http://eprints.gla.ac.uk/136876/

Expanding Research on Corporate Corruption, Management and Organizations

Stelios Zyglidopoulos (Adam Smith Business School, University of Glasgow, UK)

Paul Hirsch (Northwestern, USA)

Pablo Martin de Holan (MBS College of Business and Entrepreneurship

KAEC, Kingdom of Saudi Arabia)

Nelson Phillips (Imperial College London, UK)

ABSTRACT

In this special issue introduction, we briefly describe a variety of research paths researchers have followed to study the multifaceted phenomenon of corruption. Furthermore, we classify the papers included in this special issue according to their contribution to these research paths and briefly preview them. Finally, drawing on these four research paths and the papers included in this special issue, we propose a six-item agenda for future research on corruption.

INTRODUCTION

Corruption is a major problem in much of the world. It often prevents economic development, causes inefficiency and unfairness in the distribution of resources, can be the underlying factor behind corporate failures and industry crises, can erode the social fabric of societies, and can have other major negative impacts in the wellbeing of individuals and societies. Therefore, many international agencies, ranging from the Organization for Economic Cooperation and Development (OECD) and the United

Nations, to the World Bank and International Monetary Fund, are engaging in different activities aimed at the reduction of corruption in both business and government organizations. We can better understand the significance of corruption by identifying four co-evolving trends that have been taking place in the last decades. First, corruption has been found to have severe negative impacts on societies, businesses and individuals. As many studies have repeatedly shown, corruption adds to the cost of doing business, diverts funds from those most in need, and can be the cause of financial crises (Burke & Tomlinson, 2016; Lounsbury & Hirsch, 2010). Second, national governments have been increasing the regulations that corporations have to comply with, some of which have extra-territorial jurisdiction (i.e. US Foreign Corrupt Practices Act; UK Bribery Act). Third, the fines that the various regulatory bodies impose on business corporations for engaging in corrupt activities or not complying with regulations have been increasing at a "dramatic" level (Kaminski, 2016). Fourth, the corresponding dramatic growth of compliance departments in many corporations, often after they suffered from major scandals (i.e. Siemens), indicates that corporations are taking corruption issues seriously. In discussions that one of the guest editors has had with compliance professionals, it seems that compliance departments increasingly see their function expanding from simply demonstrating "legal compliance" to include the "prevention of corruption and other kinds of financial crime." However, in spite of their many efforts to reduce corruption, the phenomenon we refer to, as "corruption" appears to persist and is casting a long shadow on many organizations, both private and governmental. Therefore, as researchers, it is of great importance that we continue to study corruption so that we can better understand it and find ways to prevent it from damaging our societies.

But, before we proceed to discuss the topic of corruption research, we should address the issue of what corruption is and note its complexity. Transparency International defines corruption as "the abuse of entrusted power for private gain" (Transparency International, 2011). Similarly, Ashforth et al. (2008, 671) define corruption as "the illicit use of one's position of power for perceived personal or collective gain." We believe we should enrich and expand this definition by differentiating between first- and second-order corruption. First-order corruption refers to the abuse of power within existing systems or rules or norms that individuals abuse for their own benefit, whereas second-order corruption where executives use their power to unfairly re-write and shape the organization's norms and regulations in their favor (Zyglidopoulos, 2016). However, beyond expanding the definition of corruption, we must emphasise the fact, often ignored, that corruption is a very rich, complex, multidimensional construct, embedded in different ways in different cultures and refers to many kinds of activities.

In the last decades, then, given the importance and multifaceted nature of corruption, researchers have increasingly allocated more attention to corporate and non-corporate corruption. In particular, in dealing with corruption, researchers have followed four different research paths, which have not always communicated adequately with each other. Communication between researchers following different research paths is partially hindered by the fact that different scholars engage in corruption research at different levels of analysis (i.e. individual, organization, industry, country), follow different methodologies (i.e. case studies, ethnographic research, econometric modeling), and often base their research on different ontological assumptions (i.e. does corruption have the same meaning globally). However, it is necessary for scholars belonging to different research traditions to

better communicate with each other, if we are to achieve a more sophisticated and complex understanding of corruption and improve our ability to prevent it.

In this special issue, our purpose is not only to renew and extend the research agenda around corporate corruption, so that we can contribute towards a more sophisticated and complex understanding, but also to facilitate communication between different researchers. For this special issue, we received thirty-nine excellent papers, some of which benefited from being presented and discussed at an EGOS subtheme, entitled "Shadows of Organizational Corruption – Renewing the Agenda," in Naples 2016. We finally accepted eleven papers, which the reviewers and we thought made significant and novel contributions.

In the remainder of this article, we identify a number of research agenda paths that scholars who study corruption have followed over the years; preview the papers included in this special issue according to the research path they contribute towards; and suggest a research agenda for future contributions.

CORRUPTION RESEARCH PATHS

Given the richness and complexity of corruption research, we try to impose some tentative order by identifying four research paths that scholars have followed in studying corruption. We do not pretend that our depiction of corruption research here is a complete or systematic literature review on the matter, but we do try to put some order in the field by identifying these four research strands, which we find useful in discussing our proposed research agenda and the contributions of the papers included in this special issue. We use examples to illustrate the kind of research works we think illustrate each research path, without claiming these works are the most important ones in their field. In brief, we identify four research paths, which study

corruption in: (1) individuals, (2) organizations and industries, (3) different countries (mostly from an economic development perspective), and (4) different cultural context (from an anthropological perspective).

(1) Corruption and individuals

How do managerial actions contribute to corruption? Can a leader stop corruption? How does corruption in a team develop and spread? How do individual emotions contribute to corruption? How do individuals rationalize their behavior? How can managers prevent first- and second-order corruption?

Drawing on a rich research tradition of social psychology and criminology, researchers within this domain have investigated the motives, contexts, rationalizations, and characteristics of individuals, who engage in corrupt activities. For example, drawing on an existing stream of research in social psychology (Bandura, Barbaranelli, Caprara, & Pastorelli, 1996; Sykes & Matza, 1957) Anand, Ashforth, and Joshi (2004) identified a number of rationalizations that individuals within organizations often use to avoid seeing themselves as corrupt. Another example of research in this category is part of the work done by Albrecht, Wernz, and Williams (1995), who in describing why individuals engage in fraudulent activities, identify the fraud triangle, consisting of pressures, opportunities, and rationalizations.

Contributing to this research path, in this special issue, De Klerk expands on this insight, in his "The Devil Made Me Do It: Psychoanalytic Perspectives on the Unconscious 'Devils Within' of Rationalized Corruption." De Klerk extends the fraud triangle by elaborating six types of rationalizations for corruption. These connect well to the motives, rationalizations, and escalation processes we will return to in the "Identify specific corrupt practices" portion of our proposed research agenda.

(2) Corruption of organizations and industries

What are the organizational antecedents and/or consequences of corruption? What are the processes through which corruption appears, is maintained and spreads? How can corruption be avoided or managed once it appears? Are there organizational structures/cultures/routines that reduce the likelihood of corruption? How can organizations manage the process of creating fair rules and norms? How does corruption erode competitive advantage?

A second research path followed by many researchers investigates corruption at the level of organizations or industries. Researchers investigating corruption at these levels of analysis usually try to understand the antecedents, consequences of corruption, and the evolution over time (Fleming & Zyglidopoulos, 2008) of what Palmer (2008) refers to as "collective corruption" at the organizational level. Also Lounsbury and Hirsch (2010), in a volume they edited collect a number of papers partially dealing with the role corporate corruption played in the 2008 US financial market crisis. Work in this path is often very much connected to and builds on the path above, which deals with individuals within organizations and corruption. For example, the work by Anand et al. (2004) contributes to both because in addition to their discussing rationalizations, at the individual level, they also discuss how corruption spreads and is perpetuated within organizations through socialization tactics and other organizational facilitating factors.

In this special issue, four articles fit into this research path. The article by Clemente & Gabbioneta on "How Does the Media Frame Corporate Scandals? The Case of German Newspapers and the Volkswagen Diesel Scandal" and Schwartz's portrayal of discourse utilized in the false billing practices of university hospitals in

her "From the Ordinary to Corruption in Higher Education" provide excellent examples of how organizations' leaders can knowingly initiate corrupt activities to "beat the system." Executives having the knowledge and skills to do so, as in these examples, will be further addressed in the "Corruption as capability" portion of our proposed research agenda. In the article titled "Moral Accounting by Organizations: A Process Study of the US Financial Crisis Inquiry Commission," by Murphy, Patvardhan and Gehman, the authors use an inductive approach to understand the process through which organizations are seen as morally accountable for events that led to crises. They focus on the aftermath of the 2007–2008 financial crisis and their findings indicate that moral accountability is negotiated via an iterative, discursive process. Moreover, contributing to both research paths concerning individuals and firms/industries, the essay titled "The Corruption Norm," by Nelson, discusses the fact that misconduct in some industries becomes so widespread that it becomes the new norm.

(3) Corruption and economic development

What field level dynamics are associated with widespread corruption? Can corruption become institutionalized in a field? If so, how does an illegitimate behavior become institutionalized? What forms of institutional work are associated with stopping corruption? How do institutional entrepreneurship and/or institutional work relate to corruption? Are some industries more prone to corruption than others?

Within the economic development and political science domain, many researchers have investigated the role that political and bureaucratic corruption plays in developing countries and particularly the role it plays in economic development

(d'Agostino, Dunne, & Pieroni, 2016; Sepehrdoust & Berjisian, 2016). An interesting idea that emerged in this, mostly unknown within the field of business, line of research is the identification of different kinds of corruption that have different impact on the development of a country (Rock & Bonnett, 2004; Wedeman, 1997). For example, in comparing the impact of corruption between three different developing countries, Wedeman (1997) differentiated between looters, rent-scrapers, and dividend-collectors, which he found had different impact on their respective country's development.

The three contributions which fit within this category in this special issue are: "A Bitter Pill: Institutional Corruption and the Challenge of Anti-Bribery Compliance in the Pharmaceuticals Sector" by Yakis-Douglas, David-Barrett, Moss, & Nguyen; "Understanding Contextual 'Readiness' for Achieving Institutional Breakthroughs: A Study of the Fight Against Corruption in Brazil" by Castro & Ansari; and the interview with "Anna Hazare: A Corruption Crusader and his Grassroots Wisdom," by Chowdhury, Banerjee & Deepak. Yakis-Douglas et al. clearly lay out the difficulties encountered by sales representatives of US and British companies in developing countries to follow company rules against providing gifts and bribes when a nation's purchasing agents expect them, and sales reps from other nations are not so restrained. In his recounting the "car wash" investigations of national corruption surrounding Brazil's Paribus Corporation, Castro and Ansari develop an extension of institutional theory to take context more into account when following how large-scale corruption gets investigated. In the interview with corruption fighter Anna Hazare, Chowdhury et al. bring us views and insights from one of India's most famous leaders in that nation's fight against corruption among government officials in all regions of the country.

(4) **Corruption in different cultural and societal contexts**

How do cultural and societal factors affect corruption in organizations? How does corruption in organizations affect government and civil society? How does the existence of elites affect the dynamics of corruption? What is the role of generalized social trust in determining the level of corruption within a society? What are the micro and macro consequences of corruption?

Drawing mostly on anthropology, a number of researchers investigate the causes and consequences of corruption as they occur and make sense in different cultural contexts. As Torsello and Venard (2016) maintain, mostly though detailed ethnographic studies, this perspective provides important insights into the different meanings that corruption can have in different cultures. For example, Ledeneva (2008) compares the notions of *blat* and *guanxi*, which are often seen as corrupt by western cultures, in Russia and China respectively, and investigates how such practices are used to obtain scarce goods and services. Moreover, Orjuela (2014) describes the role that corruption plays in Nigeria, Kenya, and Sri Lanka in the ability of people to construct and contest their identity.

In this special issue, three articles fit within this research path. First, in a dramatic instance of how this plays out in different cultural contexts is Pelly's description, in his "Story of Captain Baby-Face and the Coffee Maker: An Entrepreneurial Narrative Perspective on Corruption," of how a small gift opened and enabled discussion between US officers in Iraq and tribal leaders. Second, Anderson, in her article titled "Of Great Vampire Squids and Jamming Blood Funnels: A Socially Constructed and Historically Situated Perspective on Organizational Corruption," proposes that corruption is not only socially constructed but also

historically situated. To offer a way to articulate organizational corruption as an eventful conception, she draws on the well-publicized accusation of corruption by Goldman Sachs. Third, Slager, in her article titled "The Discursive Construction of Corruption Risk," investigates how accountants, in their discourse aimed at private sector audiences, construct the concept of anti-corruption risk.

PROPOSED RESEARCH AGENDA

Looking forward, we identify here a six-fold research agenda, which we believe would help advance our understanding of corruption and, we hope, improve the communication between researchers following different research paths.

(1) **Focusing on specific corrupt practices**: Corruption includes a variety of activities such as bribing, fraud, padding one's expenses, altering financial documents, discriminating on characteristics such as sex, race or ethnicity, and more. The fact that all of these types of activities illustrate the "abuse of power for personal gain" idea does not mean that studying them as a homogeneous phenomenon is always beneficial. It is possible that the motives, rationalizations, escalation processes, and damages of different kinds of corrupt activities differ substantially. An approach where we study specific corrupt activities could provide researchers and practitioners with a more fine-grained understanding of corruption and therefore more effective ways to prevent it or stop it before it grows.

(2) **Context matters**: The multimillionaire minister of an oil rich country who steals millions of dollars from the public to buy houses around the world he does not really need, represents a dramatically different kind of corruption from the lowly paid police officer of the same country who pretends your car light is broken and asks for a trivial, by western standards, bribe to help feed his family, because his salary is not

10

enough. This distinction has been discussed in the relevant literature as "grand" and "petty" corruption (Nystrand, 2014) and it clearly illustrates the difference that context makes. We cannot assume it away, if we want to understand and prevent corrupt activities from taking place. We need to understand the context that makes the corrupt activity "make sense" for those involved. Such an understanding will help with preventive measures and help regulators and corporations to find the most efficient and effective ways to prevent corruption from taking place. Therefore, researchers should try to better understand how a corrupt act "fits" within a particular cultural and institutional context, and its purpose, motivation, function, and so on. It is easy to discard corrupt activities as unethical and dismiss them without understanding the context in which they developed and are evolving. For example, in some countries where corruption is widespread, bribery up to a certain level is considered acceptable and "corruption" is going beyond that. Examining when behavior has gone "over the line" enough to be seen as corrupt would be an interesting topic for future research. Considering in what types of environments a particular corrupt act is more likely to be accepted as "normal" versus abnormal and punishable would also be interesting. What variations are found in different nations' laws, customs, institutional arrangements and degrees of enforcement?

   (3) Second-order corruption: As mentioned above, we would like to enrich the definition of corruption by differentiating between first- and second- corruption, a distinction that can and has been applied beyond the organizational level (Zyglidopoulos, 2016) to the country level of analysis. At the country/state level, Hellman, Jones, and Kaufmann (2000) discuss the notion of "state capture," which they define as the efforts of business firms to alter their surrounding institutional environment so that they can benefit. Research dealing with this kind of corruption is

rather sparse, but given that this kind of corruption can cause serious, long-term damage (Zyglidopoulos, 2016), it is important for researchers to expand their understanding of "corruption" to include second-order corruption and state capture phenomena. Moreover, some of the activities involved here might be immoral and corrupt, but not necessarily illegal.

(4) Corruption as capability: There is an old English saying that "it takes a thief to catch a thief," a saying we think also applies to the study of corruption. In other words, we need to perceive matters from the perspective of the corrupt individual or organization, if we are to become able to prevent corrupt activities from taking place. A lot of work has been done on the motives, opportunities, and rationalizations that contribute to corrupt activities. This has improved our ability to prevent corrupt activities at different levels, up to a point. But all these systems, regulations and codes of ethics are obstacles that individuals or organizations determined (or desperate) enough to engage in corrupt activities can overcome by improving their corruption related capabilities. We have then to study corruption as a capability and address issues such as, what are the specific skills that make an individual or an organization capable of engaging "successfully" in corruption? What are the skills or capabilities that enable individuals or organizations to cover their tracks and benefit from corrupt activities? How do individuals or organizations develop such skills? Along those lines is the work of Crane (2013), who investigates the phenomenon of modern slavery as a management practice and examines how firms develop capabilities that allow them to simultaneously take advantage of slavery and insulate themselves from the illegitimacy associated with it.

(5) From corruption to scandal: As Hirsch and Milner (2016) point out, quite often when a scandal erupts the public's reaction is often enough a "it's about time."

This means that in such cases the underlying corruption was relatively well known, but had not erupted into a scandal. This is a very interesting venue for future research, because it means that either some kinds of corrupt activities can "pass under the radar," or are relatively acceptable for long periods of time. In other words, one could ask, under what conditions do some corrupt activities, known to many, go unnoticed at the society level? Is it that there are social mechanisms that select certain kinds of corrupt activities to evolve into scandals, where others go on relatively undisturbed? Is the public characterized by an "attention span" effect where only so many scandals can be noticed at a point in time? Are there particular social agents who control this process?

(6) Learning to be corrupt: Arthur Andersen, the accounting firm that in 2002 had to surrender its licenses to practice because of its engagement in corruption, which led to criminal convictions, started out about a century earlier as a firm characterized by professionalism and integrity – attributes which it maintained and exemplified for many decades (Toffler & Reingold, 2004). However, in 2002 it had to surrender its license to practice because it was corrupt. How did such a firm go from being a paragon of professionalism and integrity to having to close its doors because of corruption? Toffler and Reingold (2004) provide a fascinating narrative to that question. But such a question could be asked in a different way for many firms, in other words, one could ask, how do firms *learn* to be corrupt?

Organizational learning has a very long and rich research history (Argote, 2011; Argote & Miron-Spektor, 2011; Berends & Antonacopoulou, 2014; Levitt & March, 1988; Starbuck, 1992) studying changes in beliefs/cognitions and/or actions/behaviors of organizations and individuals (Easterby-Smith, Crossan, & Nicolini, 2000). This extensive and rich literature predominantly perceives "learning" as something positive

that leads to improved organizational performance. However, if we broaden this notion of learning to include negative routines, behaviors, and cognitions, the organizational learning literature could offer a lot to our study of corruption, by helping researchers understand how organizations "learn" to be corrupt over time. In other words, we suggest here, that the literature of organizational learning can and should be applied to studying how some organizations become corrupt over time. One could study the evolution of corruption in organizations by investigating how organizations (or individuals within them) change their beliefs/cognitions, introduce and retain new corrupt routines, acquire knowledge related to the implementation of corrupt activities, and create knowledge reservoirs for corrupt routines.

In closing, we would like to highlight the need for what Rousseau (2011) refers to as an interdisciplinary and multilevel perspective. Rousseau (2011) maintains that such a perspective is necessary for the study of organizational phenomena that draw and have been investigated by multiple disciplines (i.e. psychology, sociology, anthropology, management, economics, or political science) and operate across levels. Corruption is such a phenomenon. Therefore if we are to better understand it and come to better prevent it, we need to engage is such interdisciplinary and multilevel research. The first such multilevel study dealing with corruption, in addition to an array of other topics, was Plato's *Republic* (1989), where he examined the notion of justice at the level of the individual and society. This highlights the fact that corruption has been with us for more than two thousand years and will most likely remain with us for a very long time. We have to find then innovative ways of studying it, so that we can limit the damage that it can have to our organizations and societies.

References

Albrecht, W. S., Wernz, G. W., & Williams, T. L. (1995). *Fraud: Bringing Light to the Dark Side of Business*. Burr Ridge, IL: Irwin Professional Pub.

Anand, V., Ashforth, B. E., & Joshi, M. (2004). Business as usual: The acceptance and perpetuation of corruption in organizations. *The Academy of Management Executive, 18*, 39-53.

Argote, L. (2011). Organizational learning research: Past, present and future. *Management Learning, 42*, 439-446.

Argote, L. & Miron-Spektor, E. (2011). Organizational learning: From experience to knowledge. *Organization Science, 22*, 1123-1137.

Ashforth, B. E., Gioia, D. A., Robinson, S. L., & Treviño, L. K. (2008). Re-viewing organizational corruption. *Academy of Management Review, 33*, 670-684.

Bandura, A., Barbaranelli, C., Caprara, G. V., & Pastorelli, C. (1996). Mechanisms of moral disengagement in the exercise of moral agency. *Journal of Personality and Social Psychology, 71*, 364.

Berends, H. & Antonacopoulou, E. (2014). Time and organizational learning: A review and agenda for future research. *International Journal of Management Reviews, 16*, 437-453.

Burke, R. J. & Tomlinson, E. C. (2016). *Crime and Corruption in Organizations: Why it Occurs and What to Do about it*. Surrey, UK: CRC Press.

Crane, A. (2013). Modern slavery as a management practice: Exploring the conditions and capabilities for human exploitation. *Academy of Management Review, 38*, 49-69.

d'Agostino, G., Dunne, J. P., & Pieroni, L. (2016). Government spending, corruption and economic growth. *World Development, 84*, 190-205.

Easterby-Smith, M., Crossan, M., & Nicolini, D. (2000). Organizational learning: Debates past, present and future. *Journal of Management Studies, 37*, 783-796.

Fleming, P. & Zyglidopoulos, S. C. (2008). The escalation of deception in organizations. *Journal of Business Ethics, 81*, 837-850.

Hellman, J. S., Jones, G., & Kaufmann, D. (2000). Seize the state, seize the day: State capture, corruption and influence in transition. *World Bank policy research working paper*.

Hirsch, P. M., & Milner, D. (2016). When scandals yield "It's About Time!" rather than "We're Shocked and Surprised!". *Journal of Management Inquiry, 25*, 447-449.

Kaminski, P. R., Kate. (2016). A best-practice model for bank compliance. In (Vol. 2016). www.mckinsey.com/business-functions/risk/our-insights/a-best-practice-model-for-bank-compliance.

Ledeneva, A. (2008). Blat and guanxi: Informal practices in Russia and China. *Comparative Studies in Society and History, 50*, 118-144.

Levitt, B. & March, J. G. (1988). Organizational learning. *Annual Review of Sociology, 14*, 319-338.

Lounsbury, M. & Hirsch, P. M. (2010). *Markets on Trial: The Economic Sociology of the US Financial Crisis*. Bingley, UK: Emerald Group Publishing.

Nystrand, M. J. (2014). Petty and grand corruption and the conflict dynamics in Northern Uganda. *Third World Quarterly, 35*, 821-835.

Orjuela, C. (2014). Corruption and identity politics in divided societies. *Third World Quarterly, 35*, 753-769.

Palmer, D. (2008). Extending the process model of collective corruption. *Research in Organizational Behavior, 28*, 107-135.

Plato (1989). Republic. In E. Hamilton, Cairns, H. (Ed.), *Plato: The Collected Dialogues* (Vol. Bollingen Series LXXI). Princeton University Press.

Rock, M. T. & Bonnett, H. (2004). The comparative politics of corruption: accounting for the East Asian paradox in empirical studies of corruption, growth and investment. *World Development, 32*, 999-1017.

Rousseau, D. M. (2011). Reinforcing the micro/macro bridge: Organizational thinking and pluralistic vehicles. *Journal of Management, 37*, 429-442.

Sepehrdoust, H. & Berjisian, A. (2016). A comparative study of corruption's effect channels on economic growth in rentier and non-rentier economies. *Quarterly Journal of Applied Theories of Economics, 3*, 59-88.

Starbuck, W. H. (1992). Learning by knowledge‐intensive firms. *Journal of Management Studies, 29*, 713-740.

Sykes, G. M. & Matza, D. (1957). Techniques of neutralization: A theory of delinquency. *American sociological review, 22*, 664-670.

Toffler, B. L. & Reingold, J. (2004). *Final Accounting: Ambition, Greed, and the Fall of Arthur Andersen*: Currency/Doubleday.

Torsello, D. & Venard, B. (2016). The anthropology of corruption. *Journal of Management Inquiry, 25*, 34-54.

Transparency International (2011). *The Global Coalition against Corruption*. http://archive.transparency.org/news_room/faq/corruption_faq: Transparency International.

Wedeman, A. (1997). Looters, rent-scrapers, and dividend-collectors: Corruption and growth in Zaire, South Korea, and the Philippines. *The Journal of Developing Areas, 31*, 457-478.

Zyglidopoulos, S. (2016). Toward a theory of second-order corruption. *Journal of Management Inquiry, 25*, 3-10.