Management and Organization Review 1:1 119–154
1740-8776

An Organizational Perspective of Corruption[1]

Yadong Luo
School of Business Administration, University of Miami, USA

ABSTRACT An organizational view of corruption is a frontier and challenging issue in the realm of management and organization research. This article elucidates four interrelated yet sequential issues that collectively constitute organizational explanations of corruption: (i) corruption and organizational environment; (ii) corruption and organizational behaviour; (iii) corruption and organizational consequences; and (iv) corruption and organizational architecture. Specifically, it (1) offers taxonomic metaphors that identify different corrupt organizations on the basis of corruption scale and hierarchical involvement; (2) defines task environments (oligopoly intensity, regulatory control and structural uncertainty) and institutional environments (opaqueness, injustice and complexity) that stimulate illicit acts; (3) confers a typology of corrupt behaviors that align with these task and institutional environments and correspond to different metaphors (system malfeasance, procedural malfeasance, categorical malfeasance and structural malfeasance); (4) develops the logic that corruption impedes organizational development through quadri-damages (evolutionary hazard, strategic impediment, competitive disadvantage and organizational deficiency; and (5) illuminates a corruption-resisting architecture comprising corporate culture, organizational structure and compliance system.

Corruption has drawn the enormous attention of scholars in various fields and practitioners around the world. A survey by Transparency International identified 4000 books and journal articles published in the last ten years with corruption as their main theme. Of those, 74% addressed politics and public administration issues, 10% took a historical perspective, 9% focused on law and the judiciary, 4% on economics, 2% on ethnographic and culture and 1% on business ethics (*Global Corruption Report*, 2001, p. 229). Recent debacles of many well-known companies, from the US companies Enron and WorldCom to China's GITIC and Yuanhua Group, have further raised the profile of corrupt practices and their organizational repercussions.

The disciplines that deal with corruption each have fundamental paradigms, which they bring into the analysis of the phenomenon. Sociologists hold that the

© Blackwell Publishing Ltd 2004. Published by Blackwell Publishing, 9600 Garsington Road, Oxford, OX4 2DQ, UK and 350 Main Street, Malden, MA 02148, USA.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

roots of corruption are social and cultural, and that corruption hinders public welfare and social development. Political scientists maintain that non-transparent institutions, low-paid public servants and a shortage of independent and well-functioning market mechanisms are antecedents of corruption. Legal scholars focus on the type of legal system and its enforcement. Macroeconomists focus on weak economic institutions and lack of transparent economic institutions as root causes. However, all of these disciplines lack effective tools to address the organizational contexts, behaviours and processes that form corruption at the organizational level.

An organizational perspective toward corruption is important for several reasons. First, an organization is a basic unit of corruption practice. Most corrupt activities take place between profit-driven organizations (bribers or donors) and government officials or legislators (corruptors or recipients) (The Conference Board, 2000). Second, organizations that are motivated to bribe for transaction-specific gains are partly responsible for the reason why corruption is difficult to eradicate. Unlike individuals, corrupt organizations cannot be 'arrested', and thus only face legally prescribed economic sanctions. Unless organizations are fully prepared to resist corrupt practices, it is very difficult to fight corruption in any society. Third, an organization is a window through which to see a nation's corruption climate. Corruption may be a passive reaction to cumbersome regulatory environments that impose a hurdle to business development or an active seeking of economic rents from corruption-generating opportunities. Lastly, knowing organizational implications of corruption is imperative. Those emphasizing the satisfaction of corporate utility functions for specific transactions generally believe that corruption gains outweigh corruption costs (e.g. Schleifer and Vishny, 1993). Organizational-level, rather than transaction-level consequences, need to be addressed.

Many studies have already addressed some organizational issues of corruption but they have done so by separating different foci or in a piecemeal manner without offering an integrated view. For instance, research on business ethics has offered many insights into organizational endeavours to combat corruption, but has failed to establish relationships between organizational environments, organizational behaviours, organizational outcomes and organizational infrastructure. I myself have also tried to look at this issue in the past (Luo, 2002a) but that study focused only on strategic implications of corruption and on the distinction between corruption and networking, especially in the context of Asia. It explored neither organizational environments that provoked corruption nor organizational behaviours that corroborated corruption. To illustrate the organizational view of corruption more systematically, the present study delineates four interrelated and sequential issues: (i) corruption and organizational environment; (ii) corruption and organizational behaviour; (iii) corruption and organizational consequences; and (iv) corruption and organizational architecture. I define task and institutional envi-

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

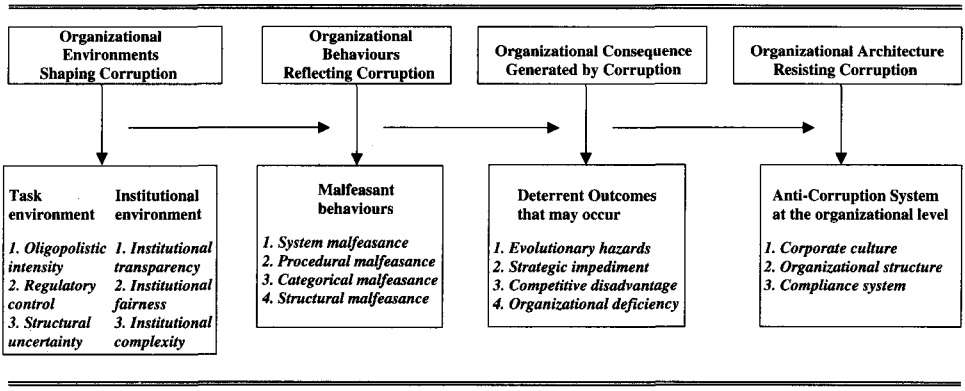


Figure 1. An Organizational Perspective of Corruption: a Theoretical Model

ronments that impose corruption opportunities or threats, to which corrupt organizations respond with varying behaviours and tactics. These behaviours in turn lead to differing consequences, with greater malfeasance causing more damage in the areas of evolutionary hazard, strategic impediment, competitive disadvantage and organizational deficiency. To rectify malfeasant behaviours and avoid these damages, organizations must establish a formidable infrastructure resistant to corrupt practices. I use taxonomy of organizational corruption and typology of illicit behaviours to explain these issues. Figure 1 graphically highlights these interrelated elements that jointly constitute the organizational view of corruption.

DEFINITION OF ORGANIZATIONAL CORRUPTION

Corruption is a complex and multifaceted phenomenon with multiple causes and effects, occurring as it takes on various forms and functions in differing contexts. This article defines corruption as an illegitimate exchange of resources involving the use or abuse of public or collective responsibility for private ends (i.e. gains, benefits, profits or privileges). This definition includes corruption between organizations and political agencies (when public power is misused) and between organizations and other organizations (when collective responsibility is abused). In a narrow sense, corruption involves a bureaucratic behaviour that deviates from the norm or violates rules specified by a given political context, and is motivated by private gains that can be accrued from the public role. In a broad sense, corruption involves role behaviour in any institution (not just government or public service) that violates formally defined role obligations in search of private gain. 'Organization' in this study refers to a profit-driven business organization. Much of the argument herein also applies to non-profit organizations, but profit-seeking organizations arguably have greater obligations for curbing corrup-

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

tion. The majority of corruption takes place between business organizations and political agencies, both domestically and internationally (US Department of State, 2001).

Corrupt practices generally include bribery, fraud, extortion and favouritism. As the primary form of corruption, bribery is the payment (in money or kind) given or taken in a corrupt relationship. Other terms for bribery include 'kickbacks', 'red envelopes', 'gratuities', 'baksheesh', 'grease money', 'facilitation payment' and 'expediting fees'. To most companies, bribery of public officials is the most prevalent form of a corrupt act. Fraud is an economic crime that involves some kind of trickery, swindle or deceit. Extortions involve corrupt transactions where money or other resources are violently extracted by those who have the power to do so. Lastly, favouritism is a mechanism of power that privatizes public resources; a highly biased distribution of state resources, no matter how the resources were accumulated in the first place. Favouritism is the human proclivity to favour friends, family and anybody close and trusted, at the expense of public interests. It is a misuse of public responsibilities and implies a corrupted distribution of public resources. It must be noted that the definition of corrupt acts varies across nations. For instance, the US Foreign Corrupt Practices Act 1977 (FCPA) defines bribery as the offer, promise or gift of undue pecuniary or other advantage, whether made directly or through intermediaries, to a person holding public office for that person to commit an act or refrain from acting in relation to the performance of official duties. This definition has not been effective outside the USA nor with non-US companies (The Conference Board, 2000).

By focusing on organization-level corruption, I do not imply that individual-level corruption is unimportant. In fact, organization-level corruption is performed by executives or employees at various levels, who do so, partially or entirely, on behalf of the organization. This is analogous to a system illness activated by a few virus cells. It is possible that most of the logic I discuss below may also apply to business–business corruption. Nonetheless, I view business–government corruption as being particularly responsible for the corruption that is rampant in most economies. Corruption has a market in all countries that lack transparency in all areas of government practice and that also lack strong and independent institutions to combat corruption. As such, corruption is global in both its subject matter and origin. Because corruption is particularly rampant in emerging and transitional economies, I focus more on these types of economy. The basic logic, however, applies to other types of economies as well.

It is necessary to understand the nature of corruption. First, *corruption is context-based.* Depending on the individual, ideology, culture or other context, the term 'corruption' can mean different things to different people. It is particularly important to take into consideration the impact that a changing political environment may have on the term. Politics not only affects the understanding and explanation of corruption, but also produces and identifies certain social behaviours as corrupt.

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

Therefore, it is necessary to examine not only corrupt practices *per se*, but also the attitude and performance of the political system toward corruption – such as the exposure of corruption by the press, by the party in power and by different factions – as well as the reaction of government to corruption, whether administrative or judiciary.

Second, *corruption is norm-deviated.* Although corrupt behaviour can arise in a number of different contexts, its essential aspect is an illegal or unauthorized transfer of money or an in-kind substitute. Although there may be a situation where certain behaviour is generally considered corruption but no legal precedent has been established for it (in this case, the legalist definition lags behind the moralist definition), law-based norms are the most widely used. This is because the legal definition of corruption is generally more operational, clear-cut, consistent and precise than the moral definition. Moreover, it usually does not take long for judiciary rules or institutional stipulations in a given political context to 'catch up' through the modification of the legal framework. The person bribed must necessarily be acting as an agent for another individual or organization, because the purpose of the bribe is to induce him to place his own interests ahead of the objectives of the organization for which he works. In general, corruption leads the corruptor to secure private gains at significant public expense. Although not all corruption will definitely be detrimental to social welfare, it violates legal codes or institutional rules stipulated in a given political context. Without this essence, corruption cannot be distinguished from gift-giving and interpersonal links.

Third, *corruption is power-related.* In order to be eligible as a corrupt transaction, a corruptor or bribee must necessarily be in a position of power, created either by market imperfections or an institutional position that grants him discretionary authority. Corruption always depends on power; power, however, does not necessarily spring from the law. People in public service such as physicians in Taiwan, customs clerks in The Philippines and low-level staff who process bank loans in mainland China gain power not from the law but from the actual influence they exert on procedural costs afforded by businesses. Nevertheless, bureaucratic corruption (involving governmental officials) constitutes the most corruptible and corrupted part in many societies.

Fourth, *corruption is virtually covert.* Because of the nature of the operation, corruption is hidden in the underground informal arena. No formal written contract is delivered. Contact is made through oral communication so that it cannot be documented and used to prosecute a responsible entity. Manoeuvres are carried out to conceal the identity of the actors. Overall, corruption is an informal, veiled system transforming benefits derived from one's public roles and power to personal gain. On the other hand, corruption is partly provoked by the incompleteness of the formal system. It fills the interstices of the formal system, causes its decomposition and provides new impetus for its recomposition. The incompleteness of the formal system causes actors to bring their corruption schemes into the

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

underground where they are protected by secrecy and where they can flourish and reproduce themselves in the shadow of the formal system.

Fifth, *corruption is intentional.* The motivation of personal gain conveys the very connotation of corruption. Illegal misconduct may not necessarily be corruption if there is no personal gain. Economists generally treat corruption as another means by which to maximize profits or seek optimal economic resources. Addressing its sensitivity to the rationality underlying corruption enables us to differentiate purposive dereliction of duty for personal gain from other careless maladministrative behaviours.

Sixth, *corruption is* ex post *opportunistic.* Unlike normal transactions, corrupt practices are not codified in any explicit way, or written in any form of documentation. Parties in these practices are also not protected by any legal system. Corrupt transactions are therefore particularly endangered by *ex post* opportunism posed by the other party. Since corruption payments are a form of investment, which have no value outside the transaction, the payer places himself in the potential hold of the receiver, who can later demand additional payment or who may not (or insufficiently) perform the agreed service, without fears of counter measures from the payer. As a result of this opportunism, *ex post* uncertainty associated with a corrupt transaction is formidable, especially for the bribing party.

Lastly, *corruption is perceptional.* It relates to individual behaviour as perceived by public as well as political authorities. Since it is a perceptual term judged by others, the concept becomes dynamic, subject to changes in social attitudes and political ideologies. As such, corruption can be further classified as 'white', 'black' or 'grey'. Although all violate legal codes or institutional rules, each of these has different moral implications. 'White' corruption (i.e. some types of misconduct) can be tolerated by mass opinion. However, 'black' corruption is clearly condemned. In between falls 'grey' corruption, which is often ambiguous. Accordingly, the legal definition of corruption remains important for 'black' and 'grey' corruptions, but is not as important for 'white' corruption. Under certain circumstances, the public may reasonably feel that an act legally defined as corruption is a necessary tool to survive. This explains in part why anti-corruption laws and rules in many transition economies, such as China, have been changing so rapidly. The nature of 'perception' is even more prominent when one considers the dynamic nature of 'norms', 'duties' and 'rules'.

TAXONOMY OF ORGANIZATIONAL CORRUPTION

Organizations that engage in corrupt activities differ in the intensity scale and hierarchical scale of corruption, resulting in varying organizational identities, which display different levels of seriousness regarding the corruption involved. The *intensity scale* of corruption concerns the multitude (quantity) as well as the magnitude (gravity) of the corrupting activities. The *hierarchical scale* concerns the number of

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

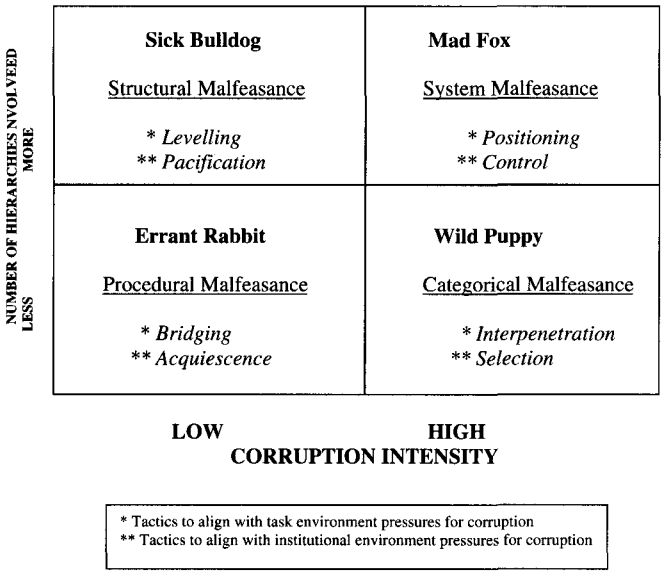


Figure 2. Taxonomy of Corrupt Organizations

hierarchical levels (e.g. group/team-level, function/department-level, division/SBU-level and corporate/head-office level) that are directly involved in corrupt acts. Together, these two dimensions jointly mirror the seriousness of organizational corruption. Specifically, the intensity scale manifests the seriousness of the incidence of corruption events, whereas the hierarchical scale reveals the hierarchical involvement of corruption within an organization. Organizational disease stemming from corruption is more severe along such incidence and extensiveness. The more hierarchical levels involved, the more severe the disease of corporate-wide corruption. These two dimensions are interrelated, yet distinct. They may reinforce each other, such that the more hierarchies involved, the greater the intensity of the corruption that is likely to occur. Yet they describe differing aspects of organizational engagement. Most corruption frauds within a large organization may take place in a low level of hierarchies, meaning that managers on the bottom of the organizational structure are responsible for the organizational corruption. Likewise, there are organizations whose corruption is small in scale, but may involve top-ranked senior executives. Using the intensity scale and the hierarchical scale as two axes, four metaphorical identities emerge (see Figure 2): (1) 'mad fox' (high intensity and more hierarchies); (2) 'errant rabbit' (low intensity and few hierarchies); (3) 'sick bulldog' (low intensity and more hierarchies); and (4) 'wild puppy' (high intensity and few hierarchies). As I will explain later, organizations with differing identities may live in different environments, act with different behaviours, bear different consequences and require different architectures.

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

'Mad fox' is a metaphor for an organization where a large number of the managers and employees at many hierarchical levels or in various sub-units perform corrupt practices, resulting in very serious illegalities. The 'mad fox' metaphor thus infers the illness of a whole organization, in which both the intensity scale and hierarchical involvement have reached very high levels. The US companies Enron and WorldCom, and China's GITIC and Yuanhua Group fit this metaphor. The common feature of corruption in these firms is the fact that corrupt act is permeated throughout the organization, with the absence of strong corporate transparency, leadership, culture and codes of conduct to reduce the potential for illicit dealings, to promote transparency in public accounts and to enhance accountability to shareholders. Leadership, especially role modelling, in combating corrupt is lacking in all these firms. Through their role modeling, allocation of rewards and criteria for selection and dismissal, Enron executives, for instance, reinforced a culture that was morally flexible, opening the door to ethics degeneration, lying, cheating and stealing by numerous managers at various levels. Within an organizational structure, managers at function-, business- and corporate-levels actively and extensively participate in corrupt activities or collude with external stakeholders to achieve certain objectives that are, they perceive, in the interest of the organization. The worst scenario among the four identities, this type of organization often holds some rationalizations that lead to misconduct, including (1) a belief that the activity is within reasonable ethical and legal limits; (2) a belief that the activity is in the sub-unit's or corporation's best interests; (3) a belief that the activity is 'safe' because it will never be known or publicized; and (4) a belief that because the activity helps the organization, the organization will condone the activity and even protect the person or people involved. Although some of these beliefs may also occur in other scenarios, the magnitude of these beliefs is strongest in the 'mad fox'.

The errant rabbit is a metaphor for an organization at which intensity and hierarchical scales of corruption are both very low, implying fewer instances of misconduct, narrower hierarchical involvement and a weaker plague from corruption compared to other metaphors. It is nonetheless errant, involving illicit practices that organizations with good business ethics would not perform. United Technologies and Pratt & Whitney are two examples of this metaphor. Several of their foreign subsidiaries were found to have involved in bribing foreign government officials in violation of the FCPA. In these cases, corrupt acts occur only at the sub-unit level relatively less frequently. Misconduct in this type of organization is not structurally systematic, but is occasional or spontaneous, typically performed by a few employees at lower-level hierarchies. Even with programmes to resist corruption, some companies may still engage in errant rabbit behaviours because of difficulties in governing the implementation of these programmes at business- and function-levels. For most companies undergoing pyramidal politics (i.e. decentralizing power to every lower hierarchy), errant rabbit behaviour is likely to arise

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

unless the system of enforcing counter-corruption policies is effectively and endurably functioning.

The sick bulldog is a metaphor for an organization where corrupt activities are not intensive but are nonetheless the practice of executives, managers or employees at many different levels. In spite of low intensity, organizational breadth is high and many levels of hierarchies are involved. This type of organization is 'sick' because corrupt practices spread to so many hierarchies that the entire body of the organization is contaminated. Central to this metaphor is the management inability or weak leadership to curtail illicit act and to encourage behavioural and cultural norms within an organization. China Construction Bank, the largest property lender in the nation, seems to be an example of this metaphor (see http://www.bizasia.com/finance). Corruption intensity in this case was not high, given the fact that the Bank's illicit act focused narrowly on reporting phoney profit-and-loss figures, creating secret accounts and making illegal loans. However, the number of hierarchies involved in this case was extremely high: from its former president, Wang Xuebing, to its Hong Kong Branch president, Liu Jinbao, to dozens of middle-level managers at various branches throughout the mainland. False reporting was rampant in the Bank for years. It was reported that many branches opened fake accounts that had 'no known uses'. They also gave loans to persons who bought homes without down payments or who used the loans for investment or repayment of debts. It is true that many large corporations today consist of a conglomerate of sub-units, each with its own management. It is ultimately the individuals within each unit or department who make decisions and compromises, or react to external environments. However, this conglomerate system is an integrated moral and social entity responsible for business-related misconduct by individuals who represent the company. Although it does not produce a large number of corruption events, sick bulldog behaviour massively harms the entire organizational morality. Misconduct is typically caused by two connected structural mechanisms – corporate structure (tasks, responsibilities, rules, procedures for individual members) and corporate culture (ideas, expectations, values, visions and customs shared among individual members). The roots of a sick bulldog reside in the malfunctioning of both structural mechanisms.

Lastly, a wild puppy is a metaphor for an organization in which most corruption is narrowly concentrated at one or a few hierarchies. This metaphor is characterized by a large scale of corrupt practices that are largely performed by employees at one or a few narrow hierarchies. For example, the Citigroup corruption scandal, aired recently in public (see Argandona, 2003), looks intense and severe, but most corrupt practices involve its investment banking subsidiary, Salomon Smith Barney, which was claimed to have many alleged conflicts of interest with the group's corporate banking division. It was reported, for instance, that Jack Grubman, a senior telecommunications analyst at this subsidiary, had deliberately upgraded his rating on AT&T stock from 'hold' to 'buy' in October 1999,

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

one month before the initial public offering of AT&T Wireless. This enabled Citigroup to strengthen its hold on the important AT&T account. Grubman did so in exchange for help from the Citigroup's CEO to get his daughter into a private school (the latter backed the application for admission with a donation of $1 million to the school by the bank). The adjective 'wild' is used to symbolize a rampant situation of bribery, fraud or other illicit activities occurring at one level or in one sub-unit. The majority of these activities are localized narrowly at one level of the hierarchy. It is natural that responsibility increasingly diffuses and fragments when an organization decentralizes its complex operations and deploys distinctive resources to sub-units. Accordingly, it is possible that one sub-unit, which can work independently to produce harm, may be responsible for most of the corporate-wide wrongdoing. In this instance, if evidence of potential harm is unassembled and fragmented and if corporate- or parent-level executives do not strive to suppress and stop sub-unit behaviour through integrated codes of conduct, a wild puppy may transform into a mad dog, dwarfing the healthy growth of an entire organization.

CORRUPTION AND ORGANIZATIONAL ENVIRONMENT

Organizational corruption can be attributed to both corporate and environmental factors. The impact of macro-environmental dynamics – whether economic, political, legal or cultural – on national-level corruption has been rigorously studied. Corruption derives from numerous environmental factors, notably distorted or opaque governmental behaviour and decisions, weak counter-corruption institutions, cultures that intertwine gift-giving with bribery, ambiguous business-government relations, subtle networking practices, shortage of independent and well-functioned market mechanisms and institutions, poor quality of public service, low salaries in the public sector, influence of an underground economy, strong linkage between officials and family businesses, deficiency in democratic power-sharing formulas, weak media functions and inadequate openness in trade and market access (e.g. Ackerman, 1975, 1999, 2001; Doig and Theobald, 2000; Goldsmith, 1999; Husted, 1999; Johnson, Kaufmann and Lobaton, 1998; Kaufmann, Kraay and Lobaton, 1999; Lambsdorff, 1999; LaPalombra, 1994; Mauro, 1995; Tanzi, 1998; Treisman, 2000; Wei, 2000).

This study departs from the above and instead emphasizes how the organizational environment influences organizational corruption. Organizational theorists suggest that a firm's behaviour, strategy and response are shaped by its organizational environment, which is composed of both task and institutional constituents (Lawrence and Lorsch, 1967; Meyer and Scott, 1983). The task environment pertains to external resources, information or conditions that may immediately affect goal setting and goal attainment. The institutional environment pertains to the external needs and requirements to which individual organizations must conform

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

in order to receive legitimacy and support. In this study I focus on three traits of the task environment, namely (i) oligopolistic intensity, (ii) regulatory control and (iii) structural uncertainty, and three traits of the institutional environment, namely (i) institutional transparency, (ii) institutional fairness and (iii) institutional complexity. In my view, organizational corruption increases or decreases when conditions in these environments change. It is true that firms may also be able to shape, at least to some extent, these task and institutional environments (corruption itself may be one of the means for this purpose). Here I intend to illustrate how corruption is influenced by these task and institutional conditions that already exist, the argument being consistent with the above organizational theorists.

Specifically, I suggest that oligopoly, regulation and uncertainty, together with institutional opaqueness, injustice and complexity escalate pressure for corruption and propel the probability of its incidence. Whether or not this pressure will eventually transmit into real corruption, however, depends to a large extent on an organization's moral consciousness and related programmes combating corruption. Moral consciousness concerns the extent to which an organization's leaders and employees are aware of the moral goodness or blame-worthiness of their own behaviour, together with a feeling of obligation to do the right thing. In my view, moral consciousness is a prerequisite for moral behaviour. Although a corporation is a juristic, not a real person, society has the right to look at its moral consciousness and to see to what degree its moral behaviour conforms to a social standard of what is right. Moral consciousness and related anti-corruption programmes are thereby likely to either be a conditioning factor or a moderating factor, affecting the form or strength of the link between corruption and the environment.

Task Environments

Although they may not be completely inclusive, oligopolistic intensity, regulatory control and structural uncertainty are proposed as the ingredients constituting the task environments of corruption. Task environments include the elements that actively and directly cooperate and compete with the focal organization (Dess and Beard, 1984). They interact with the organization through resource dependency (Pfeffer and Salancik, 1978) and information uncertainty (Lawrence and Lorsch, 1967). Task environments affect organizations through the process of making available or withholding resources and information. Oligopolistic intensity and regulatory control reflect a focal firm's resource dependency on competitors and regulators. Structural uncertainty indicates the variability of industry structural information that drives up the costs of transactions and coordination for the organization. Both dependency and uncertainty are viewed as salient parameters affecting business strategy and corporate response. The way an organization reduces such dependency or uncertainty in order to cope with these conditions will affect that organization's outcomes (Child, 1972; March and Simon, 1958).

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

Oligopolistic intensity describes the extent to which a small group of firms in the focal industry have dominant control and market power in the industry. If a corrupt organization is a member of this group, it will be motivated continually to bribe officials in power or collude with other members of the group in order to retain its advantageous position. It also has a monopolistic power to distort, withhold or hide the industry's structural information needed by other business stakeholders (suppliers, buyers, new entrants, small rivals). In this case, abnormal economic returns are not created from building blocks of competitive advantages but from a corruption-based monopoly. If an oligopoly is threatened with reduction by governments, the company may even fortify its corruption. Competitive pressure arising from deregulation or privatization will challenge the sustainability of market power and the advantageous position already occupied by the oligopolistic firms. From the perspective of a corrupt government agency, oligopoly motivates public servants to seize parts of economic rents obtained by oligopolistic firms using extortion and corruption. For a morally unconscious company not belonging to this oligopolistic group, the incentive to bribe is also present. Because of the liabilities of newness, smallness, or remoteness (i.e. distance from political authorities), a firm outside this group spends more in accessing the focal industry, confronts pressure to follow oligopolistic firms' pricing and policy and encounters greater difficulty in utilizing upstream inputs or downstream resources controlled by oligopolistic players. Executives who are not morally conscious may think that corruption with political or bureaucratic authorities will help the company secure a foothold or privileges (financing, taxation, distribution channel or procurement) so as to neutralize its foregoing liabilities. When these oligopolistic incumbents are state-owned enterprises, the illicit act is amplified. A weak outsider may also bribe decision-makers in a monopolistic firm to obtain a subcontract, which provides some specialized services needed for the latter's value-chain activities.

Regulatory control is concerned with the extent to which government authorities regulate and intervene various industrial policies such as market access, capital investment, technological standard, distribution channels and environment protection, which may significantly impact business operations in a focal industry. Executives at firms participating in an overly or poorly regulated industry may use more corruption to countervail changing and uncertain regulations. From the information uncertainty viewpoint, excessive or poor regulatory control, which is often nontransparent and unstable in most emerging economies, increases the costs of information scanning and processing. From the resource dependence viewpoint, excessive or poor regulatory control, often conducted by controlling key production inputs such as land, natural resources and capital, increases the costs of strategic planning and creates difficulties in maintaining flexibility. In the minds of ethically questionable managers, bribing officials can help the company reduce information costs, lighten the regulation's hindrance or obtain institutional privileges. Under this presumption, there may be a positive link between excessive, poor

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

or uncertain regulatory control and corruption intensity for companies lacking business ethics. The practice of 'getting in by the back door' used by many Chinese companies, especially those in a weak market position, illustrates this link. In the past four decades, whenever regulatory control heightens, 'back door' activities intensify.

Structural uncertainty describes the extent to which an industry's structural attributes such as demand and supply are volatile and unpredictable. This uncertainty implies an absence of sufficient information about industry structure and its changes. It also implies executives' inability to predict these changes and their impact on organizational decision alternatives (Dess and Beard, 1984). Since this uncertainty is largely caused by changes in government policies, ethically questionable executives may aggressively bribe officials in power in order to obtain insightful information and a lead on unreleased new policies. Such 'insights' may transform into short-term privileges, which enable the corrupting firm to occupy a superior position in the market or grasp some early-mover opportunities. Institutional economics holds that structural uncertainty propelled by industrial policy is significantly more difficult for firms to predict, respond to and cope with than structural changes caused by market disequilibrium itself (Tool, 1993). In this situation, executives are apt to emphasize personnel connections with officials in order to trade upon ambiguity. For morally unconscious executives, such connections may become corrupt acts. In a society lacking organizational morality and anti-corruption systems, corruption may be portrayed as more prompt, direct and effective than socialization-based connections in the eye of ethically badly-behaved executives.

Institutional Environments

Institutional environments serve as conditioning factors that either undercut or entice organizational corruption. This study proposes that institutional transparency, institutional fairness and institutional complexity are important components of these environments. Both task and institutional environments simultaneously place pressures on organizations, to which they are forced to respond. But the types of pressures vary between the two (Scott, 1992). Task environments affect business operations through structural forces, which impact input and output. Institutional environments affect business operations through legal, regulatory, sociocultural and professional requirements that impact on the costs of maintaining organizational legitimacy. Institutional theorists emphasize that institutional rules and requirements themselves are important types of resources and that those who shape them (e.g. state, regulatory bodies or professions) possess a valuable form of power (Burns and Flam, 1986). Institutional requirements affect organizational arrangements through both cognitive and normative mechanisms. In an emerging economy professional organizations (e.g. auditing, arbitration,

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

taxation) and trade associations or unions are virtually state-instituted. As a result, they are parts of broadly defined regulatory institutions. Institutional transparency and fairness essentially describe the transparency and impartiality of the regulatory system. While transparency and fairness reflect the degree of openness and non-discriminatoriness of institutional rules and requirements, complexity displays the level of difficulty in coping and adapting to regulatory systems and sociocultural environments.

Institutional transparency describes the extent to which regulatory systems (political, bureaucratic, industrial and professional) are open, clear and easy to understand. This transparency is especially low in regulated industries in most emerging economies (e.g. telecoms, automobile, insurance, media, retailing, banking) and with respect to issues such as project approval, market access, environmental standards and requirements for gaining taxation exemptions or holidays (Luo, 2002b). The lack of experience by regulatory bodies in administering many experiment-type practices is a main reason for this opaqueness. In turn this opaqueness provides to regulatory authorities and individual bureaucrats the exclusive right to explain and interpret ambiguous rules and requirements, which leads in part to business–regulatory body corruption. In this circumstance, corrupting officials realize that the opaqueness forces some businesses to be dependent on the officials, thus facilitating the transformation of regulatory power into monetary gains. Morally weak executives, especially in companies more prone to these regulations, may realize that bribery is the only solution in order to acquire regulatory insights or skew new rules toward a direction that accords with the firm's interests. Corruption is indeed found to be an increasing function of institutional opaqueness (Goldsmith, 1999; Johnson, Kaufmann and Lobaton, 1998).

Institutional fairness describes the extent to which various regulatory treatments (political, bureaucratic, industrial and professional) are impartial, just and non-discriminatory to every business within the institutional reach. During structural reforms, most transition economies are characterized by regulatory heterogeneity across regions, locations, sectors, industries, ownerships and even firms. Previously controlled policies are increasingly becoming idiosyncratic and discriminatory according to these parameters, in a bid to redress structural distortions or regional disparities caused by a long period of a centrally planned economy (Luo, 2002b). As a negative derivative of this change, many businesses, especially those close to government authorities, are able to receive institutional privileges that other businesses do not have. Institutional privileges include, but are not limited to, tax relief, favoured financing, fiscal subsidy, exclusive rights in using certain resources, government protection, assured early-mover position, special rights in using governmentally instituted distribution or export channels and heightened entry barriers against new rivals. Granting these privileges can directly foster business-government corruption and business-business collusion. Privileged group members, by exploiting their monopoly power and institutional advantages, are

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

able to seize more economic rents than non-group members. This motivates morally weak executives to bribe bureaucrats who have the power to decide this membership in exchange for institutional privileges that are considered of high value. With more unfairness, firms encounter a stronger pressure to bribe if they want to remain in this institutional environment.

Lastly, institutional complexity describes the extent to which the institutional environments (regulatory systems and sociocultural environments) that the organization must relate to are complicated and difficult to verify, analyse, comply with and cope with. The information-processing view holds that complexity increases the information processing and agency demands facing the firm and its top executives (Tushman and Nadler, 1978). The firm must develop information-processing mechanisms capable of dealing with this complexity. Executive interlocks with bureaucrats and leaders in other stakeholder groups are one such mechanism (Geletkanycz and Hambrick, 1997). It is generally harder to internally absorb and process required information in emerging economies than in advanced market economies because of opaque and uncertain regulatory systems, diverse and peculiar sociocultural environments and lack of market-supporting institutions. When facing such complexity in an advanced economy, executives can go on the market to find agencies or individuals (e.g. experts at consulting companies or law offices) who can interpret and deal with these regulations. Such services, however, are virtually lacking in most transition economies because the market service sector has not yet been developed, and institutional complexity itself is difficult to analyse by any organizations or professionals. In this context, when executives cannot find a professional agency or is unable to process complex information by themselves, they are more likely to bribe those bureaucrats or leaders in various segments of institutional environments who can provide authoritative insights and credit-worthy information. Executives may expect that such insights will help dispel the threat of institutional complexity on business development. In markets in which corruption persists and there is a failure to punish corporate illegalities, this likelihood increases.

In conclusion, this section defines task environments (oligopolistic intensity, regulatory control and structural uncertainty) and institutional environments (transparency, fairness and complexity) that partly explain organizational malfeasance in corruption. I illustrate the logic that corruption may increase along degrees of oligopoly, regulation and uncertainty, and decrease along degrees of transparency, fairness and simplicity. These testable propositions, however, should be viewed in a larger context wherein political, legal, economic, historical and sociocultural causes of corruption are also taken into account. In fact, the task and institutional environments that this study emphasized are intertwined with these causes. For instance, institutional transparency reflects the superiority of political and legal systems, while oligopolistic intensity is a product of economic, political and legal conditions, which affect industrial structure. The extent to which these task and

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

institutional environments will actually provoke corruption depends largely on an organization's moral consciousness and support programmes that combat corruption. Different organizational metaphors may use varying tactics in response to different task and institutional environments, thus presenting different organizational behaviours associated with illicit acts.

CORRUPTION AND ORGANIZATIONAL BEHAVIOUR

This section emphasizes an organization's malfeasant behaviours in its corrupt practices. Specifically, it attempts to use a typology to elucidate what deviant behaviours organizations with differing metaphors will use to align with the above task and institutional environments. A typology of malfeasant behaviours is useful for a better understanding of organizational corruption and giving parsimony and order to the diverse set of behaviours that comprise organizational deviance on corruption. Malfeasant behaviours are opposed to ethical behaviours in that the former focuses on behaviours that violate rules specified by a given political, social and legal context whereas the latter focuses on behaviours that are considered right as judged in terms of justice, law or other societal guidelines determining organizational morality. I conjecture that a 'mad fox' is accompanied by *system malfeasance*, an 'errant rabbit' by *procedural malfeasance*, a 'wild puppy' by *categorical malfeasance* and a 'sick bulldog' by *structural malfeasance*.

System Malfeasance

System malfeasance exists when an entire organizational system is contaminated with corrupt acts and corporate illegalities. The mad fox metaphor applies well here because it involves system-wide fraud, characterized by a great magnitude of corrupt activities carried out by many hierarchies. Here, malfeasance is both intensive and extensive, plaguing the whole system in a way tantamount to a cancer. A 'mad fox' assumes that the benefits of corruption outweigh the costs of corruption, thus permitting senior executives and board members to be involved in bribery and tolerating managers and employees at lower levels with such deviant behaviour, despite the risks of legal sanctions and reputational damage.

Corresponding to system malfeasance, a 'mad fox' may emphasize *positioning* to align with structural uncertainty, regulatory control and oligopolistic intensity and focus on *control* to align with institutional opaqueness, injustice and complexity. Positioning is a tactic that seeks a strong position in oligopoly, bargaining with regulatory bodies and reducing uncertainty through corruption. Among the four metaphors, a 'mad fox' is the most aggressive in corruption, attempting to secure an advantageous position for maximizing possible gains from task environments via illegitimate means. Control is a tactic that seeks to influence, shape and dominate institutional environments through corruption. A 'mad fox' intends to

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

establish power and dominance over institutional constituents, which apply pressure on the organization. To this end, it uses corruption to manipulate institutional processes such that institutional opaqueness, injustice and complexity may hamper other organizations but not itself, or provide it with new benefits, via exceptions, concessions, secrecies or privileges.

Procedural Malfeasance

Procedural malfeasance exists in the 'errant rabbit' whose formalized procedures on business ethics are not strictly followed by some employees at one or few levels or in one or few sub-units, resulting in a low scale and a narrow scope of illicit acts. In a highly decentralized system, one or several sub-units may face explicit normative or coercive pressures in a particular task and institutional environment that requires bribery under threat of losing deals, concessions or privileges by corrupt officials. Employees in a sub-unit may assert that if they do not make pay-offs, a less competent rival will win such deals, concessions or privileges. In other cases, some employees in a remote location or sub-unit (e.g. foreign subsidiary) may believe that pay-offs are a routine part of doing business there and are indigenously acceptable. If the implementation of corporate programmes alleviating illegalities is not strictly monitored, some individuals may find leeway to escape blame and punishment. Under these circumstances, low intensive corruption with few hierarchies involved occurs, despite the existence of organization-wide procedures for resisting corruption.

In conformity with procedural malfeasance, an 'errant rabbit' may consider *bridging* to configure with task environments and use *acquiescence* to configure with institutional environments. Bridging is a tactic that seeks connection with relevant stakeholders in task environments such as regulators, competitors, suppliers, buyers and distributors. An 'errant rabbit' involves low-scale corruption on a sporadic or occasional basis in an effort to cultivate, through corruption, relationships with the task environment community. Managers in some new firms may think that bridging through corruption is a shortcut to get connected with outsiders who control input and output resources on which the firm depends. Acquiescence is a tactic that unwillingly accepts, follows and mimics corrupt acts already conducted by other firms to deal with the same institutional environments. An 'errant rabbit' organization tolerates some employees' illicit behaviors necessary for coping with institutional hazards. In this case, the pressure for corruption comes from institutional requirements rather than from an organizational intention for corporate illegality.

Categorical Malfeasance

Categorical malfeasance exists in a 'wild puppy', in which many corrupt practices are concentrated in one or few categorical levels (team-level, functional-level,

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

business-level or corporate-level), categorical units (group, department, division, branch or subsidiary), or categorical locations (domestic versus foreign, developing versus developed countries, within versus beyond the regional bloc). This type of malfeasance is not systematic and extensive throughout the entire organization, but instead ascribes mainly to a few managers in one or several of these categories which conduct a great deal of serious corruption. In a highly diversified structure, various categories face idiosyncratic task and institutional environments relating to corruption. Because this structure is also decentralized and provides categorical managers with adequate decision power, it becomes possible that corruption varies across categories. Malfeasance may increase when (i) one category or unit confronts strong bribery pressure from its task and institutional environments, (ii) it has difficulty in fulfilling short-term financial goals set by its parent, (iii) it is dysfunctional and mismanaged and (iv) senior managers in this category despise or overlook illicit behaviours.

Categorical malfeasance is further revealed in the way a 'wild puppy' deals with its task and institutional environments. It may emphasize *interpenetration* to deal with task environments and use *selection* to deal with institutional environments. Interpenetration is a tactic that seeks to influence task environment constituents, which affect a focal categorical level, sub-unit, or location. In doing so, it bribes those with decision power in order to create favourable task environments that will permit the problem puppy to grow. As a malfeasant behaviour, interpenetration may confer a strong position in oligopoly, infiltrate industrial regulation and yield confidential insights into industrial environments. Selection is a tactic that seeks to manipulate institutional environments facing the categorical level, location or unit that is heavily involved in corruption. It thus emphasizes corrupt acts in selected areas. Because it is impossible for any organization to manipulate the entire institutional environment as a result of the latter's exogenism and residualism (Oliver, 1991; Scott, 1992), selection is a reasonable behaviour consistent with categorical malfeasance.

Structural Malfeasance

Structural malfeasance exists in the 'sick bulldog', where corrupt acts are structural in nature and most hierarchies, if not all, are involved, despite the fact that the latter are small in scale in terms of quantity and gravity. When an organization is highly integrated (vertically or horizontally) or centralized (along functions or areas), it increases the probability that corrupt practices are collectively performed by, or jointly involved with, multiple hierarchies. This is the case of corrupt-act sharing. When an organization is structurally decentralized but each hierarchy or each sub-unit faces strong pressure for illicit acts and lacks clear codes of business conduct enacted by its own or by the organization's head office, it increases the probability that corrupt acts will simultaneously yet independently

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

take place at multiple levels or in multiple sub-units. This is the case of multi-location corruption. In either case, malfeasance is structural not only because it occurs at many hierarchies but also because it marks the organization's failure to correct this system-wide defect through structural measures such as harmonized anti-corruption programmes and responsibility-sharing systems across hierarchies. Although structural malfeasance involves less-intensive corruption than system malfeasance, the former can transform into the latter if the organization allows the illness to remain.

A 'sick bulldog' may focus on *levelling* to align with task environments and on *pacification* to align with institutional environments. Levelling is a tactic that seeks to smooth the impact of the task environments' fluctuations on business operations. Under structural malfeasance, levelling is achieved through bribing or colluding decision-makers in task environments to motivate suppliers of inputs, stimulate demand for outputs or influence bureaucrats of regulatory authorities. Unlike a 'mad fox', which relies on aggressive positioning in order to dominate in the task environment, a 'sick bulldog' attempts to reach out into the task environment through corruption-bolstered smoothing in order to reduce fluctuations in its input or output environments. Pacification is a tactic that seeks to appease institutional constituents for the entire organization. Corroborating structural malfeasance, pacification mounts a low intensity of corruption but devotes most of the corruption resources to placate institutional pressures encountered by the whole organization. Corruption is performed to accommodate demands for bribery, gratuities or pay-offs from politicians and bureaucrats who have the power to manipulate institutional transparency, fairness and complexity, which influence the entire company's business activities.

In conclusion, this section discusses the organizational behaviour of different business types and how this behaviour may be configured with the task and institutional environments identified in the preceding section. I suggest that a 'mad fox' may respond to task parameters through positioning and to institutional parameters through control, together presenting systematic malfeasance. An 'errant rabbit' may respond to task environments through bridging and to institutional environments through acquiescence, together presenting procedural malfeasance. A 'wild puppy' may respond to task constituents through interpenetration and to institutional constituents through selection, together presenting categorical malfeasance. Lastly, a 'sick bulldog' may respond to task pressures through levelling, and may respond to institutional pressures through pacification, together presenting structural malfeasance (see Figure 2). All these behaviours and underlying methods in response to task and institutional environments are illicit, immoral, unethical and illegal. Case studies are needed in the future to substantiate this line of discussion and advance our understanding of illicit tactics in different scenarios. Organizations with these deviant behaviours fail fully to realize their serious consequences, both visible and invisible.

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

CORRUPTION AND ORGANIZATIONAL CONSEQUENCES

Because corruption must be hidden from the public, transaction costs arising from corrupt practices can be significantly higher than those occurred for legal exchanges. Because of the ever-present threat of mutual denunciation, partners of a corrupt agreement are locked-in to each other even after an exchange has been materialized. Thus, corruption can involve high costs and great uncertainties about pay-off. Although it is possible that returns from corruption may outweigh costs incurred for a specific deal in the short term, it is unlikely, if not impossible, that a firm can build on corruption to achieve a sustainable competitive advantage or abnormal profitability in the long run. In fact, what differentiates the organizational view and the microeconomics view is that the former addresses the corruption effect at the organizational level, whereas the latter assesses this effect at the transaction level. From a short-term economic perspective, one may argue that corruption can help reduce costs of a specific transaction from increased institutional privileges or reduced regulatory barriers (see Bunker and Cohen, 1983; Schleifer and Vishny, 1993). However, when one looks at an overall, long-term organizational effect of corruption, the combined organizational losses may outweigh the gains from a specific transaction or deal. In some cases, corruption can make the organization suffer enormously from many visible or invisible damages or penalties that are so enduring and far-reaching that no single transaction gain can compensate.

It is true that many corrupt companies, especially 'mad foxes' and 'wild puppies', engage in practices verging on corruption for long periods of time and such practices are somewhat endemic. We can find several exceptional or historical cases in which companies achieve some short-run as well as long-run net financial gains. For the following reasons, however, I see increased difficulties in obtaining long-term gains from corruption. First, long-term corruption practices do not necessarily imply long-term corruption gains. Long-term corruption practices are largely caused by the absence of strong legal environments (e.g. anti-corruption laws, stringency of law enforcement, political transparency and media freedom) and strong internal systems (e.g. code of conduct, consciousness of senior management, myopia of executives and relationship with politicians or regulators in power). With fortified collective efforts, nationally and internationally, by governmental institutions, non-governmental organizations and the corporate world, it is becoming more difficult for businesses to perform illicit act and seek illicit interests for long.

Second, pursuing long-term gains from corruption is more or less based on a fluke – trusting to luck in not being caught. As the climate of anti-corruption improves, the net gains in the eyes of corrupting executives are expected to differ from those as perceived by the public. The image effect in the eye of the public is enduring, far-reaching and more significant than the financial figures. Even if the

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

corruption is permanently unknown by the public (surely rare), it still deters corporate confidence, leadership and culture necessary for the healthy growth of the firm, particularly in the long run. These invisible and imprinted effects are often ignored, and the image punishment is sometimes more profound than the justice punishment. One may escape from the justice conviction but is difficult to do so from the image punishment forever. Such invisible but critical effects will not be reflected in the financial statements but are of utmost importance to corporate growth.

Lastly, employee morale and corporate transparency are seriously impaired if the organization engages in long-term corruption practices. It is difficult to image that a firm whose managers and employees have lost the senses of rightness and pride could still earn long-term profits on a continuing basis. When employee moral and corporate transparency are jointly low, managers or employees are more likely to act unjustly and disloyally in the performance of their duty (explicit or implicit) towards the company, taking advantage of their offices or responsibility to obtain a benefit for themselves or for another (a relative or a friend, for example). They may also do injustice to the company itself by not buying or selling on the best terms as regards price, quality, service, and so on, for example; by putting the company's reputation at risk; by encouraging others to act in the same way; by depriving the company of some right or property; or by creating conditions that will allow corruption to go unnoticed, such as concealment of information and falsification of company records. The consequences of these illicit acts are high costs – not only financial (transaction costs, inefficiency, fines etc.) but also legal (accusations, law suits and penalties), social (loss of reputation, creation of an atmosphere favouring corruption and so on) and ethical (deterioration productivity and corporate culture). To address the above consequences more systematically, I explain below that corruption may create evolutionary hazard, strategic impediment, competitive disadvantage and organizational deficiency.

Evolutionary Hazard

As an evolutionary hazard in the long term, corruption obstructs firm growth and business development through four interrelated channels, namely risk effect, punishment effect, image effect and cost effect. First, all corrupt activities are highly risky for all actors because of their illicit nature. Such activities are always based on oral agreements that are covert, hidden and non-transparent (Lambsdorff, 2002). The degree of risk is a function of the bureaucratic corruptor's willingness, power, position, experience and network. Since many corrupt activities are associated with many people, including officials, businessmen and others who may not even know each other, the discovery of a criminal fraud in any stage of the corruption process or any person in the corruption web could quickly impose high risks to everyone else linked to the network. When a firm uses bribery to achieve

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

its business goals, an entire organization is thus involved in the risky and unpredictable process. Any person, whether top or middle management, can risk the whole company's reputation if he is found to be engaged in corrupt acts for organizational purposes.

Second, when a criminal fraud of corruption for an organizational purpose is discovered, both the individual and the organization will be punished legally, institutionally and disciplinarily. During the anti-corruption campaign, judiciary punishment is particularly harsh and includes criminal sanctions as well as economic fines. Institutional punishment includes the re-organization of an entire firm led by the upper-level government authority, removing the top managers involved in bribery and rectifying a series of operational and financial policies. Generally, it will take several years for a company to restore its normal business after re-organization by the government. The firm has to rebuild business connections and its reputation. This takes time, probably years. Institutional punishment may also include the cancellation of institutional membership in industrial associations, elimination of preferential policies previously provided by the government and placement of quasi-governmental auditors in top management decisions or board meetings. Although disciplinary punishment is relatively parochial and affects only those middle managers who are directly involved, as well as those senior managers who are indirectly engaged, its impact on business operations can be crucial. Disciplinary punishment against those important managers of a firm by governmental authorities demotes or freezes their business posts. This substantially deters their future commitment to the firm. When they quit their jobs after punishment, most of their customers and networks go with them. As explained below, the punishment also sabotages the firm's reputation or legitimacy, which further deters organizational evolution.

Third, the image effect mainly lies in the stereotypical loss that either increases costs or reduces the income stream for the company. Many consumers around the world purchase products according to the stereotype or image of a company. When a company's engagement in corrupt acts is publicized, consumers will quickly form a stereotype that this company is poorly managed, produces defective products and is incapable of ensuring customer service. Once a company is perceived as fitting with this stereotype by the market, it is difficult for it to survive and grow. Previous research suggests that organizational image is positively associated with organizational performance (Hogg and Terry, 2000) and that social image and organizational identity are reciprocally interchanged (Gioia, Schultz and Corley, 2000). Indeed, the corruption–performance relationship is often a vicious cycle: corruption hurts firm performance; poor-performing firms tend to use more bribery as the prescription to cure their illness; and more bribery further increases costs and plagues their reputation, thereby deteriorating performance.

Lastly, all transactions entailing some element of corruption inevitably involve financial costs. Corporate bribery itself is a monetary investment aimed at orga-

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

nizational pay-offs through suborning bureaucratic or collective power, which is otherwise not legally achievable. Unlike social networking that essentially builds on favour exchanges, bribery is a fully monetary transaction between power and illegal private gains. Although the price of these transactions varies among different deals depending upon the clearing equilibrium between 'demand' and 'supply', the marginal revenue of bribery is generally low as a result of the high level of visible costs and invisible risks as mentioned above. A bureaucratic corruptor will usually 'charge' more (i.e. 'risk premium') when this risk is perceived to be higher. As a result, a company must not only pay more but also assume more risk when corruption risk is high. This cost effect directly arrests a firm's growth potential.

Strategic Impediment

Corruption as a strategic impediment is mainly manifested in resource misallocation, capability-building deterrence and lack of confidence and predictability. According to the resource-based view of firms, resources that can generate a sustainable competitive advantage in every firm are limited. Facing this constraint, the strategy to allocate these resources is essential to the growth and evolution of the firm. This allocation could have an even deeper impact on firm performance than resources themselves, since the former affects a firm's dynamic capability, whereas the latter influences only a firm's static capability (Barney, 1991). All bribery activities, no matter who they target, have to invest financial resources, human resources and time. Financial resources may not be strategic in advanced market economies, but are still distinctive in many emerging economies. This is because bribery money mostly comes from a firm's internal discretionary funds, which are not exposed in the open accounting book (some new private entrepreneurs may pay from their own pockets). In all nations' accounting laws or standards, bribery expenditures cannot be recorded as production costs (direct or indirect) or as operational expenses (overhead). For most firms in emerging or transition economies, accumulated internal funds are very limited given the high risk of exposure.

In a competitive environment, firm growth depends on its dynamic capabilities such as organizational learning, knowledge upgrading, continuous innovation and innovative corporate culture. In a bribery culture and corruption atmosphere, none of these dynamic capability mechanisms can be fostered and nourished. Instead, corruption will obstruct organizational movement in such directions. A firm relying on bribery generally perceives corrupt acts as a substitute for innovative technological and organizational skills. It may expect bribery to be a quicker, and perhaps more effective, strategic instrument by which it may accomplish its organizational goals, rather than focusing on building and upgrading its dynamic capabilities. When top managers attach high value to corrupt acts, firms may

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

experience greater organizational inertia and less commitment to the development of new organizational capabilities.

Lack of predictability and confidence always accompanies corrupt deals, which in turn impedes business development. In all corrupt deals, whether within task environments or institutional environments, terms and conditions are never sufficiently specified at the beginning. Partners in such deals may avoid precision in order to preserve the chance to find better excuses later, and to suggest that their deal is merely an exchange of gifts between friends. This non-specification and related uncertainty creates additional costs and difficulties in strategic planning, flexibility maintenance and strategy implementation. A confidence loss can be seen from two perspectives – confidence of outside stakeholders, especially investors and creditors, is adversely affected by a focal firm's corruption, and confidence of internal managers is undermined by fears of leakage of the illegal activities. Both types of confidence loss undercut business evolution.

Competitive Disadvantage

Corruption as a competitive disadvantage is reflected by dishonesty and untrustworthiness, which can hurt a firm's competitive position in the market. An exchange partner worthy of trust is one who will not exploit the other's exchange vulnerabilities. While trust is an attribute of a relationship between exchange partners, trustworthiness is an attribute of individual exchange partners. According to the resource-based view, credibility is an important resource, which creates competitive advantage and distinguishes a firm from its rivals. Corrupt acts, however, precipitate dishonesty and dissipate credibility. When a firm is involved in corruption and bribery, other firms will perceive it as unreliable and will avoid conducting business with it. Dishonesty and unreliability thus destroy, rather than stimulate, business networks.

The illicit nature of corruption mirrors organizational untrustworthiness. Adherence to the law is a prerequisite for corporate reputation and trustworthiness. Because organizational trustworthiness is in large part embedded in the credibility and honesty of top managers, corruption has an enduring impact on the firm unless these managers are removed from the organization. In an increasingly competitive environment, long-term relationships with suppliers, buyers, distributors and other firms affecting a firm's backward or forward value chain become fundamental. A break in such long-term relationships as a result of corrupt acts longitudinally and fundamentally hampers a firm's market reputation and competitive advantages. Restoring old relationships and initiating new networks may take years if an incidence of corruption or bribery occurs. Moreover, unreliability and untrustworthiness arising from corrupt practices reduce consumer loyalty in a firm's service. This further inflates a firm's competitive disadvantage in the

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

market. In the perception of most consumers, corporate illegalities imply organizational illness and operational deficiency.

The hazard of untrustworthiness arising from corrupt acts goes further. Trustworthiness is particularly important in facilitating implicit long-lasting contractual ties to employees, suppliers and customers. If a firm does not have a reputation for trustworthiness, implicit contracts will be tenuous and limited. The costs of writing and monitoring contracts, and supervising employees, suppliers or buyers will be much higher. On the other hand, a moral reputation can attract superior suppliers, employees, distributors and customers to do business with the firm, which reduces transaction costs in the longer term through repeated exchanges. From the population perspective, if all firms are untrustworthy as a result of corruption involvement, such widespread unscrupulous behaviours can erode public confidence in the market, and seriously hinder the ability of honest businesses to carry out their activities. In this case, the entire market system leaves itself open to charges of immorality and illegitimacy, which eventually undermines market efficiency and organizational efficiency.

Organizational Deficiency

Corruption is often the product of mismanagement. It violates business ethics and arms-length business principles. Since top managers are more or less involved with corrupt activities, corruption implies problematic organizational leadership and poor business morality. Under such leadership, realistically it is impossible for a firm to have an innovative culture, efficient administration, transparent communication, effective information flow and productive collaboration across departments or divisions within a firm. Corruption is an organizational pathology that results from impediments created by the bureaucratic structure (Ackerman, 2001). Its essential theme is the inability of bureaucratic organizations to accomplish public purposes because there are certain inherent characteristics in every administrative system, which are detrimental to honest behaviour. Bureaucratic managers have, in general, a complex set of goals. Some goals are manifestations of pure self-interest and some are altruistic. Other goals stand in the middle as mixed motives. Thus every manager acts at least partly in his or her own self-interest, while some officials are motivated completely by their self-interest.

This view accords with March and Simon's (1958) observation, in that most members within an organization are motivated indirectly by organizational objectives and directly by the incentive structure. It is clear that the bureaucracy is not pure from the inside. It is also not surprising to find that organizational officials are motivated to create informational networks of friends, favour-recipients, contracts and communication links based upon primarily personal, rather than official relationships. Nor is it unusual that organizations which cannot charge money

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

for their services must develop non-monetary costs to impose on their clients as means of rationing their outputs. Anthony Downs calls this 'the Law of Non-Money Pricing' (1967, p. 188). Some scholars explicitly illustrate the linkage between bureaucratic corruption and characteristics of bureaucratic organizations. Banfield (1975) compares the main structural features of the 'typical' business (a competitive organization) with those of a government organization and concludes that corruption can be readily seen as a feature of the latter. Robert Williams (1987, p. 63) expresses the same concern: opportunities for bribery and nepotism may increase as the scope and size of government expands, because of the impossibility of framing rules and regulations to meet every circumstance or contingency. Susan Ackerman (1978, pp. 170–84) has a more refined analysis of the relationship between bureaucratic structures and corrupt bureaucratic behaviour. By examining how alternative bureaucratic structures affect the incidence and level of corruption, she stresses the necessity for reformers to 'move on to propose more particularized structures-closer monitoring, higher pay, nonvested pension, rights, and so forth-that will increase the expected costs of peculation at the critical soft spots'.

In conclusion, this section distinguishes between deal-specific outcomes and overall organizational outcomes of corruption. Many executives active in corruption see some gains from a short-term economic perspective, which emphasizes a specific transaction and ignores hazardous consequences from an overall, long-term organizational perspective. Organizational consequences of corruption are fourfold: (1) evolutionary hazards, including risk effect, image effect, punishment effect and cost effect; (2) strategic impediments, including resource misallocation, capability building deterrence, and lack of predictability and confidence; (3) competitive disadvantage, including dishonesty, untrustworthiness and inefficiency in repeated ties; and (4) organizational deficiency, including problematic leadership, poor business morality and mismanagement. To avoid these negative consequences, firms must have an organizational architecture in place, which monitors and rectifies all illicit behaviours.

CORRUPTION AND ORGANIZATIONAL ARCHITECTURE

Corruption is a durable and adaptable virus. Combating corruption requires a set of measures at various levels including addressing poverty and inequity (social aspect), enacting and enforcing anti-corruption law (legal aspect), improving democracy, media freedom, civil service (political aspect) and reforming dysfunctional governments (regulatory aspect) among others (see Ackerman, 1999; Lambsdorff, 1999; LaPalombra, 1994; Scott, 1972; Tanzi, 1998; Treisman, 2000). Aiming to present an organizational logic of corruption, this study suggests that, in addition to the above legal, social, political and regulatory measures, the corporate community is also an important force in the fight against corruption. Anti-

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

corruption in any society cannot succeed unless it is addressed by individual organizations. Anti-corruption at the organizational level is institutionalized through an organizational architecture, which is composed of (i) culture, (ii) structure and (iii) system. An effective organizational architecture is one that ultimately yields intended results, namely, education, detection and deterrence, through interlaced corporate culture, organizational structure and compliance system.

Institutional theorists hold that pressures for legitimacy may reside in the explicit demands of task and institutional environments or in the fact that certain forms of organizational commitment and action become taken for granted, or infused with intrinsic value (DiMaggio and Powell, 1983; Oliver, 1991; Scott, 1992). Treating anti-corruption efforts merely as legitimacy-preserving responses to external pressures from task and institutional constituents offers an unrealistically constrained view of their origin (Weaver, Trevino and Cochran, 1999). Such a view ignores the role of managerial choice in organizational decisions. Research on strategic choice suggests that organizational endeavours at various levels, from executive leadership to corporate culture, or from individual employees' responsibility sharing to each sub-unit's business conduct, plays an important role in affecting organizational actions and performances (Child, 1972; Hitt and Tyler, 1991). In line with this view, this study holds that organizational architecture designed to counter corruption is built not merely for preserving legitimacy but also for enhancing organizational performance. This architecture improves firm performance because it brings an organization's decisions and actions more into conformity with societal expectations, sharpens an organization's governance, transparency and accountability, boosts employee morale, business confidence and corporate reputation, and enables the firm to secure the stronger support of key institutional actors. Since not all organizations' needs for combating corruption are the same, organizational architecture should be tailored to fit a specific organization's needs and circumstances. Different metaphors therefore should have different emphases and different programmes to fight corruption. This section discusses common architecture first, followed by special architecture to different metaphors.

Corporate Culture

Corporate culture sets the moral tone for an organization. Corporate culture is defined here as the statements, visions, customs, slogans, values, role models and social rituals that are unique to, and used by, a focal organization to resist corrupt practices. The cornerstone of an organizational architecture combating corruption is the detailed anti-corruption statement, which guides managers in how to make day-to-day decisions. Such statements should be practical rather than theoretical in tone. They can suggest that there is no inconsistency between profitability and refusing to bribe, or they can state that the organization will not compete for

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

business where bribery is a requirement. Organizations should have detailed procedures for disseminating their anti-corruption statements to employees in all hierarchies, sub-units and locations. An effective architecture for resisting illicit conduct necessitates a multifaceted anti-corruption effort that promotes a compliance culture within the entire organization.

Visions and commitments from leadership (e.g. board of directors, CEO, general council, CFO, Chief Internal Auditing, regional or country manager) play a significant role in squashing corruption. Ethical leadership sets the moral standards for an organization by focusing on the integrity of common purpose. These leaders should be champions and role models, who lead anti-corruption efforts. Role models are important in setting a positive ethical climate because human beings as social beings are influenced by other human beings. Without sufficient commitment from the leadership, it is impossible for an organization to position itself as a good citizen that is concerned with honest business practices and the need to maintain a level playing field in domestic or global markets. Identifying corruption by these leaders as a threat to an organization's long-term health and growth serves important strategic interests. An organization should also take reasonable measures to communicate its anti-corruption culture and values in an open environment, to encourage participation and feedback. Employees should be informed to whom they should report violations or ask questions.

Organizational Structure

Misconduct can be detected and corrected through organizational structure, as this structure establishes the content of the jobs, specifies a monitoring process and regulates ways to fulfill tasks and responsibilities. Because many corrupt acts are actually performed by individual employees on behalf of the organization, which is often defined as an autonomous moral entity, it is critical to maintain corporate integrity. Integrity is the disposition and behaviour directed at realizing the wholeness of the organization. Formal structure is a necessary mechanism to maintain this integrity and realize legitimate moral expectations in a coherent manner. When an organization is highly decentralized and globalized, corporate or headquarters' control of anti-corruption policies and procedures through integrated structure is imperative for integrity. Apart from structural formalization to educate, detect and rectify illicit behaviours, an organization may also establish an anti-corruption committee and appoint a corporate compliance officer within an existing structure to better deter corruption. This committee or officer can play key roles in drafting codes of conduct, and educating and training employees on compliance procedures. Committee members may include senior vice presidents for marketing and sales, auditing, operations, human resources and other key officers. Empowering compliance officers with access to senior members of management

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

and with the capacity to influence overall company policy on integrity issues is of utmost importance.

Transparency throughout the entire organizational structure is a necessary condition for reducing the potential for illicit dealings. Record-keeping and reporting are procedures that the organization can use to document key aspects of its compliance effort and to monitor its programme for effectiveness. Even the reporting of minor incidents within the organization can serve a useful purpose in underlining a zero-tolerance policy for questionable behaviours. Failure to report such occurrences may lead to the perception that such irregularities will be tolerated. Auditing and monitoring of systems of internal accounting controls also contributes to building an effective system by detecting corporate malfeasance early on. Organizations should have a clear and concise accounting policy that prohibits off-the-books accounts or inadequately identified transactions. They should monitor their accounts for deceptive bookkeeping entries that may disguise illegal bribery.

Structural mechanisms that enforce anti-corruption programmes and policies must be in play. Creating reporting mechanisms with adequate policies on confidentiality and non-retaliation, as well as other safeguards related to reporting is extremely important. Despite its best efforts, no organization can be certain that the necessary element of trust is present in all formal reporting relationships. Whistle-blowing systems can help to achieve open communications when ordinary channels fail. An organization should ensure that all employees understand that failure to comply with its anti-corruption policy and procedures will result in disciplinary action, ranging from minor sanctions to more severe punishment, including termination of employment. A good communications effort (e.g. hotlines or help lines) can build employee confidence that the organization will not tolerate either retaliation against whistle-blowers or false reporting.

Compliance System

The compliance system that suppresses corruption consists of a conduct code and an ethics programme, together constituting an effective organizational control that minimizes corporate illegalities. This control makes information and expectations about legal and ethical behaviours clear, increases the likelihood of detection, assures the punishment of transgressions, rewards desired behaviours and disciplines those who engage in illegal behaviour (Baucus, 1994; Weaver, et al. 1999). This system begins with written commitments in areas of business ethics that are relevant to the firm's activities – that is, a code of corporate conduct which provides a set of legal and ethical guidelines for employees to follow. Such codes are voluntary expressions of commitment, made to influence or control business behaviour for the benefit of the firm itself and the communities in which it operates. The codes seek to heighten employees' awareness of corporate policy and

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

enlist their support in the fight against corrupt acts. They also draw a distinction between the acceptable *quid quo pro* and networking that are necessary to develop business relationships and corrupt practices. Codes can contain general precepts and mandate specific practices, providing clearly stated provisions that deal with legalities and ethical concerns, and detail sanctions and enforcement, including the methods of investigation and detection.

Compliance programmes (e.g. training, due diligence, formalized procedures) ostensibly bring the behaviour of organization members into conformity with a shared ethical standard. They constitute an organizational control system that encourages shared ethical aspirations and compliance with rules. Combating corruption requires legal and ethics training at every level of an organization. Regular ethics and compliance training programmes should be held for all company employees, including board members and senior management officials. It may be also necessary to educate overseas employees about their host country's anti-corruption laws. Undertaking due diligence is vital for ensuring that anti-corruption processes are efficient and effective. Due diligence reviews are also important for preventing potential harm to the organization's reputation. It is important not to delegate substantial discretionary authority to individuals or sub-units that the organization knows (through the exercise of due diligence) have a propensity to engage in corrupt acts. Additional ethical practices include formalized procedures or mechanisms for evaluating ethical and legal performance and for rewarding or punishing behaviour. Examples include establishing a system for auditing and reporting legal-ethical violations, a formal ethics department for initiating, coordinating and supervising an organization's anti-corruption process, and a cross-functional committee for setting and assessing ethics policies and procedures. Motivating employees to behave legally and ethically can be prompted by the incorporation of ethics into selection, performance appraisal, discipline and job analysis procedures.

The above elements of an organizational architecture are common to all firms that are active in eliminating corruption. However, organizations differ in the extent to which they emphasize each of these elements, because of different organizational needs and the varying effectiveness of these elements in curing organization-specific illness. Organizations vary in their task and institutional pressures for corruption, susceptibility to corrupt environments, motives for corrupt practices and malfeasant behaviours. In my view, a 'mad fox' needs *structural surgery* to effect a radical, thorough and drastic cure seeking a permanent removal of the corruption disease. A 'wild puppy' needs a *specialized operation* to heal a specific part (hierarchy, sub-unit or location within an organization body) that is substantially contaminated by corrupt practices. A 'sick bulldog' needs a *decoupled injection* that seeps throughout an organization body in order to treat minor, but the whole body-affected, malfeasance. Lastly, an 'errant rabbit' needs *partial medication* to alleviate some early-phase corruption symptoms in a small part of an organization body.

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

Corresponding to a 'mad fox's system malfeasance, a structural surgery requires an entire organization's systematic efforts to obviate rampant illicit acts permeated throughout the whole organization. Regular codes of conduct, compliance programmes and control systems may not be sufficient to redress corporate illegalities for the 'mad fox'. Instead it necessitates a series of structural changes, including (i) dismissing offending board members, senior managers and sub-unit executives, (ii) restructuring the malfeasant sub-units and replacing their leaderships, (iii) formalizing and routinizing anti-corruption procedures, actions and norms into everyday organizational activities, (iv) linking ethics to personal consequences to fortify each employee's compliance and encourage salience in each individual's minds and (v) establishing an anti-corruption office which initiates, mandates, coordinates and supervises all corruption-resistance activities. For a 'mad fox', it is essential that all elements of the anti-corruption programmes receive the full support of upper management and the board of directors. More importantly, these programmes must be enforced at all levels within the organization. It is important that codes of conduct be distributed to everyone in the organization and, if necessary, translated into the languages of foreign countries where the organization operates.

To address the categorial malfeasance of a 'wild puppy', a specialized operation requires an area surgery which focuses on the treatment of a specific hierarchy, sub-unit or location in which corruption is so severe and grave that the area accounts for a majority of the entire organization's corruption. In this case, the organization can devote most of the anti-corruption resources to suppressing corruption in the area. The organization may adopt prompt-impacting approaches and take specialized stopgap measures to quickly correct wrongdoing in this area. These measures include (i) special training and education seminars on resisting corruption for all employees in the area; (ii) more specific legal and ethical training for senior managers in high-risk areas or functions such as sales, promotion, procurement, public relations and international business; (iii) change or rotation of senior managers in the area if these managers are involved in major illegalities; (iv) formation of a special workforce or committee comprising cross-functional managers in the area, role models from other areas and officers specialized in business ethics and legal norms, in a bid to find an effective prescription; (v) enhancement of internal auditing, recording and control over various activities conducted by the focal unit that are especially prone to corruption; (vi) stringent disciplinary punishment for failures by anyone in the area to meet ethical expectations; and (vii) requiring chief managers or directors in the area to bear or share responsibility for anti-corrupt activities and tying their performance appraisal with the anti-corruption fulfillment in the area.

To rectify the structural malfeasance of a 'sick bulldog', a decoupled injection is designed to curb system-wide corrupt practices using a series of anti-corruption policies and procedures that are standardized within an organization and sepa-

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

rated from its everyday workings. Unlike structural surgery, which integrates anti-corruption policies and processes with other organizational policies and programmes (e.g. human resource management), thus affecting the organization's everyday decisions and actions, decoupled injection proceeds through an independent package of special rules, standards, norms and procedures to be followed by employees at all levels. The reason why this package is not integrated with other organizational programmes, and is disconnected from the firm's everyday actions is that s corruption in the 'sick bulldog' organization is not severe and its illness is at the early stage. Structural surgery may be too costly and excessive for this type of organization. Formalization and communication are essential to decoupled injection. Formalized rules on business ethics and conduct norms minimize leeway and opportunities that encourage corrupt acts by morally lax units and employees. Effective channels (e.g. memos, manuals, newsletters and policy documents) should be established to communicate an ethics message to everyone. Singling out role models is another way of communicating explicitly what anti-corruption efforts entail. Ethics-focused memos or newsletters may include articles highlighting recent actions undertaken by particular units or employees. These concrete examples increase the credibility of the organization's decoupled policies, add an important texture to the definition of the organizational architecture and communicate these policies in an accessible manner.

Lastly, to redress the procedural malfeasance of an 'errant rabbit', partial medication is used to rectify the small-scale corrupt practices engaged in by a small number of employees. Since these practices are sporadic, embryonic and minor, the errant organization particularly needs to sharpen employees' awareness of the importance and procedure of resisting corruption. It is possible that some employees in this type face a definitional problem of bribery, and thus need special guidelines clarifying differences between legitimate activities in cultivating interpersonal connections and illicit actions that deviate from legal, ethical and moral norms. In particular, these guidelines should specify under what circumstances certain culturally embedded practices such as gift-giving and entertainment are legitimate and what formalities (approval, signature, procedure and so on) should be gone through. Drawing the line between acceptable relationship-building and corrupt practices is especially crucial for employees working in a sensitive area or location in which transactions depend largely on personal links. An organization should take steps, including compliance rewards, responsibility-sharing and auditing system, to ensure that these guidelines and related codes of conduct are strictly carried out.

In conclusion, this section delineates an organizational architecture designed to fight corruption. This architecture, which aims to generate three intended results – education, detection and deterrence, comprises three interrelated components – culture, structure and system. Culture addresses anti-corruption from a moral perspective, while structure and system address anti-corruption from the power-

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

related control and ethics-related compliance perspective, respectively. Because organizations differ in task and institutional pressures for corruption, opportunity and motive for corruption, and intensity and hierarchical scales of corruption involvement, different metaphors emphasize different treatments to rectify illicit acts. I suggest that a 'mad fox' needs a structural surgery to curb rampant corrupt practices permeated throughout the entire organization; a 'wild puppy' needs a specialized operation to heal serious corruption diseases concentrated in a specific unit, area or location; a 'sick bulldog' needs a decoupled injection to cure its small-scale, early-phase but whole-body corruption illness; and lastly, an 'errant rabbit' needs partial medication to exterminate a small number of corruption symptoms residing in a small part of an organization.

CONCLUSION

Corruption has been widely and rigorously addressed from various macro-level perspectives. It is unclear how corruption is associated with micro-level parameters such as organizational environment, organizational behaviour, organizational consequences and organizational architecture. Organizations themselves cannot escape their responsibility for widespread corrupt practices, and anti-corruption initiatives cannot succeed if these organizations do not actively fight. I sought to provide a holistic view that addresses six sequential issues: (1) What is the nature of corruption in business activities? (2) How do organizations differ themselves in corrupt acts? Is there a workable taxonomy that identifies them? (3) What are the task and institutional environments that present pressures for corruption? How do such environments influence corrupt practices? (4) What are the malfeasant behaviours demonstrated by corrupt organizations? In what ways do they cope with the task and institutional pressures? (5) What are the major consequences of corruption? How do overall organizational consequences differ from transaction-specific consequences? (6) How should organizations resist corruption? What are common and distinctive approaches each organization can use for this purpose?

I used metaphors to illustrate the organizational perspective of corruption. I explained the logic that

- a 'mad fox' presents the system malfeasant behaviour, uses positioning to align with the task environments and control to align with the institutional environments and needs structural surgery to heal the corruption disease;
- an 'errant rabbit' presents procedural malfeasance, uses bridging to cope with the task environments and acquiescence to cope with the institutional environments and needs partial medication to alleviate corrupt acts;
- a 'wild puppy' presents categorical malfeasance, uses interpenetration to respond to the task environments and selection to respond to the institutional environments, and needs a specialized operation to cure serious malfeasance;

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

- a 'sick bulldog' presents structural malfeasance, uses levelling to configure with the task environments and pacification to configure with the institutional environments, and needs a decoupled injection to eradicate corruption.

I developed the framework that presents (1) corruption increases when task pressures (uncertainty, oligopoly and regulation) and institutional pressures (opaqueness, injustice and complexity) heighten; (2) moral consciousness is a modifier of transmitting these pressures into malfeasant behaviours and corrupt acts; (3) organizational architecture, which is crafted by culture, structure and system, ultimately determines how morally conscious the organization is and how effective its initiatives are to cut off corruption's supply side; and (4) without this architecture, the organization will suffer from organizational deficiency, strategic impediment, competitive disadvantage and evolutionary hazards, all caused by corruption. These issues and related arguments, of course, merit empirical verification, theoretical extension or typological modification tailored to specific contexts or research questions.

NOTE

[1] The author would like to thank Professor John Child and the anonymous reviewers for their valuable inputs.

REFERENCES

Ackerman, S. R. (1975). The economics of corruption. *Journal of Public Economics*, **4**, 187–203.

Ackerman, S. R. (1978). *Corruption: A study in Political Economy*. New York: Academic Press.

Ackerman, S. R. (1999). *Corruption and government: Causes, consequences, and reform*. Cambridge: Cambridge University Press.

Ackerman, S. R. (2001). 'Trust and honesty in post-socialist societies'. *Kyklos*, **54**, 415–44.

Argandona, A. (2003). 'Private-to-private corruption'. *Journal of Business Ethics*, **47**(3), 253–67.

Banfield, E. C. (1975). 'Corruption as a feature of government organization'. *Journal of Law and Economics*, **18**, 587–605.

Barney, J. (1991). 'Firm resources and sustained competitive advantages'. *Journal of Management*, **17**, 99–120.

Baucus, M. (1994). 'Pressure, opportunity, and predisposition: A multivariate model of corporate illegality'. *Journal of Management*, **10**, 699–721.

Bunker, S. G. and Cohen, L. E. (1983). 'Collaboration and competition in two colonization projects: Toward a general theory of official corruption'. *Human Organization*, **42**, 106–114.

Burns, T. and Flam, H. (1986). *The shaping of social organization: Social rule system theory and its applications*. London: Sage.

Child, J. (1972). 'Organizational structure, environment and performance. The role of strategic choice'. *Sociology*, **6**, 1–22.

Conference Board, The (2000). *Company programs for resisting corrupt practices: A global study*. Research Report 1279-00-RR, New York: The Conference Board.

Dess, G. G. and Beard, D. W. (1984). 'Dimensions of organizational task environments'. *Administrative Science Quarterly*, **29**, 52–73.

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

DiMaggio, P. J. and Powell, W. W. (1983). 'The iron cage revisited: Institutional isomorphism and collective rationality in organization fields'. *American Sociological Review*, **48**, 147–60.
Doig, A. and Theobald, R. (2000). *Corruption and democratization*. London: Frank Cass.
Downs, A. (1967). *Inside bureaucracy*. MA: Little, Brown & Co.
Geletkanycz, M. A. and Hambrick, D. C. (1997). 'The external ties of top executives: Implications for strategic choice and performance'. *Administrative Science Quarterly*, **42**, 654–81.
Gioia, D. A., Schultz, M. and Corley, K. G. (2000). 'Organizational identity, image, and adaptive instability'. *Academy of Management Review*, **25**(1), 63–81.
Global Corruption Report 2001. Berlin: Transparency International.
Goldsmith, A. A. (1999). 'Slapping the grasping hand: Correlates of political corruption in emerging markets'. *American Journal of Economics and Sociology*, **58**(4), 866–83.
Hitt, M. A. and Tyler, B. (1991). 'Strategic decision models: Integrating different perspectives'. *Strategic Management Journal*, **12**, 327–51.
Hogg, M. A. and Terry, D. J. (2000). 'Social identity and self-categorization processes in organizational contexts'. *Academy of Management Review*, **25**(1), 121–40.
Husted, B. W. (1999). 'Wealth, culture, and corruption'. *Journal of International Business Studies*, **30**(2), 339–60.
Johnson, S., Kaufman, D. and Lobaton, P. Z. (1998). 'Regulatory discretion and the unofficial economy'. *American Economic Review*, **88**(2), 387–92.
Kaufmann, D., Kraay, A. and Lobaton, P. Z. (1999). 'Governance matters'. *World Bank Policy Research Paper*, no. 2196, Washington, DC: World Bank.
Lambsdorff, J. G. (2002). 'Making corrupt deals: Contracting in the shadow of the law'. *Journal of Economic Behavior & Organization*, **48**, 221–41.
Lambsdorff, J. G. (1999). 'Corruption in international research: A review'. *Transparency International Working Paper*, Berlin, www.transparency.de (accessed 10 November 2000).
LaPalombra, J. (1994). 'Structural and institutional aspects of corruption'. *Social Research*, **LXI**, 325–50.
Lawrence, P. R. and Lorsch, J. W. (1967). *Organization and environment: Managing differentiation and integration*. Boston: Harvard Business Press.
Luo, Y. (2002a). 'Corruption and organization in Asian management systems'. *Asia Pacific Journal of Management*, **19**(2/3), 405–22.
Luo, Y. (2002b). *Multinational enterprises in emerging markets*. Copenhagen: Copenhagen Business School Press.
March, J. G. and Simon, H. A. (1958). *Organization*. New York: Wiley.
Mauro, P. (1995). 'Corruption and growth'. *Quarterly Journal of Economics*, **110**, 681–712.
Meyer, J. W. and Scott, W. R. (1983). *Organizational environments: Ritual and rationality*. Beverly Hills, CA: Sage.
Oliver, C. (1991). 'Strategic responses to institutional processes'. *Academy of Management Review*, **16**, 145–79.
Pfeffer, J. and Salancik, G. (1978). *The external control of organizations: A resource dependence perspective*. New York: Harper & Row.
Provan, K. G. (1983). 'The federation as an interorganizational linkage network'. *Academy of Management Review*, **8**, 79–89.
Schleifer, A. and Vishny, R. W. (1993). 'Corruption'. *Quarterly Journal of Economics*, **108**(3), 599–617.
Scott, J. C. (1972). *Comparative political corruption*. Englewood Cliffs, NJ: Prentice-Hall.
Scott, W. R. (1992). *Organizations: Rational, natural, and open systems*. Englewood Cliffs, NJ: Prentice Hall.
Tanzi, V. (1998). 'Corruption around the world: Causes, consequences, scope, and cures'. *IMF Working Paper* 98/63. Washington, DC: IMF.
Tool, M. R. (1993). *Institutional economics: Theory, method, and policy*. Boston: Kluwer Academic Publishers.
Treisman, D. (2000). 'The causes of corruption: A cross national study'. *Journal of Public Economics*, **76**, 399–457.
Tushman, M. and Nadler, D. (1978). 'Information processing as an integrating concept in organizational design'. *Academy of Management Review*, **3**, 613–24.
US Department of State (2001). *Fighting global corruption: Business risk management*. Washington, D.C.: Department of State Publication 10731.
Wei, S-J. (2000). Natural openness and good government. *NBER Working Paper* 7765, www.nber.org.

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press

Weaver, G., Trevino, L. and Cochran, P. (1999). 'Integrated and decoupled corporate social performance: Managerial commitments, external pressures, and corporate ethical practices'. *Academy of Management Journal*, **42**, 539–52.
Williams, R. 1987. *Political corruption in Africa*. UK: Gower.

Yadong Luo (Yadong@miami.edu) holds the Emery Findlay Distinguished Chair in Graduate Business Studies and is Professor of Management in the School of Business Administration, University of Miami. He is the author of a dozen books and about 100 refereed journal articles. His research interests include global corporate strategy, foreign direct investment, international joint ventures, and management in transition economies. He was a former provincial official in charge of international business in China. Dr. Luo eamed his Ph.D. from Temple University.

Manuscript received: April 14, 2003
Final version accepted: January 26, 2004
Accepted by: John Child

© Blackwell Publishing Ltd 2004.

https://doi.org/10.1111/j.1740-8784.2004.00006.x Published online by Cambridge University Press