Towards a theory of second-order corruption

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Abstract

In this paper, I identify two kinds of corruption: first-order and second-order corruption. First-order corruption is the abuse of power by either individuals or groups for private gain, given a system of existing rules or norms; whereas second-order corruption is the abuse of power by individuals or groups in that they change the existing rules or norms in order to benefit from them unfairly. I argue that second-order corruption has certain unique characteristics that make it harder to identify and more harmful for both the corporation and society in the long run, and conclude by suggesting some ways to deal with it.

Towards a theory of second-order corruption[1]

Transparency International (2011) defines corruption "as the abuse of entrusted power for private gain" and, based on this understanding, many authors have applied similar definitions of corruption in fields of both management and politics. Within the field of management, Anand, Ashforth, and Joshi (2004, p. 40) see corruption as the "misuse of an organizational position or authority for personal gain" and others agree that corruption involves the violation of rules for personal or group gain (Clarke, 1983; Williams, 2000). In the field of politics, Bratsis (2003) defines corruption as the subversion of the public good by private self-interest. Underlying all these rather similar definitions of corruption and fundamental to the way many management and political science scholars use the concept is the notion of 'abuse of power'.

In this paper, drawing on the possible interpretations of this 'abuse of power', I argue that two kinds of corruption, which I refer to as first-order corruption and second-order corruption, can be identified. First-order corruption is the abuse of power by either individuals or groups for private gain, given a system of existing rules or norms, whereas second-order corruption is the abuse of power by individuals or groups in that they change the existing rules or norms in order to unfairly benefit from them. For example, when an executive lies about the profitability of her corporation so that she can receive a greater bonus at the end of the year, she engages in first-order corruption. However, when the same executive uses her power on the board of directors to arrange her compensation rules in such a way that she always receives a bonus regardless of her performance as head of the corporation, she engages in

[1] The author would like to help Paul Hirsch and two anonymous reviewers for their support and constructive comments in earlier versions of this manuscript.

second-order corruption, because this use of a bonus contradicts its main purpose, the alignment of the financial interests of the executive with the interests of the corporation's shareholders. In other words, in the first case she breaks the rules, whereas in the second she shapes (re-writes) them in such a way that they unfairly benefit her.

Second-order corruption is important because of certain unique characteristics it has that make it harder to identify and more harmful for the corporation and society in the long run. First, second-order corruption is subtler than first-order corruption, which makes it harder to detect. Second, it tends to be systematically invisible, either because it has a cover of legality or because it is hidden behind many other complex rules and procedures. Third, second-order corruption can be much more serious/central than first-order corruption because those who can engage in it – those who can influence the rules so that they receive an unfair advantage – are almost always very high up in the food chain and would be unlikely to engage in second-order corruption for trivial sums or matters. Moreover, second-order corruption often plays a central role in the building of unethical systems within business organisations. Second-order corruption can therefore be more harmful and has to be dealt with separately from first-order corruption.

In order to theoretically explore and develop this notion of second-order corruption, in the remainder of this paper, I proceed as follows. First, I discuss the different kinds of interpretations of the term 'abuse of power', which is crucial for our understanding of the notion of corruption and leads us to the differentiation of corruption into first- and second-order types. Second, I discuss in more depth the unique characteristics of second-order corruption and identify the problems to which these characteristics lead. I conclude by discussing the possible ways that second-order corruption can (and should) be identified and dealt with.

Abuse of Power and Kinds of Corruption

Let us start our discussion of the notion of 'abuse of power' by presenting three cases of corruption within organisations.

Case 1: A sales person post-dates to early January some order cancellations she received in late December, which would impact the sales target she had achieved for that calendar year, so that she does not lose her bonus, based on net sales.

Case 2: A production manager chooses to buy for his company system X from supplier A because the representative of supplier A bribed him. System Y from supplier B would have been better, but because both systems are technologically complex, the production manager can use his technological expertise to deceive his non-expert colleagues and superiors into believing that system X is really better.

Case 3: The CEO and a couple of other senior executives hide the losses that their corporation suffered during a particular year by engaging in creative accounting, Enron style, so that their company's share price appreciates in the stock market and they can cash in their stock options for a profit.

In all of these cases, we can see that the abuse of power for personal gain is central to what these individuals did wrong. In case 1, the sales person should not have post-dated the dates of the order cancellations she received in December, but she has the power to do so, given that it was highly unlikely that anybody would check with the customers to verify the exact date on which they made their cancellations. In case 2, the production manager uses the power that his technical expertise gives him to confuse and mislead his non-technical colleagues into believing that the system of the company that had bribed him is the best, when it is not. In case 3, the CEO and her fellow executives use their power over their firm's accounting procedures to hide their losses from the stock market so that they can cash in their stock options for a profit. In short, in all of the above examples of corruption, we see individuals abusing their position of power in a corporation for their own benefit.

However, in all three cases above, we also see that the individuals who abuse their power do so within an existing set of rules or norms. In case 1, the sales person breaks the corporate rule that says she should enter an order cancellation into her log as soon as she receives it. In case 2, the production manager breaks the unspoken norm or tacit contractual obligation that he should be using his technical expertise for the benefit of the corporation's purchases. In case 3, the executives break the contract that they have with their shareholders that they will act in good faith in the interest of the shareholders. In other words, in all three cases, the individuals involved use their power to break an explicit or implicit rule or norm for personal gain.

This kind of corruption, where individuals abuse their power within a given system of rules, laws or norms, by either breaking them or interpreting them in their favour, falls within my definition of first-order corruption. Let us consider the following cases of second-order corruption, when individuals use their power to change (or create new) rules, laws or norms, which unfairly favour themselves.

Case 4: A sales manager, whose company is in the business of providing long-term energy contracts, convinces his superiors that mark-to-market[2] accounting

[2] An important difference of mark-to-market accounting compared to conventional accounting is the following. Under conventional accounting, revenues, costs and profits are recorded when they occur. Under mark-to-market accounting, one can record all of the estimated value of the profit of, for

should be used to calculate the profits from the sales his team makes. Based on these profits, the sales manager and his team can pocket their bonuses on company profits that will not really materialise for years to come and are based on assumptions about an uncertain future.[3]

Case 5: A production manager has to write the technological specifications for a new production system that her company intends to purchase. The choice is between three systems, X, Y, and Z, and she can write the technological specifications in ways that provide X, Y or Z with an advantage if she wants to. Her choice, however, will lock in the corporation for the long term. After the initial investment has been made, it would be too costly to change systems, so the corporation will have to continue buying system upgrades and spare parts from the supplier initially chosen. Now system X would have been the most appropriate system, but the production manager, who is close to retirement, chooses system Y because of her contacts with company Y, which have promised her a cushy consulting job with one of their subsidiaries in his retirement.

Case 6: A company's board meets to discuss the perks that executives should be entitled to after retirement. However, a great number of the company's board members are also active firm executives and most are close to retirement. In addition, the board is dominated by its president, who also happens to be the CEO of the company and has personally brought in most of the members of the board, insiders and outsiders. He is arguing that an executive retiring from the company should receive an additional number of perks including use of the company jet, use of a number of company properties around the country, financial planning assistance and so on. He is arguing for such perks not because he thinks such rewards would be

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instance a twenty-year project, on the day the deal is signed. This is exactly what Enron did for all of its long-term contracts (McLean & Elkind, 2004, p. 39).

[3] Any similarity with the Enron case is intentional.

beneficial to the company in any way, but because he is close to retirement himself and he does not want to lose the perks he has been used to. Of course, he does not say so, but comes up with some rationale to justify his proposal. Now the remainder of the board members, who have for a long time been dominated by the current CEO-President, do not agree with the rationale, but are not indifferent to the perks the package includes for them. Given that it would also take a great deal of effort to oppose the current CEO-President, they all agree that this is an appropriate retirement package for senior corporate executives.

The second set of cases (4, 5 and 6) is in one sense similar to the first set (1, 2 and 3), but differs in another. The similarity is that in both sets of cases what constitutes corruption is the fact that individuals abuse their power for personal gain. However, while in the first set of cases the individuals involved break existing rules and norms, in the second set of cases, the individuals involved use their power to create new rules and norms that unfairly favour them personally, immediately and in the future. For instance, in case 4, the sales manager abuses his power by changing the accounting system used by his company so that in future contracts he and his team can benefit from profits that might never materialise. Or in case 5, the production manager abuses her power by writing the specifications, which will bind her company in the future, in such a way that she will unfairly benefit from this at the expense of her company. Whereas in case 6, the CEO-President and the other senior executives on the board abuse their power by designing the rules guiding the retirement packages of senior executives so that they unfairly keep many of the perks they have been used to at the expense of the firms' shareholders.

In what ways does second-order corruption differ from first-order corruption? And why does it matter? In the following section, I address these issues and subsequently argue that because of its characteristics, second-order corruption can be more damaging than first-order corruption, in the long run.

Characteristics of Second-order Corruption

Second-order corruption has at least three interconnected and often mutually reinforcing characteristics that differentiate it from first-order corruption: (1) subtlety, (2) systematic invisibility and (3) severity/centrality. In short, I argue that second-order corruption is subtler, consistently invisible, and more severe than its first-order relative and often central in the making of organisations into unethical systems.

First, second-order corruption is subtler because it is harder to detect and/or understand. For example in case 1, detecting that the sales person benefits from post-dating the order cancellations received in December to January is easy, only requiring an audit on when particular customers, who apparently cancelled their orders in January, actually did cancel their orders. However, in case 4, detecting how a mark to market accounting system opens the door for many overvaluations of long-term projects is less straightforward. It involves the evaluation of a number of assumptions included in the calculations of complex, long-term deals. Similarly, in case 3, understanding how managers misreported their firm's financial results can be understood after an elaborate audit, because the process of reporting financial results is rather structured. Therefore, by comparing how the firm's financials were reported with how they should have been reported, even if this involves an elaborate and complicated audit, one can understand in the end what exactly the managers did wrong. On the other hand, though, in case 6 where the firm's executives decide on the rules that should guide their retirement packages, the process is rather unstructured and there are no formal guidelines on how such a discussion should be conducted to compare with the actual discussion that took place. Moreover, the ‘abuse of power,’ in changing the rules and the ‘private (unfair) gain’ are in second-order corruption often separated in time, which makes its detection even harder. For example, in case 5, the writer of the technological specs does not benefit from her abuse of power until she retires, years later, and the same applies for cases 4 and 6. In short, second-order corruption is harder to perceive and understand because it often involves the construction of rules regulating complex, long-term projects through unstructured processes and because it is broken down in actions across time that become corruption only if taken together. It requires then a long-term perspective to perceive, given that its consequences have a longer-term impact.

Second, second-order corruption is systematically invisible, mostly to outsiders, in the sense that even if it is not subtle, it is consistently hidden. This could result from the fact that these rules, which unfairly favour those who designed them, are either legal or illegal but their illegal nature is well hidden from scrutiny. The legality of a given rule or regulation can stem either from the process through which it was developed or from the consequences resulting from its application. Therefore, if one wants to determine the legality (or not) of a given rule, one has to examine the process through which it was created and its consequences. In the case where a particular rule, which was designed to unfairly to benefit its designers, is legal, this means that its consequences are not illegal and the process followed in its design was the appropriate one. So, the systematic invisibility of second-order corruption stems from the fact that no one is likely to look twice at rules designed appropriately with no obvious illegal consequences. In other words, the unfairness of the rule is well hidden in its legality. For example, in cases 4, 5 and 6 above, the individuals involved were able to create new unfair but legal rules by taking advantage of the subtlety and unstructured nature of the situation. However, second-order corruption can be present even when individuals abuse their positions of power to design unfair and patently illegal rules, which they hide by complicating the processes through which the illegal and unfair nature of what they did could be discovered. For example, in the Enron and WorldCom cases, the executives involved had designed and followed some clearly illegal rules and regulations, but they had also created a system of, often, legal rules, regulations and bureaucratic procedures that complicated the detection of second-order corruption. In other words, an important characteristic of second-order corruption is its systematic invisibility because it is either 'legal' or even if illegal, it is well hidden through the creation of an extraordinary level of systematic complication, which obscures transparency.

Third, another important characteristic of second-order corruption is its severity/centrality, where by severity I mean the negative impact that the particular corrupt act or acts have on those treated unfairly, and centrality the impact it can have for other corrupt acts. In other words, second-order corruption is more severe than its first-order relative because it is not a one-off incident, but opens the door for many such incidents. For example, comparing case 1 with case 4 above, we can see that while in case 1, the sales person abuses her power once, in case 4, the individuals involved are able to use the new rules of the game to repeatedly gain unfairly from many such incidents. Or, comparing case 3 with case 5, we can see that while in case 3 the engineer unfairly influences her company's purchases once, in case 5, she influences her company's purchases for the foreseeable future, as long as the specs she wrote remain in use. Therefore, the severity of the corruption in cases 4 and 5 is greater as it can continue indefinitely, whereas in cases 1 and 3, the harm done, no matter how great, is a one-off event. Moreover, second-order corruption, as we saw in the Enron and WorldCom cases, can be very central and crucial in creating an unethical system, where the whole organisation becomes corrupt. As McLean and Elkind (2004) report for Enron:

> "… the government was no longer focusing on narrow illegal acts. Instead, it was making the case that Enron was fundamentally a fraud – and it didn't matter if this particular accounting move, or that one, was technically legal. Taken in its entirety, Enron's accounting practices violated the law because they perpetuated fraud" (McLean & Elkind, 2003, p. 414).

In other words, the centrality/severity of second-order corruption can be explained by its ability to expand its impact on the actions of innocent individuals not breaking any rules, technically speaking. Second-order corruption can entangle in corrupt activities individuals, who are innocent participants (Zyglidopoulos & Fleming, 2008) in corrupt activities by following certain unfairly created rules and regulations without being aware of the corrupt implications of their actions (Messick & Bazerman, 1996). And as Zyglidopoulos and Fleming (2008) have suggested innocent participants can easily become rationalizers of corrupt activities, especially when the ethical consequences of their actions are not readily visible to them, thus influencing the norms and cultures of organizations to facilitate corrupt activities.

Consequences of Second-order Corruption

Because of these characteristics, second-order corruption has potentially more serious consequences than its first-order relative: (1) second-order corruption can have a substantial impact on the proliferation of overall corruption across hierarchical levels, (2) it can have greater negative consequences, (3) it can lead to an escalation of increasingly unfair rules and regulations and (4) it is harder to stop.

(1) Second-order corruption can have a substantial impact on the proliferation of overall corruption across hierarchical levels. If second-order corruption exists in organisations, it is most likely to exist at the top because it is the top executives and board members who formulate the rules and regulations that make organisations function. Given the direct and indirect effects that the ethical behaviour of organisational leaders can have across different hierarchical levels (Schaubroeck et al., 2012), second-order corruption can significantly influence corruption at lower organisational levels. For example, top executives, through acting as ethical role models for middle managers (Brown & Treviño, 2006), can influence the behaviour of these managers, who might also engage in first- or second-order corruption. And top executives can have a lasting effect on the overall corruption levels of an organisation by having an effect on the moral standards embedded in the organisational culture (Schaubroeck et al., 2012). Moreover, by engaging in second-order corruption, top executives limit their ability to implement ethical values for the rest of the organisation even if they try to do so, because they will be perceived as hypocritical leaders, who while not moral themselves, try to impose moral standards on others (Trevino & Brown, 2004) and organisational members are likely to imitate what they see or deduce that their leaders are doing, rather than what they are saying.

(2) Second-order corruption can have greater negative consequences. The negative consequences of second-order corruption are much greater than those of first-order for a number of reasons. First, second-order corruption is more severe because it is on going and has the potential to cumulatively cause more harm than first-order corruption. Second, those involved in second-order corruption must have access to the making of new rules and laws or the changing of old ones. This necessarily means individuals who hold senior positions in the corporation, are wealthy and have considerable power, which also means that they would not bother to engage in second-order corruption for insignificant sums of money or benefits. In other words, irrespective of its possible cumulative harm, one should expect second-order instances of corruption to be more serious than first-order.

(3) Second-order corruption can lead to an escalation of increasingly unfair rules and laws. The main reason for this possible escalation of corruption through a series of increasingly unfair rules is a phenomenon that has been labelled as 'shifting baseline syndrome'[4]. The shifting baseline syndrome was first introduced by Pauly (1995) in the study of fisheries to partly explain the disastrous deterioration of fish stocks around the world:

> "Essentially, this syndrome has arisen because each generation of fisheries scientists accepts as a baseline the stock size and species composition that occurred at the beginning of their careers, and uses this to evaluate changes. When the next generation starts its career, the stocks have further declined, but it is the stocks at that time that serve as a new baseline. The result obviously is a gradual shift of the baseline, a gradual accommodation of the creeping disappearance of resource species…" (Pauly, 1995, p. 430)

In the case of second-order corruption, a shifting baseline syndrome operates in a similar way and can also lead to an escalation of corruption in corporations. For

[4] I would like to thank Guido Palazzo for introducing me to the concept of the shifting baseline syndrome.

example, in case 6, let us assume that the board of directors agrees on a particular level of unfair perks for retiring executives. This unfair level of perks, if not challenged, becomes the new baseline which subsequent generations of boards use to evaluate their proposed changes. If these subsequent directors increase even slightly the already unfair rules about the perks allowed to retiring executives, these new rules become the new baseline for subsequent directors, and so on. In other words, even if each generation of directors unfairly changes the rules even slightly in their favour, the cumulative impact over time can be dramatic and lead to an escalation that might not even be visible to the directors themselves because they cannot see beyond their own term (across generations).

(4) It is harder to stop second-order corruption. In order to stop any kind of corrupt activity, reason suggests that three conditions must be met: first, one has to detect the underlying abuse of power in the particular action(s), second, one has to be able to revise the formal rules and regulations so that such actions are not possible in the future, and third, one has to change the informal norms and values of the firm that encourage and/or tolerate such actions. I argue that in cases of second-order corruption, it is harder to meet these conditions.

First, the detection of second-order corruption is harder for a number of reasons. Second-order corruption is often involved in the construction of rules regulating complex projects, unstructured processes and is broken down in actions spread across time, which often hide the abuse of power involved from immediate sight. In other words, its subtlety and systematic invisibility make it harder to detect. Moreover, the rules and regulations, which usually guide us in such cases, are not reliable in a situation where they are not being explicitly broken, but are constructed with a particular bias in mind.

Second, it is also harder to stop, because it involves a revision of existing rules and regulations, a revision that is often cumbersome. In addition, those who did abuse their position of power to create such unfair laws and regulations in the first place might still be in power or be involved in the revision process and they might oppose the revision of the existing rules, which benefit them unfairly, and/or sabotage the revision even if it takes place. In first-order corruption, the breaking of the rules or laws triggers disciplinary procedures of varying intensity, which more often than not remove the guilty parties from their posts. However, this is not the case in second-order corruption, where often no rules were broken and no disciplinary procedures were triggered to remove the individuals responsible from their posts. Moreover, given the possible centrality of second-order corruption, such a revision would be quite cumbersome, as it would also involve revising many other rules and regulations.

Third, revising the norms and values, which encourage and/or tolerate second-order corruption is often hard because these values and norms are embedded in an organisation's ethical culture, the shared understandings of organisational members regarding ethical conduct (Trevino, 1986, 1990) and they have become normalised with time (Anand et al., 2004; Spicer, 2009). According to Schaubroeck et al. (2012), organisational leaders can directly and indirectly influence the ethical culture of their organisation. In particular, these researchers found that organisational leaders influence both the ethical conduct and beliefs of their immediate followers and that of followers at lower hierarchical levels by influencing the ethical behaviour and beliefs of their subordinate leaders. In short, leaders can influence the ethical culture of their organisation across and within organisational levels (Schaubroeck et al., 2012), a finding particularly relevant for second-order corruption because if it happens, it happens almost exclusively at the top of the organisational pyramid.

How to deal with second-order corruption

Given the above characteristics and consequences of second-order corruption, detecting and stopping it are not easy tasks. A brief look into the history of political philosophy can easily tell us that the threat of second-order corruption has been with us for a very long time, at least since the time of the Ancient Greek philosophers. However, even if dealing with second-order corruption is not an easy task, given its seriousness, we should keep trying to deal with it as best we can. Therefore, having no illusion that these suggestions permanently solve the problem of second-order corruption, I offer in this section a few suggestions on how corporations should deal with second-order corruption. In brief, I identify and discuss three ways, which separately or (better) in conjunction, can help corporations prevent, detect and stop second-order corruption. These are related to regulations, moral cognition and moral conation (Hannah, Avolio, & May, 2011).

Starting with corporate regulations, corporations might consider a periodic review of their rules and regulations through a zero-based approach. In a sense what I propose here is very similar to what in financial management is called ‘zero-based budgeting’. Zero-based budgeting “requires each manager to justify his/her budget request as though the organisational functions were starting from ‘ground zero’” (Flamholtz, 1983, p. 166). What I propose is that corporations might want to periodically review the rules and regulations concerning the benefits of different individuals, i.e. managers, executives, different kinds of specialists and so on, as if the firm were starting for the first time. In other words, executives, the Board of Directors or even the firm’s shareholders might want to ask a task committee, which would have to include a substantial portion of disinterested outsiders, to review the firm’s functions and businesses and propose which rules would make sense to them, if the corporation were to start from scratch, without including in their deliberation the rules and regulations the firm actually has at the moment. Large discrepancies between the rules guiding the benefits of individuals that a zero-based review proposes and existing ones might indicate that second-order corruption has accumulated unnoticed into the firm's regulatory edifice and with time came to be considered normal (Anand et al., 2004; Fleming & Zyglidopoulos, 2008; Palmer, 2008; Spicer, 2009).

In proposing the above, I draw on Adam Smith's notion of the impartial spectator. Adam Smith introduced the concept of the impartial spectator in his book *The Theory of Moral Sentiments* (Smith, 2010) to enable individuals to make impartial but informed decisions. Smith proposed that, faced with a moral decision, one should imagine what an impartial spectator observing one's actions at a distance would say. This way, Smith argued, one uses all the relevant information in one's possession and at the same time through the distance imagined for the impartial spectator one can also approximate impartiality/disinterest (Broadie, 2006).

The application of the notion of the impartial spectator is not new to the corporate world, with the difference that real individuals are used. One could argue that when firms use auditing firms to ensure the accuracy of their financial reports, they are actually using the idea of a real impartial spectator. However, in order for corporations to be able to better deal with second-order corruption, I would recommend that the notion of the impartial spectator be also used for periodic reviewing of existing rules and also in auditing the rationale behind proposed changes to existing or new rules. In other words, while the concept of the impartial spectator is currently used in the governance of corporations to ensure that firm executives and accountants comply with existing – mostly financial – rules and norms, it should also be applied to audit the rule-making function of corporations, using a zero-based approach.

Second, coming to matters of moral cognition, there are two ways through which business organisations and the individuals within them can address second-order corruption. These are: (1) making the rationales behind proposed regulatory changes explicit, and (2) simplifying these rationales to the greatest extent possible.

(1) Making the rationales behind proposed regulatory changes explicit**.** In many cases, second-order corruption results from the fact that the rationales behind proposed regulatory changes are not clear. For example, in case 4 above, the rationale as to why a mark-to-market accounting procedure should be the most appropriate for long-term engineering projects was not made explicit. The same applies to cases 5 and 6. If, through debate, more effort had been given to making the rationales behind such regulatory changes more explicit, it is more likely that the second-order corruption element of the decision would have become more obvious.

(2) Simplifying these rationales to the greatest degree possible. Given that technical complexities can be used to hide the real rationales behind changes in regulations, with Enron being a paradigmatic case in this respect, executives should be pressured into simplifying their rationales to the greatest degree possible. Of course, there are some technical matters that cannot be simplified beyond a certain point, matters which only specialists can understand. However, if the general rationale of the proposed change is separated from the technical arguments supporting it, then impartial outsiders, including individuals with and without technical training, can easily evaluate both.

Third, organisations can try to address second-order corruption through improving the moral conation of their managers. According to Hannah et al. (2011), moral conation refers to the impetus to act with moral purpose and results from moral ownership, moral efficacy and moral courage. They view moral ownership as the sense of ownership and responsibility that an individual feels towards a particular moral target; moral efficacy as an individual's belief in her capabilities to organise and mobilise her resources to attain moral performance; and moral courage, in brief, as the character strength to commit to her moral principles in spite of the adverse pressures and dangers involved in doing so.

The moral ownership, efficacy and courage of managers can help organisations prevent, detect and stop second-order corruption in different ways. Moral ownership can prevent executives, board members or managers from not identifying the moral implications of the matter and their responsibilities in it, because as Trevino and Brown (2004, p. 70) note, "decision makers may not always recognize that they are facing a moral issue". For example, in case 4 above, moral ownership might help the sales manager to identify the possible moral consequences of his decision to choose a particular form of accounting, as this form could provide the temptation and opportunity to salespeople to exaggerate expected profits in their favour. Moral efficacy can motivate executives or managers to use their resources to achieve a set of rules or norms conceptualised with the appropriate criteria in mind. In case 5 above, the production manager would decide which technological system her corporation should be locked into based on performance/cost criteria and not her (personal) potential future rewards. Finally, moral courage can be very instrumental in getting individuals within groups to speak up for their beliefs, even though they might be penalised for doing so, because, as Trevino and Brown (2004) point out, even if individuals decide on what is right, it is not always easy to do so. In case 6, for example, in discussing the future perks of retired executives, a member of the board would need exceptional moral courage to stand up to the domineering president/CEO and argue that the retirement perks proposed were excessive and not in favour of the shareholders, or more broadly, the corporation's stakeholders.

It is therefore reasonable to suggest that corporations invest in developing these aspects of moral conation. Organisations can do so by raising awareness of the possibility of second-order corruption, through training programmes reinforcing appropriate practices and values, by developing ethical organisational cultures and by reinforcing ethical leadership.

Moreover, organisations could try through their promotion practices to make sure that the individuals who make it to the top and might have the opportunity to engage in second-order corruption are all 'principled,' to use the term from the theory of cognitive moral development described by Kohlberg (1969). According to this theory, individuals tend to develop from childhood to adulthood through a sequence of five hierarchical cognitive stages, which determine how they think about ethical dilemmas. Within this framework, moral reasoning becomes more complex and sophisticated as the individual progresses from early to later stages. Of course, not all individuals make it to these higher stages, which Kohlberg considers as "morally better," as they are consistent with our understanding of justice and rights. However, it is not the purpose of this paper to review Kohlberg's theory of cognitive moral development. For our purposes, it suffices to say that it is only individuals who make it to the highest and fifth stage[5] of moral development that Kohlberg refers to as "principled", and make ethical decisions based on justice and rights principles, who are least likely to be tempted to engage in second-order corruption, given the

[5] The other four stages are: (1) where individuals decide on what is right or wrong based on punishment avoidance, (2) where individuals focus on getting a fair deal in exchanges, (3) where individuals are conforming to the expectations of significant others, and (4) where individuals decide on what is wrong or right based on the society's rules (Kohlberg, 1969).

opportunity. Therefore, organisations should aim, as far as possible, for those who reach top executive positions to have morally developed to a “principled” level.

Discussion and Conclusion

Second-order corruption, as developed here, has certain similarities and is related with some notions of corruption from the field of political science, such as the notion of meta-corruption (Martinot, 2005), the role of the administrative regime in post-soviet Russia (Sakwa, 2010) and secondary corruption (Werlin, 2002). Meta-corruption, according to Martinot (2005), is the “acceptance and valorization of an underlying corruption” (2005, p. 107) and he illustrates what he means by referring to the acceptance by both political parties of computerized voting machines, which compromised transparency and the openness of tallying procedures in the 2004 US Presidential elections. A more similar concept to second-order corruption is the description by Sakwa (2010) of how, operating within the administrative regime of the state, “political actors bend structures and rules for their own ends” (2010, p. 192), in post-soviet Russia. Moreover, the notion of second-order corruption is related to some extent to the notion of secondary corruption (Werlin, 2002), who uses it to refer to a government’s inability to control “excessive partisanship or greed,” which he refers to as primary corruption, in democratic politics (2002, p. 347).

There are also a number of theoretical implications following from the notion of second-order corruption discussed in this paper. First, the relevant literature does not always make a clear and useful distinction between first- and second-order corruption, with too much research attention been accorded to first-order corruption. Second, second-order corruption can be seen as influencing the overall corruption of organizations through a number of theoretical perspectives. For example, within a bounded rationality framework (Simon, 1979), individual decisions leading to corrupt actions can be investigated as resulting from second-order corruption that staged the social system in a way that deprived these individuals of complete information. Or, following what De Graaf (2007) refers to as 'bad apples' theories, one can explain organizational corruption as resulting from a few bad apples, who designed the rules in unfair ways. Third, second-order corruption has implications for the study of political corruption within democratic politics because it can focus our research attention on the corrupting potential of the criterion of deciding the who should construct the laws and regulations guiding political processes, what Warren (2004, pg. 328) refers to as the "dynamics of inclusion and exclusion within democratic politics."

In conclusion in this paper, I have introduced the concept of second-order corruption as the abuse of power by individuals or groups to change the existing (or create new) rules or norms so that they can benefit from them unfairly. I have also argued that second-order corruption is very important because it is harder to identify, it is more harmful over the long run and is harder prevent, detect and stop. Finally, I have presented some proposals that might help corporations in dealing with second-order corruption. While I am under no illusion that my suggestions can permanently solve the problem of second-order corruption, I hope they may provide some help to business organisations in dealing with this problem.

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