won five medals while taking banned substances, lying about it for seven years; she was found guilty of lying and is

now in prison for perjury. Interestingly, a female Greek sprinter at the center of a doping scandal at the Athens Olympics would get the gold medal that Jones returned.

- In every Olympic games over the past two decades, a number of weight lifters from various countries have been disqualified for testing positive for use of banned substances.
- Before the 2002 Winter Olympics in Salt Lake City it was reported that supporters of this bid had bribed officials of the International Olympic Committee for their votes in favor of holding the games there.
- In addition, one of the judges in the pairs skating competition at the Salt Lake City games admitted that she voted to ensure a victory for the Russian team, denying the Canadian skaters the gold medal.
- A Norwegian rider had to return his silver medal awarded at the 2008 Beijing Olympics when it was determined that his horse had been ingested with performance-enhancing drugs.

Furthermore, soccer is the world's most watched sport. Hill (2008) has written that organized crime has influenced players, referees, team officials and soccer sports directors to predetermine the outcome of matches.

Every sport seems to have cheaters. Tour de France winners have been found to have taken banned substances. George Mitchell, former US senator, headed up a recent task force that reported use of banned substances by baseball players. Football players in the National Football League have also failed drug tests. Young women and men in high school, or even earlier, have taken steroids to make them more competitive in their sport so they can obtain college scholarships. A 19-year-old hockey player, however, paid the extreme price in late 2008. Alexei Cherepanov died following a period of taking performance-enhancing drugs. The medical team associated with his hockey club is under investigation for their role in supporting this drug taking.

Sports are supposed to represent the pursuit of excellence among amateur athletes, in the case of the Olympics, and among high school or college players. This high ideal seems to have fallen short as more and more individuals and their families use any advantage at their disposal – illegal or not – in their pursuit of fame and money.

The spread of corruption within an organization

Although a corrupt act generally begins with one individual, it is commonly spread to other participants. We are beginning to understand how and why this happens.

Anand et al. (2005) tackle the question of how a group of upstanding citizens and members of their community cooperate in corrupt acts over a period of time, identifying rationalization tactics they commonly use. Rationalizations are mental strategies that allow individuals to see their corrupt actions as justified, while also reducing feelings of regret and guilt from these corrupt acts. Both rationalization and socialization practices allow individuals to take part in corruption while still seeing themselves as ethical people. Anand et al. identify six rationalization strategies: denial of responsibility, denial of injury, denial of victim, social weighting, appeal to higher loyalties and balancing the ledger. In addition, they also label three socialization processes that lead one down 'a slippery slope': cooptation, incrementalism, and compromise. Finally they

identify some external facilitating factors: group attractiveness and a social cocoon, the mutual support of rationalization and socialization, and the use of euphemistic language.

Albrecht et al. (2007) offer a model describing the process by which organizational members are recruited to take part in financial statement frauds. They apply French and Raven's (1960) five bases of power to dyads: one person influences another to take part, then this dyad effect is extended to others in the organization, leading to general acceptance of other illegal or unethical activities.

Nearly all financial statement frauds involve many individuals in preparing fraudulent financial statements. How do individuals persuade others to participate? Albrecht et al. suggest that individuals use various types of power to get others on board. The individual can use reward, coercive, legitimate, expert and referent power to involve another in the fraud. The person being recruited also has needs that can be met by the perpetrator, to get him or her involved. As more individuals join the fraud, the organization's culture becomes increasingly unethical.

Zyglidopoulos and Fleming (2008) propose a 'continuum of destructiveness' related to organizational corruption, a slippery slope of engaging in increasingly questionable activities. They identify four types of individuals: innocent bystanders, innocent participants, active rationalizers, and guilty perpetrators. Socialization, organizational rewards and expectations, and ethical distance – the distance between an act and its ethical consequences – are offered as explanations for movement along this continuum.

It is unlikely that Bernard Madoff acted alone. Attention is now being directed at the activities of his key lieutenant, Frank DiPascali.

See no evil

Corruption would be less likely to spread or to exist at all if managers and co-workers had taken note of the unethical behavior rather than overlooking it. Gino et al. (2008a, b) identify some of the mechanisms that allow this to continue. First they identify 'motivational blindness', a tendency to overlook the unethical behavior of colleagues if it might cause us harm. There are pressures and rewards (or little punishment) from overlooking the unethical behavior of one's manager. They are similar pressures on consultants, for example, in terms of assessing the behavior of a firm that is paying one for services. Individuals have a tendency to selectively see information that fits the conclusion they would like to see, and ignore information that goes against their preferences. Second, they report that firms that delegate unethical behavior to others face less negative reactions. Thus Merck sold some of its cancer drugs to smaller companies that then raised the price of the drugs dramatically. These smaller companies, not Merck, received negative press. Third, individuals tend to focus more on outcomes than on process. If a manufacturer manipulates some of its research findings to downplay possible negative effects and consumers are injured or killed, the firm would be severely criticized. But if the defective product is merely a nuisance, the manipulation of the research evidence becomes less of an issue.

Recovering from publicly known acts of corruption

Can organizations recover when their corrupt or unethical behavior becomes public knowledge? Some organizations have been unable to survive this situation (for example,

Enron, Arthur Andersen). But organizational death is not inevitable. Pfarrer et al. (2008) propose a four-stage model for increasing the speed and likelihood that an organization will recover following a publicly known corrupt or unethical act that places stakeholders at risk. Their model has the following stages:

1. discovering the facts of the corruption (conducting an internal investigation, undertaking due diligence, offering voluntary disclosure, engaging in public cooperation);
2. providing an appropriate explanation for the corruption (acknowledging the wrongdoing, expressing regret, accepting responsibility, offering amends, making an apology);
3. doing penance and accepting and serving a fair punishment (accepting the verdict, serving time, acknowledging the equitable punishment); and
4. making internal and external rehabilitative changes (changing people and reward structures, portraying a new image externally, developing a new mission statement).

Organizations can rebound from widely known acts of corruption if they then act responsibly.

Reducing corruption

What individuals can do

Individuals can do certain things to reduce corruption in their workplace. They might first share their concerns with a trusted co-worker about anything that they think might be inappropriate. They can then discuss their concerns with their supervisor. They might then become whistleblowers, using the company's hot line to report their concerns. And as a last resort, they might get legal or other advice from outside if there is no internal reporting system in their organization.

MBA education

Given the popularity of the MBA-type educational programs, business schools may have an important role to play in raising ethical concerns and impacting on future levels of corruption (Adler, 2002; Gioia, 2003). It is likely that every business school today offers either a course or a module with a course on business ethics.

In addition, business students in some institutions are being 'scared straight'. The Ivey School of Business at the University of Western Ontario recently (May 8, 2008) had Nick Leeson give a talk to their business students. Leeson was a trader at Baring's Singapore operation who accumulated US\$1.3 billion in trading losses before being discovered. His employer, Barings PLC, one of the UK's oldest banks, never recovered from this and went into bankruptcy in 1995. Leeson spent four and a half years in a Singapore prison for his activities. Although Leeson now appears to be leading a successful life, he discourages business students from undertaking the risks that he took. He says that if he had asked for help when the first losses began, he would not have continued on the path that he did. Leeson's talk took place a few hours before students took part in the business school's Ring Tradition Ceremony, where they pledged to act ethically and honestly in their career.

Other Canadian business schools are also addressing ethics in interesting ways. Queen's University (Kingston, Ontario) takes MBA students to visit a minimum security institution where white-collar criminals live with other types of criminals, showing the consequences of making unethical decisions.

The Ivey School of Business, besides having Nick Leeson address the students, has also brought in an engineer involved in the Columbia space shuttle disaster, and student visits to the Walkerton Clean Water Center, in Walkerton, Ontario, where water known to be tainted continued to be served to the citizens of Walkerton, are used to teach ethical decision making. Joanne Gualtieri, a lawyer who blew the whistle on the lavish spending of the Department of Foreign Affairs (her former employer) has also addressed the Ivey MBA students.

Changing a culture of corruption

Misangyi et al. (2008) tackle the reduction of corruption by integrating economic and organizational behavior approaches into a larger institutional framework. Their approach emphasizes three elements: institutional logics or meanings, resources, and social actors or social entrepreneurs. Social actors or entrepreneurs use a variety of resources (for example, economic, cultural, social, symbolic) to create a new anti-corruption institutional logic (for example, new identities, schemas or shared meanings, practices), a new culture for the organization.

Controlling corruption

A popular view on controlling corruption is the imposition of organizational controls. However, one would wonder about the adequacy of internal controls in many organizations if Jerome Kerviel, a former trader at the French bank Société Générale, could run up US\$7.14 billion in losses while making unauthorized trades of more than US\$73 billion.

Lange (2008) offers a multidimensional view of organizational corruption control. Organizational leaders obviously can use a variety of control mechanisms to limit corruption. Lange identifies four types of corruption control based on (i) a focus on process or outcomes (targets) and (ii) an emphasis on administrative or social/cultural factors (transmission channels):

- *Targets* process: individual behaviors are emphasized; outcomes: rewards or punishments based on behaviors are emphasized.
- *Transmission channels* administrative: formal rules, routines and structures are emphasized (coercive, rewards and punishments); social/cultural: beliefs and norms are emphasized.

He then adds a third dimension – the functionality of corruption control types – to the two dimensions mentioned above. Four functions of controls are incorporated: autonomy reduction of employees, consequence systems such as formal organizational rewards and punishments, environmental sanctioning such as the communication to employees of external pressures for legal and regulatory compliance and social conformity, and intrinsically oriented controls such as the organization developing and supporting in employees their inclination to avoid corrupt behaviors.

This produced eight distinct corruption controls, divided into four quadrants:

1. autonomy reduction;
2. bureaucratic controls, consequence controls;
3. environmental sanctions – legal/regulatory sanctions, social sanctions; and
4. intrinsically oriented controls – vigilance, self-controls.

This framework links corruption control with the broader treatment of organizational control systems. Organizations have various approaches at their disposal to control corruption, and are likely to use each of their corruption control types.

The work of Albrecht and his colleagues (2004) suggests that there are three broad strategies for reducing corruption following from their corruption triangle. First one can reduce the opportunities for corruption through better oversight, monitoring and controls. Corporate board members will be selected for their knowledge of financial instruments and their willingness to make the time available for becoming thoroughly familiar with these. Second, one can reduce the pressures that the individuals feel they are under through increasing job security, putting less reliance on only making the numbers at all costs, using a balance score card for evaluating contributions, and changing the compensation arrangements. The application of agency theory here suggests that making the CEO's and the organization's interests one and the same would go some way to minimizing top management fraud. Third, one can hire ethical people who will not rationalize fraud as 'business as usual' and articulate and inculcate a culture of ethical behavior.

Anand et al. (2005) suggest that there are ways to prevent corruption-related rationalization and socialization and reduce these if they already exist. In terms of prevention, they propose fostering awareness of these processes among employees through discussion, training sessions, and the encouragement of introspection into the ways employees go about their job on a daily basis – are there any ethical implications that emerge from this analysis? They also advocate that performance evaluations consider more than just 'the numbers'. In addition, organizations would benefit if they created an ethical organizational environment. Finally, it is vital that top management serve as an ethical role model. In terms of reducing rationalization and socialization forces if they already exist, Anand et al. suggest first uncovering these forces and making their reversal a critical need. Moving quickly to address these without denying of them, and using external change agents that can bring outside eyes and ears and represent a new way of doing business, can reverse both rationalization and socialization.

A PricewaterhouseCoopers Global Economic Crime survey conducted in mid-2007, again focusing on data from 126 Canadian organizations, reported that 36 percent did not have a whistleblower committee, 35 percent did not have an audit committee, 50 percent lacked adequate fraud risk management techniques, and 67 percent did not have specific fraud-related training or expertise.

Whistleblowing

Dr David Kelley, a UK government expert on weapons of mass destruction, told a UK journalist that Prime Minister Tony Blair's office had 'glamorized' information to provide a reason to go to war with Iraq. Kelley's name was leaked and his career within the public service came to an end.

Whistleblowing has been viewed as one way to control corruption and fraud in organizations (Mesmer-Magnus and Viswesvaran, 2005). Many government jurisdictions had created laws that support whistleblowing and protect the whistleblower. Organizations have also followed the same path, both encouraging whistleblowing and protecting whistleblowers. Whistleblowers want to bring about change, bringing attention to potential problems. Some whistleblowers have purely altruistic motives. Others may seek personal advantage (revenge, publicity). Some jobs require incumbents to identify unethical conduct by others (for example, accountants, auditors). It has been suggested that individuals with integrity and individuals having higher levels of moral judgment or moral reasoning in the Kohlberg sense (1984) are more likely to be whistleblowers. Whistleblowers can report their observations of misconduct internally or externally, or both. Whistleblowing challenges an organization's authority structure and functioning but may also help the organization stop activities that may hurt employees, customers, investors and the organization itself. Whistleblowing may also have negative consequences for organizations (for example, damaged reputations, loss of client trust, loss of revenues, increased scrutiny by others). Whistleblowers can face a moral conflict between doing what they believe is the right thing and harming others and their organization. Miceli and Near (1992) suggest that whistleblowers should consider these potential destructive side-effects of their actions. Interestingly, not all wrongdoing ends up harming organizations. It is also common for whistleblowers to experience retaliation from their employer.

Near and Miceli (1985, p. 679) define whistleblowers as 'organizational members . . . who disclose illegal, immoral, or illegitimate practices under the control of the employer to persons or organizations who may be able to effect action'. Glazer and Glazer (1999) highlight the courage of whistleblowers, individuals who take risks for the well-being of others.

Fewer people report wrongdoing to others than those aware of wrongdoing, and most whistleblowers face negative repercussions. Although whistleblowing is generally approved of, it is rarely undertaken. The central questions then become 'What motivates whistleblowers to jeopardize their career and reputation?', and 'Why will some individuals who see organizational wrongdoing blow the whistle on the wrongdoer while others ignore it?'.

Dozier and Miceli (1985) see whistleblowing as a form of prosocial behavior involving both selfish (egoistic) and unselfish (altruistic) motives. They propose that certain personality variables interact with perceptions of workplace situations, leading to whistleblowing. They develop a six stage framework to understand whistleblowing decisions: awareness of the wrongdoing; belief that the wrongdoing deserves action; a consideration of possible responses for taking action; whether possible actions are really available; whether whistleblowing is appropriate in light of other possible actions; and considering the costs and benefits of whistleblowing.

Gundlach et al. (2003) more recently developed a social information processing framework that also addresses the whistleblowing decision. It includes attributions of the wrongdoing (that is, intentional or unintentional), judgment of responsibility, credibility of the wrongdoer's explanation, impression management by the wrong-doer, emotional responses by the observer of the wrongdoing (for example, anger, resentment, fear), relative power of wrongdoer and observer, and a cost-benefit analysis of blowing the whistle.

Near and Miceli (1985) offer a model of effective whistleblowing; whistleblowing only has benefits when the complaint is valid, effectively handled and results in positive change. That is, the whistleblower wants the wrongdoing to stop. Whistleblowing is effective to the extent that the wrongdoing stops within a reasonable period as a direct result of the whistleblowing. Their model includes predictor variables such as characteristics of the whistleblower (credibility, power, anonymity), the complaint recipient (credibility, power), and the wrongdoer (credibility, power). Support for the whistleblower versus the wrongdoer is suggested to moderate characteristics of the complaint recipient and the organization's willingness to change. The three sets of predictor characteristics are suggested to have direct effects on the organization's willingness to change. Near and Miceli also develop a model of situational variables that affect the outcome of whistleblowing. Predictor variables here include characteristics of the wrongdoing (the organization's dependence on the wrongdoing, convincing evidence of the wrongdoing, legal bases for the complaint) and characteristics of the organization (appropriateness of whistleblowing, bureaucratic structure, the organization's power in its environment), all suggested to be related to the organization's willingness to change. The whistleblower's use of external channels is proposed as a moderator of these two blocks of predictors and the organization's willingness to change.

Miceli and Near (1988) reported that whistleblowing was more likely when whistleblowers held professional positions, were more work satisfied, had longer tenure, were good performers, were male, worked in larger units, and worked for organizations seen by others as responsive to complaints. Miceli et al. (1991) found that males, individuals having lower levels of moral judgment development, and the presence of more observers of a wrongdoing were associated with a greater likelihood of blowing the whistle. Near and Miceli (1996) reviewed the literature on whistleblowers and concluded that whistleblowers were generally not different from others in their organizations (were not 'crackpots'), and that while retaliation does occur, the incidence of retaliation was relatively low. Some writers use the phrase 'the banality of corruption' to refer to the fact that individuals taking part in corrupt and fraudulent acts were otherwise solid churchgoing citizens, not very different from the average citizen.

Miceli et al. (1991), in a study of US directors of internal auditing, reported that the directors were less likely to report incidents of wrongdoing if they were not compelled morally, it was not part of their job to do so, they rated their job performance below average, or they were employed in highly bureaucratic organizations. They were more likely to report the wrongdoing to external rather than internal sources if they felt the public or co-workers were harmed by the wrongdoing, the wrongdoing involved theft by lower-level employees, there were few observers of the wrongdoing, or their organization was highly regulated.

Who faces retaliation? Although little data are available, what there is suggests no consistent characteristics of the reporter of the wrongdoing (the whistleblower) but some consistent situational factors (for example, merit of the allegation, top and middle management support, use of external channels to report the wrongdoing). In addition, the magnitude of the retaliation was found to vary. Interestingly, whistleblowers claim that retaliation has not deterred them, nor will it.

Near and Miceli (1986), in a study of employees in US federal agencies, reported that whistleblowers were more likely to suffer retaliation if they lacked the support of supervisors and managers. Retaliation was also more severe if the wrongdoing was serious and if

the whistleblowers used external channels. Whistleblowers were more likely to file occupational complaints about the retaliation and to be fired following severe retaliation.

Alford (1999) and Martin (2003) offer a more cynical view on the punishment of whistleblowers, seeing it as a way in which organizations can prevent an outbreak of ethical and moral responsibility that flies in the face of how organizations typically conduct their business in an increasingly competitive world. The case of Joanna Gaultieri supports their view.

Joanna Gaultieri, in 1998, blew the whistle on lavish waste and extreme spending in the Department of Foreign Affairs. She left this department and sued it for harassment. Ten years later her case drags on. She is on paid medical leave, being diagnosed with post-traumatic stress disorder (PTSD) and depression. Government lawyers have asked her over 10,500 questions and she has submitted to 31 hours of examination in court. Gaultieri has lost her career, her health, a good deal of money and over 10 years of her life. Ironically, millions of taxpayers' dollars are being wasted to silence an individual who wanted to stop the wasting of public money.

James MacDonald, a former investment advisor at BMO Nesbitt Burns, discovered evidence of what he believed to be illegal activity by a senior person in the industry, and reported his concerns in a voice-mail to the Investment Dealers Association (IDA), a self-regulatory agency accountable to the Ontario Securities Commission. Within hours of leaving his message, he received an e-mail message from his branch manager asking MacDonald why he contacted the IDA.

Other whistleblowers have reported that it is common to drag out legal proceedings until the whistleblower is emotionally and financially exhausted and then to offer a small settlement including a gag-order so that the whistleblower is prevented from telling the truth at several steps in this process.

As mentioned above, more jurisdictions and organizations are embracing legal approaches to whistleblowing. Are these efforts having their intended effects? Near et al. (1993), in three related studies, found that legal sanctions for whistleblowing did not encourage whistleblowing, but legalistic organizational responses did.

Some jurisdictions have enacted legislation in which whistleblowers receive a certain percentage of the dollar value of savings resulting from the actions of the whistleblowers. This legislation has been the center of controversy as critics believe it might cause some whistleblowers to themselves commit unethical acts in their pursuit of monetary rewards. Carson et al. (2006) concluded that the benefits of the False Claims Act, amended in 1986, offering financial rewards for disclosing fraud committed against the US government, outweighed the costs. Critics have suggested that offering money to whistleblowers is itself a morally corrupting influence.

The US public is increasingly looking to whistleblowers to reduce corporate corruption. The Sarbanes–Oxley Act passed in 2002 provides new protection for whistle-blowers.

Corporate codes of ethics

Organizations increasingly concerned about corruption have undertaken many efforts to reduce or eliminate it. One such effort is to make the elimination of corruption an organizational priority by placing this goal in a written code of ethics. Schwartz (2004, p. 324) defines a code of ethics as 'a written, distinct, and formal document which

consists of moral standards used to guide employee and/or corporate behavior'. Codes of ethics spell out the values of an organization: what is acceptable and what is not, the standards and values that should guide all employee's behavior. Behaviors such as conflict of interest, compliance with federal laws, illegal activities, employee misconduct, the receipt of gifts, and misuse of confidential information are typically spelled out. More organizations are now developing written codes of ethics statements; 58 percent of the world's largest 100 firms have ethical codes (Kaptein, 2004).

Interestingly, Enron had a code of ethics, the July 2000 version running to almost 65 pages. It began with a letter from Enron CEO Kenneth Lay assuring employees that Enron conducts business in line with all relevant laws and 'in a moral and honest manner'. It went on to claim that 'Enron depends on its people, you and me. Let's keep that reputation high'. It then went on to say that the ethics code was based on several values such as respect, integrity and communication – each defined in a few lines. Clearly having a written code of ethics is not enough.

Stevens (2008) reviewed studies of corporate ethical codes published since 2000 and concluded that such codes can influence ethical behavior and employee decision making. Cultures and communication were critical to a code's success. The corporate ethics code had to be a real feature of the corporate culture and embraced by senior management (Treviño et al. 1999). Communication of the ethics code was vital in discussions between management and employees.

Stevens shows that the early evaluations of corporate codes of ethics indicated that they had little value in impacting employee and organizational behavior; they did, however, highlight best practices likely to increase their success and reasons for failure. The later evaluations seem to be showing a more favorable impact of corporate codes of ethics. Although more organizations are developing codes of ethics, having a written code of ethics by itself is never enough.

Stevens offers a five-step program to help managers develop ethical codes that impact attitudes and behavior (p. 607):

1. Engage in a collaborative process to create the code and incorporate revision.
2. Discuss the topics in the code frequently with everyone and debate the organization's trouble spots.
3. Use the code to resolve ethical issues. It belongs in the boardroom and should be part of corporate strategy meetings.
4. Communicate ethical decisions to all members of the organization by explaining the rationale and how the code was used to arrive at the decision.
5. Reward people who behave consistently with the code.

We are aware of more than one global business organization that indicates in its newsletter occasions when employees have been fired for ethical breaches (without revealing their names), specifying the transgression.

Corruption in international transactions is considered to be a major problem in international business operations. Various levels of government, and various countries coming together, have passed legislation to reduce bribery, fraud and corruption in international business. But legislation by itself will not solve this type of corruption. As a result, organizations have increasingly relied on written codes of ethics to influence the attitudes and behaviors of managers as they conduct international business transactions.

McKinney and Moore (2008), in a nationwide survey of US business professionals, found, using a short case study, that respondents from firms having a written code of ethics were significantly less likely to find international bribery acceptable. In addition, firms that generated revenues from international operations were significantly more likely to have a written code of ethics.

But McKinney and Moore did find that 47 percent of their sample of business professionals believed that offering a bribe was acceptable, though the Foreign Corrupt Practices Act passed over 30 years earlier made this a criminal act. Thirty-five percent of respondents declared that offering a bribe was never acceptable.

Codes of ethics serve several purposes. At one level, they provide firms with self-defense by making it clear to employees what behaviors are not acceptable. At another level, they indicate higher values that govern individual actions within a firm. Under the right conditions, codes of ethics are likely to have value in reducing corruption. These conditions include ethical leadership, awareness via constant communication, clear standards, consequences for violating ethical guidelines, open discussion of the code in both formal and informal settings, understanding the code of ethics, and embedding the code of ethics in the living system of the firm (Weaver et al., 2005).

Government regulations

Governments at various levels – national and local – have passed regulations and laws designed to reduce corrupt business practices. These seem to be having some effect. Since the passing of Sarbanes–Oxley in the US, more organizations that are headquartered there have devoted considerably more resources to working within this set of laws. For government regulation to work, however, these laws must be consistently and stringently enforced, there must be leadership at the top of these enforcement agencies committed to the task, their agencies must have an up-beat, can-do mentality that stimulates and is based on past successes, the existence of clear accountabilities and focus, adequate financial and talent resources, and a seamless operation across various jurisdictions.

Monitoring national and international corruption

Transparency International (TI), currently headquartered in Germany, publishes an annual survey and ranking of levels of corruption in the public sector in over 150 countries. Given their focus on only the public sector, they define corruption as ‘the abuse of public office for private gain (2006)’ (for example, bribery of public officials, kickbacks in public bidding and procurement, embezzlement of public funds) more likely to be associated with weak anti-corruption policies. These data serve several useful purposes in the reduction of national and international corruption. First, without metrics there is little likelihood for change. These data serve as a benchmark, permitting comparisons across countries. They also make it possible to assess country improvements over time. In addition, they hold various countries’ ‘feet to the fire’, in the sense of publicizing those countries that have high levels of corruption.

TI’s Corruption Perceptions Index (CPI) is a composite measure that includes multiple expert opinion surveys from at least three sources that poll perceptions of public sector corruption in various countries. It scores countries on a scale from 0 to 10, 0 indicating high levels of perceived corruption and 10 low levels of perceived corruption.

TI’s 2006 report includes data from 163 countries. About three-quarters of the

countries score below 5, and 71 countries – about half – score below 3, indicating that corruption in these countries is rampant. The most corrupt countries include Haiti, Guinea, Iraq and Myanmar; Finland, Iceland, New Zealand and Denmark are the least corrupt countries. Canada ranked 14 out of 163; the US ranked 20 out of 163. Corruption has worsened in Brazil, Cuba, Israel, Jordan, Laos and the US among others; corruption has lessened in Algeria, the Czech Republic, India, Japan, Turkey and Uruguay, among others. But changes in scores are problematic given the measures used. A country's score is more important than its rank as ranks change as countries are added or dropped depending on the availability of data.

TI recommends a number of actions to reduce corruption, including:

- promoting, and if needed, adopting corruption specific codes of conduct by professional associations;
- legal or professional sanctions for legal, financial and accounting professionals that foster corruption;
- improved training to guarantee that individuals understand their roles and responsibilities; and
- greater scrutiny and oversight of insufficiently transparent financial centers that may foster corrupt transactions.

In addition, several developed countries (for example, the US, the UK, Canada) have invested tens of millions of dollars helping developing countries create the policy and institutional framework associated with less corruption. Such initiatives are currently being carried out in China and Russia, for example.

Are we making progress?

Hannah and Zatzick (2008) content analyzed 180 articles in *Business Week*, *Fortune* and *Forbes* magazines, 90 from the five years before the landmark scandals in the early 2000s and 90 in the five years following these scandals. There was no evidence that these scandals had any impact on the use of ethics in the portrayal of organizational leaders. Organizational leaders apparently still must deliver profits above anything else.

Working on this volume has been an eye-opening experience for me. I have come to realize the magnitude of the corruption challenge, the difficulties in reducing corruption, and why so little headway has been made to date. But there are some signs of progress being made. These include more media coverage devoted to issues of crime and corruption in organizations, the costs of these activities, more ethics education for students and managers, more organizations developing 'real' codes of ethical conduct, and efforts to help developing countries create the policies and institutional infrastructure likely to reduce bribery and corruption. We hope this collection lays out clearly what needs to be done and why acting now is so critical.

Overview of the contents

Following this introduction, the volume is divided into three parts. In the Introduction, Ronald Burke has provided an overview of the most important issues and questions related to understanding and addressing corruption in organizations.

Part I examines the causes of corruption in organizations. Why do individuals engage

in fraud and corruption? Burke (Chapter 1) suggests that a common denominator across most instances of corruption is financial gain fueled by individual greed. Individuals obtain direct financial gain from corruption or indirect financial gain from having their organization appear successful, so they are financially rewarded for their contributions. Depending on the role and organizational level of the perpetrators, financial gains can range from a few thousand dollars to billions of dollars. Not surprisingly, perpetrators often use their fraudulent gains to pursue lavish lifestyles. Money has several symbolic meanings. In an increasingly materialistic world, money signals that the individual is a success. Individuals, supported by widespread and never-ending marketing efforts that encourage consumption, have an almost limitless amount of ‘stuff’ that they can acquire. Burke suggests that changes at the individual, family, organizational and societal levels will be needed to reduce the importance of greed, and money, in people’s priorities.

Joel Lefkowitz (Chapter 2) provides a comprehensive review of the individual and organizational antecedents of misconduct in organizations. He addresses issues of definition, the use of various measures of misconduct – few of which assess actual conduct or behavior – theories of ethical misconduct, the gap between theory and research practice, research design and analysis, and issues of causality. His chapter lays out what we think we know and why we think we know it. It appears that both individual and situational/organizational antecedents influence misconduct. Lefkowitz concludes with a summary of what we know about ethical misconduct, its antecedents and consequences, and with a cautionary note on the effectiveness of corporate codes of misconduct.

Corruption in business can include high-profile examples as well as milder or lesser forms. Robert Folger, Robert Pritchard, Rebecca Greenbaum and Deborah DiazGranados (Chapter 3) describe a method – conjoint analysis – for measuring perceptions of the seriousness of white-collar crime and corruption in business. They first review the literature on crime seriousness and unethical judgments. Conjoint analysis is then described and applied to an analysis of unethical behaviors. This approach seems to be a promising advance in the measurement of criminal activities.

Stelios Zyglidopoulos and Peter Fleming (Chapter 4) address the question of how corruption within business organizations escalates. Is it the result of ‘bad apples’ – corrupt individuals – or ‘bad barrels’ – a corrupt environment? They advocate a middle ground. Corruption in organizations escalates when elements of individual agency interact with an organizational context. ‘Bad apples’ factors include agency, rationalization and individual characteristics (for example, ambition, moral development). ‘Bad barrels’ factors include conformity, rationalization at the system level, ethical distance and organizational complexity. The interaction of these factors makes corruption easy, increasingly severe, and pervasive. But does this ‘perfect storm’ of factors make corruption seemingly unavoidable? They argue not necessarily and suggest potential moderators likely to halt the spread of corruption (for example, catching and punishing ‘bad apples’ early, financial and ethical controls).

Part II examines some of the consequences of corruption. Gabriel Eweje (Chapter 5) examines the ethical characteristics of multinational enterprises’ (MNEs’) employee relations in developing countries. Specifically, he addresses various ethical issues relating to labor relations and trade unions in extractive industries in Nigeria, South Africa and Zambia between 1950 and 2000. Data collected in these countries indicate that criticisms against MNEs relating to labor issues and labor practices in developing countries are not

lessening. His discussion is lent focus and direction through the analysis of critical incidents from the perspectives of various stakeholders: government, oil and mining companies and leaders of trade unions. Tensions over pay, expatriate employments as against the locals, negotiation rights and employees' well-being are evident. The argument advanced is that the MNEs operating in the extractive industries of Africa will have to improve their relations with their local employees in order to bridge the legitimacy gaps that exist. Eweje suggests that improved mutual understanding between the MNEs and trade unions is required in order for both actors to have smooth working relationship.

Michael Mumford, Alison Antes, Cheryl Beeler and Jay Caughron (Chapter 6) consider the corruption of scientists. They develop and test a model of ethical behavior in scientists that considers three predictors of misconduct: field socialization, practices in the scientists working environment, and scientist personality. They first describe the unique work of scientists, then develop a sensemaking model to understand ethical decision making among scientists. They collected data from doctoral students in various disciplines. Among their findings were the following. First, a work environment characterized by conflict, competitive pressures, and poor coping also increased unethical decision making. Second, some fields of science are at higher risk of unethical decision making. Third, some personality characteristics, particularly superiority/arrogance, exploitative/indifferent, and cynicism were also associated with unethical decision making. Their findings suggest that scientific-based researchers need to monitor both individual scientists and their work environments for sources of potential ethical lapses.

Part III considers the nature of choices facing individuals, organizations and societies as they grapple with the challenging task of reducing theft, crime and corruption in organizations. Rosa Chun (Chapter 7) examines the usefulness of three perspectives on ethics – Kantian, utilitarian and virtue – and finds that while all three perspectives have influenced the ethics field, the Kantian perspective dominates. She starts with a consideration of the meaning and types of corruption, moving then to a consideration of antecedents of corruption (for example, political systems, culture). Using the Corruption Perceptions Index from Transparency International, she uses three country case studies that highlight different approaches to corruption and various degrees of success in reducing it. In combating corruption, both government regulations and self-regulation are important. Companies need policies and statements of conduct indicating their ethical values and expectations of how employees should behave. An emphasis on the negative impact that corruption has on the reputation of a country and its businesses will affect the economic prospects for individuals and organizations alike.

Ed Freeman, Brian Moriarty and Lisa Stewart (Chapter 8) tackle the thorny question of ethical leadership, which is typically raised following ethical crises. Based on discussions and observations of executives over 25 years, they identify 10 facets of ethical leaders and offer these from the perspective of the leaders themselves. They believe that becoming an ethical leader is relatively simple. It begins with an examination of one's own behavior and values and taking responsibility for the effects of one's actions on various stakeholders. The authors provide examples of the kinds of question leaders need to address. They then move to a consideration of developing the next generation of ethical leaders. Organizations need to begin by having discussions on how they benefit their stakeholders and understanding their organization's values. Individuals should be encouraged to challenge whether or not their organization is living up to its values.

Brian Martin (Chapter 9) then uses a public hearing on the relationship between members of the local government of Wollongong and property developers to tell an engrossing tale of corruption, outrage and whistleblowing. The tale involves sex, money, bribes, threats, criminals, and misconduct. Individuals engaged in corruption use various tactics to limit scrutiny and reduce public outrage. These include: cover-up, attacking critics, reinterpreting the facts (for example, bribes become gifts), use of official channels to make the actions look legal and acceptable, and intimidation or bribing of opponents. Individuals interested in preventing acts of corruption need to respond in ways that address these five tactics. Responses by such individuals include exposure, validation, interpreting actions and behaviors as inappropriate, discrediting ineffectual official channels, and resistance. Martin then applies these tactics in what he terms the 'backfire model' to whistleblowers, offering specific recommendations to them. A whistleblower is an individual who speaks out in the public interest. Almost all whistleblowers suffer abuse yet most would speak up again. Whistleblowers are likely to face the tactics of corruption mentioned above and have to respond using counter-tactics as they pursue their outrage.

Vikas Anand, Alan Ellstrand, Arpana Rajagopalan and Mahendra Joshi (Chapter 10) consider organizational responses to allegations of corporate corruption. They identify factors (for example, legal, credibility of accusations) that likely influence use of particular responses. The nature of an organization's response has critical implications for various stakeholders. Five responses are discussed in detail: denial, reframing, deflection, buying time, and acceptance. Organizations can also use several variations of each response. The work is made 'real' by the use of actual company examples. The authors conclude with possible antecedents in determining which response is undertaken, and likely consequences of its use.

Employee theft is a common and costly problem with up to 75 percent of employees having stolen from their employers at least once. Ed Tomlinson (Chapter 11) considers the evidence for the effectiveness of various interventions aimed at reducing employee theft. Three common approaches have been proposed: a security orientation – reducing opportunities to steal via detection mechanisms (monitoring, surveillance), an individual difference orientation – identifying individuals most prone to theft; and a social orientation – managing social norms and justice perceptions that make theft acceptable. Tomlinson reviews research evidence in each approach, finding that some support is provided for each of the three.

Betsy Stevens (Chapter 12) focuses on the role of ethical codes as a vehicle for reducing corruption in organizations. She positions corruption as a historical and international problem. She attributes the continuing and widespread corruption to the fact 'that companies have been allowed to act recklessly and with abandon'. A corporate crime pays – fines and restitution fall way short of the realized financial gains. She proposes that companies develop and live by an ethical code. Over half of the largest worldwide companies have such ethical codes. The presence of codes both makes companies more attractive to outsiders and communicates to insiders and outsiders that it cares about ethics. Codes spell out the values embraced by the corporation. Stevens identifies conditions associated with effective and ineffective codes. Effective codes become part of an organization's culture. They convey to employees what actions are appropriate and what are not. Violating the ethical codes has consequences. Communicating these to insiders and outsiders is fundamental for codes of conduct to be effective.

Luís de Sousa and Peter Larmour (Chapter 13) review the past, present and future role of Transparency International (TI), an international corruption fighting organization. TI has a challenging mission – ‘a world free of corruption’. It has created national chapters among its initiatives and has successfully pressed the Organization for Economic Cooperation and the United Nations to adopt two international conventions against corruption. TI was formally launched in 1993 and de Sousa and Larmour describe its birth in an engaging and personal way. They identify four stages in the developmental history and evolution of TI. The linking of TI and its national chapters has proved to be a win-win for both. The mandate of TI has broadened over the past few years. TI’s Corruption Perceptions Index is its best-known product. The CPI uses perceptions of various parties to rank countries on a 10 point scale from ‘highly clean’ (10) to ‘highly corrupt’ (1). The CPI, though perhaps imperfect as all global rating systems are, is still the best country corruption metric available. It is transparent, and permits comparisons of country performance over time. Without such a metric there is likely to be little movement; the CPI holds the feet of countries to the fire, a necessary element in creating movement.

In the final chapter, Al Rosen (Chapter 14) takes a critical look at corruption in the Canadian financial sector. Although investors may see Canada as a relatively safe place for investments, Rosen sees it differently. He believes that Canada has weak corporate laws, fragmented securities laws, limited monitoring of pyramid scheme financing activities, timid court decisions and almost non-existent prosecution of criminals. In Canada, the fox seems to be guarding the hen house. Rosen provides vivid examples of Canadian financial failures and wrongdoing. He concludes with suggestions for the essential reform of Canada’s financial system. These include politicians openly admitting the problems facing Canada’s financial regulation systems, the creation of a Canadian national securities watchdog and prosecution agency, and the training of effective securities monitors.

Note

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