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# **Corruption in Organizations Some Outlines for Research**

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## Some Outlines for Research<sup>1</sup>

### Introduction

What comes to mind when thinking about corruption in organizations? What kind of action or behavior is concerned with it and what kind of image can be formed from recent affairs reported in the media? What are the reasons and the outcomes of corrupt behavior in organizations and why is it so difficult to get detailed information about mechanisms that support corruption, enhance secrecy, and tie up individuals in systematic evildoing? And, when reasoning about corruption in organizations as an empirical phenomenon as well as a theoretical issue – which aspects may be of interest for research in the field of organization theory and what may be their implications for human resource management? Finally, which demands on the design and the practice of corresponding HRM-systems are to be met in order to provide against and to drive back corruption in organizations?

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<sup>1</sup> The idea of dealing with corruption in organizations has its roots in a project Klaus Bartölke and the author had worked on in 2003. Concerning the relationship between the individual and the organization, the aim was to contribute an article to the German concise dictionary 'Business Management and Organization' (cf. Bartölke/Grieger 2004). Consulting the literature, we discerned that *deviant behavior* occurs only in forms as, for example, underperforming, resistance to change, self-interest seeking with guile (a kind of opportunistic behavior), and so on. Surprisingly, no attention was paid to *criminal behavior* such as fraud, bribery or misappropriation of money. But obviously – as media coverage made clear to everyone – existing organizations face such kind of behavior in day-to-day life. This discrepancy raised the question why criminal behavior is hardly subject to scientific investigations. On the basis of this finding the author became more and more interested in this topic, starting systematically reviewing the literature. This paper presents first considerations concerning theoretical approaches to corruption in organizations. It was completed and revised during a stay at the School of Business, Economics, and Law at Göteborg University, Sweden (Handelshögskolan Göteborg). The author is grateful both to colleagues of the HRM-group in Göteborg and to Klaus Bartölke for constructive discussion of and valuable comments on a first draft.

This paper deals with parts of these questions but it goes one step beyond. It tries to investigate some theoretical approaches on corruption that may be helpful in understanding organizational behavior that is 'abnormal' as far as it is regularly neither expected nor treated in textbooks or articles published on traditional topics in organization theory and human resource management. Although all work presented here is in initial stages, the paper also aims to outline some promising perspectives for research. The main idea is to focus on the contextual conditions of organizations (e.g. structures, rules, incentives, culture, climate) that facilitate and encourage corrupt behavior of individuals, groups and networks within and around organizations. Therefore, the attention is directed at structures and procedures that enhance corruption in organizations, as well as at characteristics of individuals and groups (e.g. such as preferences, group dynamics, power, and cultures of dependency that respond to such conditions), and, finally, to processes by which stable and continuing corruption – presumably depending on stable and continuing relationships between individuals or groups – may develop in organizations.

Regarding these topics, a theoretical framework should be able to combine explanations of different (types of) approaches that are incommensurable in principle. That is to say, for example, a conceptualization is imaginable that brings together elements of structuration theory and new institutional theory as well as more actor-centred approaches in organization theory like agency theory and behavioral science, including individual/organization psychology and normative ethics. Therefore, future work on this topic will also require some fundamental methodological consideration concerning questions of how to deal with an interdisciplinary approach to corruption in organizations. That way more synergistic and systemic perspectives on corruption in organizations might be stimulated. But until then it is still a long way to go. At the moment, the purpose of this paper is twofold: First, to provide some progress in understanding what is meant by corruption in organizations as well as why and how corruption occurs even among individuals and within organizations that are considered to represent morally high standards. The second is to introduce more general and abstract perspectives on corruption into a discussion that lacks theoretical substance and explanations. In short, this paper is about setting up a research process and should therefore be regarded as work in progress.

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## Defining Corruption

Beginning with definitions, one question that might easily be answered, is what is meant by the term ‘corruption in organizations’? However, it is to be acknowledged that in the past corruption<sup>2</sup> has been largely ignored in the management literature. Certainly there are some contributions on related concepts like employee theft, workplace deviance or unethical decision making, but such behavior is typically viewed in isolation. That leads to concepts of highly specific behavior frequently neglecting contextual factors and dynamics as well as synergetic effects among different issues and multiple levels of analysis. And so, asking what organizational corruption is about, first of all it seems to be a kind of *deviant behavior* or evil action in organizations. Strictly speaking it is about individuals or groups “acting evil within an organizational context” rather than single “evil actors carrying out solitary actions” (Darley 1996, p. 13). In order to indicate evil actions as corrupt, this definition stresses organizational contexts or, expressed in another terminology, the existence of organized social systems that serve as a nexus for formal and informal relationships between participants.

Following Coleman (1987, pp. 407f., with focus on white-collar crime), existing forms of corruption in organizations can be distinguished into corruption *on behalf* of the organization (e.g. bribing, insider dealing, illegal price agreement, etc.) and corruption *against* the organization (e.g. self-dealing, theft, embezzlement, misappropriation, etc.), often designated as organizational or corporate crime and occupational crime. Another distinction looks at the actors involved in corruption. On the one hand, we have single persons who act corruptly within an organization, whereas on the other hand we find varied forms of collective corruption – that is evil acts that call for cooperation and interconnection among individuals (Brief et al. 2001). In particular, the latter seems to be more problematic to organizations, because of the often interwoven course of evil action. This way corruption becomes a property of the collective, describing something like ‘mafia-type methods’ (e.g. creation of interdependency, blackmailing, fraud, secrecy, and systematic bribery). Such common wrongdoing is rightly to be associated with characteristics of action systems. Due to

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<sup>2</sup> Corruption (lat. *corrumpere*) characterizes actions such as spoil, weaken, distort, erode, undermine, bribe, ruin, destroy. Largely understood as *hidden misuse of a powerful position of trust*, it is connoted to be immoral, depraved, and dishonest.

the fact that collective corruption requires collective effort, it is very likely to be officially tolerated or sanctioned. "Approval or consent may have been either implicit or explicit. A direct order to engage in a corrupt practice represents explicit sanctioning; and, the creation of a corporate climate emphasizing results without regard to means is an example of implicit sanctioning" (Brief et al. 2001, p. 472). Therefore, *collective corruption* may be of exceptional importance to scientific inquiries because of its nature to develop corrupt relationships or networks that may have the potential to penetrate the organization and – in the long run – may become part of its structure.

According to Ashforth/Anand (2003, p. 2), corruption means 'acting corruptly', and with reference to organizations it is defined as "the misuse of authority for personal, subunit and/or organizational gain". Of course, this definition – *misuse of authority* indicates nothing else than deviant behavior relying upon power given to employees or representatives – is a very general one. It differs from more specific ones that restrict the use of the term corruption to an involvement of the use of *public* power. For example, Jain (2001, p. 73) in his review of existing theoretical work on corruption focuses on activities "in which public officials, bureaucrats, legislators, and politicians use powers delegated to them by the public to further their own economic interests at the expense of the common goal". From that point of view, corruption always means *political corruption* because, by definition, it involves political systems (cf. Jain 1998, pp. 13ff., for a principal-agent approach to corruption that stresses the relationships between government leaders, bureaucrats, firms, and the populace).<sup>3</sup> However, this widespread understanding excludes all illegal acts such as bribery, fraud, blackmail, misappropriation and laundering

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<sup>3</sup> That is also the topic NGOs like Transparency International are focussing on. The latest Transparency International Corruption Perceptions Index 2005 (CPI) shows that more than two-thirds of the 159 nations surveyed scored less than five out of a clean score of ten, indicating serious levels of corruption in a majority of the countries surveyed. Despite progress on many fronts, including the imminent entry of the United Nations Convention into force against corruption, seventy countries – nearly half of those included in the index – scored less than three on the CPI, indicating a severe corruption problem (for more information cf. [www.transparency.org/cpi/2005/cpi2005\\_infocus.html](http://www.transparency.org/cpi/2005/cpi2005_infocus.html)). Another survey, the Transparency International Bribe Payers Index (BPI), last published in 2002, is based on surveys conducted in 15 emerging market countries. The surveys themselves are based on questions relating to the propensity of companies from 21 leading exporting countries to pay bribes to senior public officials in the surveyed emerging market countries (for more information cf. [www.transparency.org/cpi/2002/bpi2002.en.html](http://www.transparency.org/cpi/2002/bpi2002.en.html)).

of money, misuse of authority and power, patronage appointment, and so on that do not require the power of public office (cf. Kaufmann 1998, pp. 135ff., for a description of forms and variations of political corruption; Rose-Ackerman 1997, pp. 34ff., for a list of activities that constitute such corruption). And indeed, most of the literature on corruption is about government and administration pathologies (cf. Rose-Ackerman 1999, Shleifer/Vishny 1998, Treisman 2000), and here also intensive and long-standing discussions have addressed the meaning, definitions, and concepts of (political) corruption. For example, Johnston (2001) provides an overview of ways of thinking about corruption and differentiates classical, modern, and newer approaches. He argues that modern approaches judge behavior against the limits of impersonal power given to public roles whereas the newer ones, termed ‘neo-classical’ link modern political issues like roles and institutions to classical concerns about the moral health of society by emphasizing the collective state of core values of the political system. But in reversal, does this mean that private organizations cannot be subject to corruption? Obviously there is no evidence for it and referring to current scandals in Germany<sup>4</sup> it seems to be accepted to speak of corruption in the case of fraud or bribery within a private corporation. Colloquial language also applies the term corruption to circumstances in which public power is not necessarily involved. Insofar, Jain (1998; 2001) and some other authors obviously define corruption analytically and with respect to the specific topic ‘evildoing within or with involvement of *public organizations*’.

Irrespective of the pros and cons of wider or narrower defined terms or of wider or narrower range concepts – in the end, any definition is a voluntary act, can be questioned and should be evaluated in the light of adequacy. Here the focus lies on deviant behavior in organizations (and not only in those that

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<sup>4</sup> Some German firms, in former times often considered as comparatively morally unquestionable, are recently involved in corruption scandals, either because of their business practices or because of criminal activities of parts of their (top-) managers. That is why corruption unfortunately appears to be a recurring feature of organizational life, doing enormous damage to individuals, organizations and their credibility as well as to society. The current cases indicate that corruption has taken on alarming proportions. There is a long list of those firms affected by corruption, containing prestigious ones such as BMW, Bankgesellschaft, Commerzbank, Deutsche Bahn, Infineon, Mercedes, and VW. Taking note of the news coverage, the enormous potential of crime is shocking, but to a stronger extent it raises the question of how these incidents could have happened (for information concerning the cases addressed above as well as for additional links to background information, see [www.zeit.de/wirtschaft/korruption\\_geldwaesche/index](http://www.zeit.de/wirtschaft/korruption_geldwaesche/index)).

involve the use of public power). From there, an extensive understanding of corruption appears to be beneficial to the initial inquiry intended in this paper because it leaves open the possibility of differentiations carried out later on. Therefore, at the starting point corruption is to be defined as '*collective deviant, especially criminal behavior or evil action on behalf of and/or against the organization*'. Important to note, in this definition nothing is said about the relationships between corruption and unethical behavior, white-collar crime, criminal offence, antisocial behavior or injustice, and so on. That means, if dealing with corruption in organizations, a wide range of deviant behavior or deviance, related to a potentially wide range of structural, procedural, and personal issues, is provisionally addressed. That makes sense because at this stage of inquiry it seems to be too early to decide whether corruption should be understood a high-order concept or only is related to specific and unique behaviors in organizations. For the time being, basing the concept of corruption on behaviors will not prejudice applying classificational work in order to develop more clear definitions of corruption (cf. Johnston 2001, pp. 17ff., with reference to the improbability that precise behavior-based definitions of corruption will ever be found). The reference to deviant but not specified behaviors should only satisfy describing functions and indicate circumstances that are observable in principle. Looking at, for example, value loaded approaches to political corruption with reference to damages of the democratic process (cf. Thompson 1993), it might become a topic of future discussions whether the concept of corruption in organizations can be based on outcomes that impede the functioning of legal business processes and fair treatment of competitors, customers, suppliers, and colleagues as well as of market mechanisms.

## Directions and Issues of Research

Looking closer at the literature about corruption, one characteristic feature seems to be of general importance. All existing (definable) forms of corruption have in common that they are morally reprehensible and – at least, in the long run – expected to be harmful to the organization and the society at large. That is why moral considerations play an important role in analyzing deviant, criminal behavior or unethical decision-making (e.g. Fritzsche/Becker 1984; Hegarty/Sims 1978; Trevino/Youngblood 1990). Because of that, opportunities to combat corruption – instruments that can drive it back – are often part



of analyses (e.g. Brief et al. 2001, pp. 490ff.; Jain 2001, pp. 98f.). But it remains an unresolved question whether the normative touch or intention will affect investigations, for example in such a way that analytical distance to the object of analysis is given up (this does not mean that the authors cited above did so). This formal but fundamental problem concerning the study of corruption should be kept in mind and remembered when analyzing the literature more accurately.

No doubt – corruption *is* detrimental to organizations and societies. From there it is somehow understandable why efforts against corruption are seen to be of immediate importance and more accurate analyses of the genesis and the development of corruption as secondary. Maybe this is one (but probably not the most important) reason for the very little attention that has been paid to corruption in German business administration, where this topic seems to be something like a taboo (Müller 2002). Exceptions may be found in the field of business ethics (cp. Homann 1997; Wieland 2002), but concerning the impact this body of literature has on the development of research topics, it seems to be of marginal importance in business administration in Germany. Whatever the reasons for the underdeveloped status of the discussion are – in international discourses also corruption is treated much more in political science (cp. Colazingari/Rose-Ackerman 1998; Heidenheimer 1996; Kaufmann 1997; Philp 1997; Porta/Vannucci 1997; Shelley 1998) and in macro economics (cp. Bardhan 1997; Becker 1968; Elliot 1997; Goel/Rich 1989; Kurer 1993; Lien 1990; Olsen/Torsvik 1998) than in business administration. But fortunately there is a slowly but surely growing body of international literature dealing with corruption in organizations and related issues, and some of the recent contributions take a critical and closer look at what can be called ‘organizational corruption’ (cf. Anand et al. 2004; Ashforth/Anand 2003; Brief et al. 2001; Wellen 2004; for contributions dealing with topics that are closely related to corruption in organizations – e.g. corporate criminality, moral violence, organizational or white-collar crime, abuse of power, and organizational destructivity – cf. Blankenship 1993; Diamond/Allcorn 2004; Finney/Lesieur 1982; Gross 1978; LaPalombara 1994; Lee-Chai/Bargh 2001; Long 2002; Luo 2002; Poveda 1994).

This literature gives evidence to the presumption that a fruitful topic of research on corruption in organizations does not necessarily involve public

power or public officials acting evil.<sup>5</sup> Some scholars have focused more specifically on the genesis of unethical behavior in organizations and white-collar crime respectively, arguing that motivation and opportunity to act evil are a product of always three factors, varying from situation to situation in shape and effect (e.g. Brass et al. 1998; Coleman 1998). Using their findings for analyzing collective corruption, one can proceed on the following assumptions: In the *environment*, strong competition and low legal regulation as well as low legal enforcement seem to be indispensable conditions for corruption. At the *organization level*, in particular structural complexity and poor performance may serve as an enabling factor by creating a climate that invites or encourages individuals to act evil. Finally, *personal factors*, such as fear of failing in business as well as low moral standards are seen also to be responsible but only to a far lesser extent than the other factors. For example Windolf (2003) provides an instructive analysis of the Enron case, illustrating the synergy between the three factors. His analysis confirmed the often claimed assumption that corruption is the product of strong situations that override individual differences or group characteristics. There is some evidence that for the most part ordinary people – respectable upright citizens with good reputation – are engaged in corruption. And Coleman (1998, p. 178), referring to what almost all studies he consulted have agreed upon, concludes: “White collar offenders are psychologically ‘normal’.” As far as this is concerned, one of the most interesting questions to be raised here is why obviously ‘normal’ or ‘average’ individuals – those who seldom are expected to behave criminally – are able to act corruptly. Obviously they do, but regularly they do so *as* members or representatives of organizations. Focussing the organization’s impact on behavior, the hypothesis could be that a combination of particular and determinable factors – under certain circumstances – are putting members under very strong pressure to engage in corruption. That is not to say that corrupt individuals in organizations are only victims of superior situations but, among other things, there may be a strong force depending on organizational factors

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<sup>5</sup> In 2004 the Academy of Management Review launched a call for papers for the Special Topic Forum concerning ‘corruption in organizations’. It addressed numerous potential research issues and questions, including ‘conceptual and definitional’ ones, ‘corruption processes and dynamics’, ‘perceiving and labeling corruption’, and ‘consequences of and remedies for corruption’. Because the date for submission was in february, 2005, the contributions probably will be published in 2006, then extending the body of literature available and enriching our understanding of corruption in organizations.

that pressurizes them into doing something what they – under different conditions – probably would not do.

Before dealing with this feature more accurately, another important approach contributing to an explanation of individual offence in organizations should be noted. The rational choice perspective in criminology takes a closer look at what has been called ‘white-collar crime’ (cf. Vaughan 1992) and can therefore help to elucidate the individual’s responsibility. The main argument is that for individuals it may be economically rational to engage in corruption because very often crime does pay (cf. Cornish/Clarke 1986). Even here, several factors must coincide. Among them there are a strong emphasis on competition and financial goals in organizations, rewarding individual success regardless means, a permissive ethical climate in or around the organization so that the ends may come to justify the means, low risk of punishment or threatening to impose sanctions by supervisory management or government and, above all, a favorable chance to act evil. After that, individuals may calculate and take advantage of an opportunity to engage in corruption to make money or gain benefits from amoral behavior (Shover/Bryant 1993). Again, this worst-case scenario refers to situational and contextual factors encouraging corruption. As Jackall (1988) points out in detail, an amoral pursuit of organizational goals is best supported under the conditions of existing values like pronounced individualism, strong competition among individuals and subunits, low regulation of business, pragmatism, efficiency, and profitability at any price. And, if individuals – for example because of strong identification with the organization – believe that they have to serve these goals whatever happens, than ethical doubts or reservations can more easily be put aside, enabling evildoing at the expense of others (Jones/Ryan 1998). As we can see, individual and organizational forces must come together to bring people to corrupt acting. Nevertheless, in each and every instance specific combinations of factors matter or can be recognized as the deciding ones to bring about corruption. On the one hand – and in some contrast to the findings stated above – individual characteristics of those concerned like age, sex, nationality, race, qualification or education, social background and status may be relevant and should not be ignored per se. On the other hand, features of the organization system like strategy, leadership style, organizational culture, compensation systems, personnel development and career prospects, or, at the makro level, items like markets, industrial sector, economic system, and

the country's culture may be of great importance. But, looking for theoretical explanations, all these factors may be reduced to the three main factors quoted above – *personal, organization and environment*. In sum, these factors are eligible for describing or explaining the emergence and perpetuation of corrupt behavior in organizations and should therefore be treated more accurately.

Given this cursory overview about some central concepts of the phenomenon 'collective corruption in organizations' provided by the literature, a strong emphasis on the causes of and the reasons for corruption can be recognized, whereas corresponding outcomes are mentioned to a lesser extent. Presumably they are expected to be detrimental on principle (to whomever), and therefore need no comprehensive treatment. But as can be shown later, the question of who is damaged is not as secondary as it may seem (and the question of what norms and values are violated might provide for an alternative approach to define corruption in organizations more precisely). Nevertheless, for the most writers the genesis of corruption in organizations is of main interest. With regard to and in accordance with the discussion above, three major aspects can be identified, serving as an orientation towards a frame of reference that can meet the purpose of this paper:

- First, the relationships between the individual, groups, and the organization seem to be of great significance for theoretical concepts dealing with collective corruption in organizations. In so far no single person may be able to bring about organizational corruption, one condition of an analysis is to identify the impact of social action systems on the emergence of corruption. Theoretically speaking, this is because of the relevance of interaction and interdependence between elements of action and elements of structure. Therefore, approaches should address corruption on the individual, group, and organization level as well as outline the coherence between these levels of analysis.
- Second, the fact that corruption involves organized contexts stresses the influence organizations exercise on corrupt action, that is to say enabling and/or constraining corruption. For example, the question may be raised why otherwise morally upright individuals or groups engage in corrupt behavior under certain circumstances – but do not under different ones. Presumed the relative dependence of individual action or group behavior on elements of the organization's structure, it is obvious that characteristic

features such as rules, style or principles of leadership, structure of positions, hierarchy and so on do matter. But more important than this, a look at structural mechanisms that generate corrupt action seems to be instructive to explain why corruption often persists for a long period of time, frequently regarded by the involved persons as ‘something ordinary’ – a peccadillo – or as ‘something taken for granted’ that does not attract particular attention.

- Third, if ‘acting evil’ is supposed to be the opposite of upright behavior in organizations, then a (likely normative) position is required to draw a line between accepted behavior and behavior that cannot be tolerated. This point is of huge importance because it expands the frame into the field of social values that differ not only among societies but among organizations, too. Then the question should address the function of values and norms in individual decision-making and here also ethical consideration is of importance. Finally, dealing with corruption indispensably involves clear cut criteria of what is to be recognized as evildoing and what is not. Therefore, legal norms and the legal system play an important role in the analysis of corruption because they affect the calculations of the offenders, constrain their perceived opportunities, and mark the roads to deviation.

The next three sections are about these aspects that are of great importance for behavioral analyses of collective corruption in organizations. Together they are supposed to lay the foundations for a framework that may serve as a guidance for interdisciplinary research on this topic.

### Analyzing Corruption in Action Systems

In political science and macroeconomics, the ‘Grabbing Hand Model of Government’ (Shleifer/Vishny 1998) is widely acknowledged as a general but useful approximation of the conditions that encourage political corruption. Here the main assumption about the rationality of corrupt individuals – politicians and bureaucrats – is to maximize their own well-being at the expense of achieving social welfare objectives. Originally, for achieving social welfare objectives (in favor of the society), control rights are given to public office. As the model suggests, corruption occurs if politicians and bureaucrats misuse or abuse their control rights for private enrichment. That is expected to be pro-

portional “to the i) extent of control rights controlled by the politicians, ii) the degree of discretion and arbitrariness allowed in the application of these control rights, iii) the expected likelihood of detection and loss function (penalty as well as loss of government salary) associated with abuse, and iv) the professional and ethical values of the politicians” (Kaufmann 1998, p. 143). Transferring this model and the expectations concerning the likelihood of corruption to private sector organizations, general conditions for encouraging collective corruption in organizations can be derived. This way, the relationships between individuals, groups, and the organization should be addressed and structured analytically. Taking also into account the distinction drawn between corruption on behalf of and/or against the organization, some hypotheses regarding corruption in organizations can be stated. The hypotheses are of similar nature like those above and they do not comprise preliminary decisions on theoretical approaches that should be used for an analysis. The hypotheses are the following:

1. As a general condition, corruption in organizations only occurs if individuals are given control rights to act or to make decisions on behalf of the organization.
2. Corruption in organizations may occur if these individuals misuse or abuse the kept control rights a) to achieve organizational objectives by using illegal means or b) to achieve objectives for private enrichment at the expense of achieving organizational objectives. c) In particular, a hybrid form of the conditions above – using illegal means to achieve objectives for private enrichment at the expense of the organization – can be considered to be a very frequent one if regarding corruption in organizational life.
3. The amount of corruption in organizations is expected to be proportional a) to the extend of control rights kept by individuals, b) to the degree of discretion and arbitrariness allowed in the application of these control rights, c) to the expected likelihood of detection and penalty associated with the abuse of these control rights, and d) to the professional ethical values of the individuals who keep these control rights.

Obviously, these hypotheses cannot cover the full spectrum of conditions or plausible ‘if-then statements’ that may contribute to a systematic look at corruption in organizations. But by stressing the relationship between the individual and the organization with reference to kept control rights, discre-

tion, expected detection and penalty, and ethics (or moral), they outline some first contours of a frame of analysis. In addition, drawing upon *collective* corruption, the relationship between individuals and groups as well as between groups and the organization are also of importance. Formal work groups and/or informal (insider) groups influence individual behavior and they mediate between individual action and organizational structure (cf. contributions in Turner 2001, for multiple aspects of research on groups). Groups regulate the use of control rights by establishing social control on their members, determine the perceived discretion and expected detection if abusing control rights, and they exercise socialization functions, including the exercise of a strong force onto their members to adopt their values, moral, and ethics. Therefore, strong cohesive groups may urge members to behave in a special way, to do something particular and to internalize opinions, views and beliefs (Porter et al. 1975, pp. 371ff.; Janis 1982; Brown 2000). As far as that is concerned, groups may regulate individual action and beliefs, and that seems to be of great importance in analyzing collective corruption. Given this extension, two further hypotheses with respect to action and structure as elements of the social action system can be claimed:

4. Corruption in organizations is expected to be mediated by groups. That means, the stronger and more cohesive groups are, the more influence they exert on the suppression or on the encouragement of both individual and collective deviant behavior.
5. The main orientation of groups towards evildoing or corruption – approval and encouragement versus disapproval and suppression – depends on multiple factors. Among them are both characteristics or influences of the organization (as part of structure) and those of dominant members who get others to agree (as part of action).

Together, these five hypotheses may provide some indications that serve as a guidance for an analysis of the interaction and interdependence between elements of action and elements of structure in the emergence and perpetuation of collective corruption. The question pursued refers to a theoretical perspective that is able to organize research on the issues addressed above. On this basis, a proposal will be presented in the form of a rough outline that comprises two steps: At the first stage of abstraction, the relationship between the individual and the organization can be regarded as the relation between ‘something special’ and ‘something general’, reciprocally affecting each other. At the

second stage of abstraction the focus lies on Giddens's theory of structuration that may provide a general frame for analyzing these relations.

(1) Trying to understand the relationship between the individual and the organization one can state a fundamental tension (cf. Bartölke/Grieger 2004, for a more detailed exposition of this topic). Organization can be characterized as the place where individuals – human beings with their specific nature and their attributes – clash with organized contexts and associations or collectives that, by contract and membership, demand for adherence to rules as well as for subordination. Organization therefore means, on the one hand, that individuals are seen as parts of collectives, integrated into instrumental arrangements, and treated as objects of organizational creation (e.g. by means such as techniques of organizing people, motivating them to produce, developing them to perform, etc.). On the other hand, the individual, as an organizer, is also the creator of organizational arrangements, establishing rules and norms that serve as determinants of organizational behavior. In organization theory, this tension between the individual as object of treatment and/or subject of action appears in the dualism of structural and personal points of view (Lichtman/Hunt 1973). That, for example, raises the question of how to deal with conflicts between individual goals or needs and organizational objectives to manage compatibility and goal integration (Barrett 1970). Given this as a general basis of understanding the individual-organization relationship, three questions – each of them describing a perspective of analysis – can be identified: How does the individual influence organization, how does organization influence the individual and how do they simultaneously interact? The first question addresses the individual as an independent variable, asking for the relevance of his or her attributes and behavior for the organization. As for a concrete example, individuals are trying to use the organization for serving their own goals or interests. That may be also the case if individuals are acting corruptly against the organization. The second question addresses the organization as an independent variable, asking about the consequences for the individual. In practice, organizations are trying to use individuals as means to their ends, including tendencies of exploitation. That may be also the case if members are brought or forced to engage in corruption on behalf of the organization, however that actually works. The third question – probably the most interesting one – addresses the interdependency of individuals and organizations (Bartölke/Grieger 2004, pp. 466f., with reference to Smelser/Smelser



1970; Graversen/Johansson 1998). Interdependency here means that organizations are created by individuals as well as they are affecting them. This kind of 'reciprocal regulation' (cf. Nord/Fox 1996, pp. 156ff.) can be illustrated by drawing on a figure that, on the one hand, portrays organizational creation by individuals and that, on the other hand, describes individuals controlled by organizations. These two processes take place simultaneously. They can be imagined as inseparably interwoven processes of interaction between individuals and organizations. As far as this is concerned, organizations may create arenas of action that enable and restrict individual behavior, and individual behavior may confirm these arenas or modify them. As a conclusion, organizations serve as strong institutions that communize individuals (Türk 1999), but they cannot come into existence without individuals, their individuality, and their freedom of will. In sum, the interdependencies stated above describe a recursive system that analytically can record the nature of the individual-organization relationship. But for an analysis of the genesis and perpetuation of collective corruption in organizations, these considerations still need some enrichment with theoretical substance. At this point, Giddens's theory of structuration may provide for a deeper foundation.

(2) Giddens (1979; 1984) develops the theory of structuration as a general social theory. As 'grand' theory, its main topic is to understand and to explain human action and social systems. 'Structuration' as the core concept does mean that social systems are produced and reproduced through actions. "Analysing the structuration of social systems means studying the modes in which such systems, grounded in the knowledgeable activities of situated actors who draw upon rules and resources in the diversity of action contexts, are produced and reproduced in interaction" (Giddens 1984, pp. 25). The theory criticizes positions of structuralism and functionalism that are objectivistic because of structural coercion – the force of circumstances – that dominate the subject. It also opposes subjective and interpretative positions in so far as they overemphasize action and sense (making) and suppose them to be superior in explanation, ignoring the structural conditions of action. Given this, the theory stresses two central questions: First, how to mediate action and structure at the theoretical as well as at the methodological level of analysis? Second, on this basis, how to explain human action and behavior in social contexts? These questions are treated with a theoretical figure named 'duality of structure', providing a pattern of explanation that refers to a reciprocal de-

pendence of structure and action: First, social action is neither purely voluntary nor completely determined by structural coercion. Second, social actors, by their actions, reproduce the conditions (structures) that enable and constrain their action. Third, structure is the medium as well as the result of social action. In sum, the approach tries both to decentralize the subject without marginalizing the actor and to avoid determinism without ignoring the structural outcomes of action. According to the fundamental characteristics above, there are three core elements of the theory, forming the foundation of explanation (cf. Giddens 1984, pp. 25ff.): The concept of action and of the actor, the concept of structure and structuration, and, building upon them, the main theoretical figure named 'duality of structure'.

- Social actors, in their interactions, refer to their images of the action context. This way, they reproduce structure as the condition of their further action. Structure is represented in the consciousness of actors. There it functions as a medium that enables the orientation of individual action. Therefore, social systems can be regarded as streams of action that maintain social order.
- Structure is not seen as a state but as a process of production and reproduction, expressed in the term 'structuration'. As rules and resources, structure stabilizes interaction relationships through space and time by controlling (enabling and/or restricting) action. But structure only exists in so far as it is represented in the consciousness of actors and manifest itself in social practices.
- The concept 'duality of structure' describes the interconnection between the social dimensions of action and structure. In their interactions, actors mediate both the level of action and the level of structure by taking rules and resources as terms (modalities) of their action. In this view, social systems are continuously reproduced relationships between social actors, or, in other words, regular context-sensitive practices. Social systems are not structure, but they have structures that are reproduced only by action (social practices).

Given this short outline of the theory, one can view organizations as systems of organized action, that is to say processes of organizing as well as their results. The double meaning of organization as 'producing' and as 'product' refers to the process of production and reproduction of organizational prac-

tices, or, strictly speaking, the structuration of relationships between social actors. In the light of this theory, collective corruption can be regarded both as interaction and as institution. In the sense of recursive structuration, corrupt actors, by their actions, are embedded in social contexts (structure) that enable and restrict their interactions. Due to the fact that they draw upon rules and resources (e.g. control rights, power, etc.), structures do not develop effects independent of the actors and their intentions. Therefore, corrupt interactions can be understood, at the same time, *as personal and as social action, both as experience and as event* (cf. Ortmann et al. 1997, pp. 336ff., for a more general foundation of this topic). This understanding may also provide heuristics for analyzing corruption in organization. As personal experience, corrupt interaction means socialization of individuals and internalization of social norms and values. As social action, corrupt interaction means institutionalization and reproduction of structure. Then, the relationship between corrupt organizations and corrupt individuals can be treated as the production and reproduction of social structure as well as of personality structure (cf. Ortmann et al. 1997, pp. 341ff., for an overview of ‘applications’ of the theory of structuration).

Summarizing the considerations above, corruption in organizations can be regarded or interpreted as a feature of an action system that, at the same time, is both action and structure. As suggested, the emergence and perpetuation of collective corruption should be analyzed by looking at actors and their intended actions as well as at rules and resources the actors are drawing on (and are dependent on, too). Applying structuration theory then means viewing corruption in organizations as somehow intervoven into the action structure of social systems, or, expressed in other terms, corruption in organizations can be conceptualized as been tied up in the fabric of producing and reproducing the organizational process through actions, that is organizational reality. Such an understanding may provide a stable basis for more conceptual work on this topic. But additionally, for an underpinning of the approach stated above, interdisciplinary analyses should also take into account more organization- or structure-based views as well as they should stress a perspective that centers the individual and his or her freedom of action. The next two sections add these extensions, this way contributing to the diversity of the framework.

## Corruption in Organized Contexts

This section again deals with theoretical approaches in order to describe and explain corruption, but it does so from another point of view. By asking for reasons of why 'normal' individuals engage in corrupt behavior, it takes a closer look at structural mechanisms that generate and perpetuate 'ordinary' collective corruption in organizations. Such kind of 'everyday' corruption does not mean evildoing that is less reprehensible but, as said above, that is somehow 'taken for granted' by those involved in it. At first, the term 'taken for granted' indicates something that is believed by participants as if a given fact. It also signals the analytical language of a certain approach – the new institutionalism in organizational analysis (Meyer/Rowan 1977; DiMaggio/Powell 1983; Powell/DiMaggio 1991). Here, in particular microinstitutional approaches (Zucker 1977; Zucker 1987; Tolbert/Zucker 1996) deal with organizations as institutions, assuming that organizations themselves are the sources of institutionalized patterns or elements. With respect to 'social construction of reality' (Berger/Luckmann 1967) these approaches try to analyze the process of institutionalization in organizations. They hypothesize that institutions can be understood as reciprocal symbols (typified elements) of habituated behaviors and that the attributed meanings of these behaviors are independent of particular individuals. According to that, institutions can be viewed as superindividual beliefs depending on different pillars. A general definition may be that of Scott (1995, pp. 33f.): "Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction. In this conceptualization, institutions are multifaceted systems incorporating symbolic systems – cognitive constructions and normative rules – and regulative processes carried out through and shaping social behavior. Meaning systems, monitoring processes, and actions are interwoven. Although constructed and maintained by individual actors, institutions assume the guise of an impersonal and objective reality." Given this main orientation, microinstitutional approaches seem to provide a potential basis for an analysis of collective corruption in organizations.

Microinstitutional approaches try to explain the emergence and continued existence of the 'normality'. As for an example, Tolbert/Zucker (1996, pp.

181ff.) expand the ideas of Berger/Luckmann (1967, originally referring to institutionalization processes among individual actors) to organizational actors. They differentiate three sequential processes in the formation of institutions: *Habitualization* describes the development of patterned problem-solving behaviors and their connection with particular stimuli. In organizations this process goes hand in hand with the generation of new structural arrangements that respond to specific problems. As a result structure arises at the stage of 'pre-institutionalization'. *Objectification* describes the development of general, shared social meaning that attach the problem-solving behaviors. Shared meanings are a condition for the transfer of the patterned behaviors to other social contexts. In organizations, such transfers require a social consensus among decision makers. That may be the case if problems are solved, that way providing a positive evaluation of resulting structures as an appropriate solution. Then structures are given cognitive as well as normative legitimacy. "Structures that have been subject to objectification and have become fairly widely diffused can be described as being at the stage of semi-institutionalization" (Tolbert/Zucker 1996, p. 183). Finally, *sedimentation* describes a process through which actions gain the quality of exteriority, that is individuals experience habituated behaviors as a reality of their own, confronting them as an external and coercive fact (Berger/Luckmann 1967, p. 58). "Full institutionalization involves sedimentation, a process that fundamentally rests on the historical continuity of structure, and especially on its survival across generations of organizational members. Sedimentation is characterized both by the virtually complete spread of structures across the group of actors theorized as appropriate adopters, and by the perpetuation of structures over lengthy period of time" (Tolbert/Zucker 1996, pp. 184). However, complete institutionalization of structures depends on multiple factors. Among them are continuing support, lack of resistance, and a recognizable positive connection to anticipated effects. Once completed, a reversal – 'deinstitutionalization' – may require considerable upheaval in and around the organization.

This model provides an explanation of how practices become institutionalized in organizations. With reference to the structure of explanation – the stage-model of institutionalization –, it also provides some advice of how an institutional framework for the analysis of the emergence and perpetuation of collective corruption in organizations could be developed. Fortunately, elements of institutional theory already have been successfully employed in studies on

corruption in organized contexts. Therefore, two appropriate contributions shall be consulted in order to get some first insights into the (institutionalization) process by which corrupt actions become part of organizational structure.

(1) Brief et al. (2001) describe the processes that result in officially sanctioned corporate corruption. Inspired by a body of research concerned with collective violence and its legitimization (e.g. the Nazi Holocaust and the Mai Lai massacre), they argue that moral disengagement is the root cause of sanctioned corporate corruption. The authors work out a model containing three overlapping processes – sanctioning, compliance, and institutionalization – that together show how ethically questionable practices become woven into the fabric of an organization.

The first process – explicit or implicit *sanctioning* – means that corporate officials order or encourage subordinates to engage in morally questionable practices. This occurs, for example, if standards of business are high and if methods, procedures or means to accomplish them are considered to be of no interest. Brief et al. (2001, pp. 475f.) regard such sanctioning of corporate corruption as a result of amoral reasoning because managers obviously do not experience value conflicts if only corporate interests dominate and the ends of the business are to be reached no matter by what means.

*Compliance* as the second process is defined “as the initial obedience of a collective of employees to an official authorization to engage in a corrupt practice” (Brief et al. 2001, p. 477). As a group-level phenomenon it refers to the question of why subordinates respond to sanctioning of corruption by acting evil. This question is answered with reference to the role of legitimate authority in corporate settings. As a function of organized contexts, authority is given to supervisors as well as it is attributed by the subordinates. Then, authority is the power to make decisions that direct the behavior or actions of others. Subordinates may be obedient to their supervisors if they believe that an exercise of authority has a legal justification, that hierarchical obedience is necessary and that subordinates have the power to punish disobedience. The critical point here is which orders a subordinate will consider acceptable and which he or she will not accept. According to the degree subordinates economically are dependent on their job, their range of acceptance will be proportional to the fear of getting sanctioned. Referring to the social psychology

literature of compliance, Brief et al. (2001, pp. 479f.) finally consider collective approval as the agreement of the group members to be causal for the legitimization of dominance and subordination. Therefore, they conclude that obedience is a group-level phenomenon and that initial reactions of subordinates to the authorization of corrupt practices are not a consequence of moral reasoning or considering ethical implications of corrupt behavior.

The third process – *institutionalization* – refers to the question of how initial acts of collective compliance to corruption continue and become routinized, making crime a standard operating procedure. The authors argue on varied topics, describing several mechanisms that may institutionalize evildoing in organizations. The first one is marked by actions that are seen to lack of moral or ethical implications. That happens, on the one hand, if fragmented practices become routinized and habitualized, if attention goes only to details, adherence to rules, task performance, and functional rationality but not to the meaning of what one is doing, if organizational members act only as functionaries fulfilling their job, and if the banal nature of single functions and everyday routines may cover the overall effects of organizational evildoing, thus becoming ‘invisible’ to solitary participants (Brief et al. 2001, pp. 481ff., with reference to diverse examples taken from the literature). On the other hand, if moral implications are visible to actors, another mechanism has to come into play to make criminal activities repetitive. Here the authors refer to social constructionist theory (e.g. Berger/Luckmann 1967), arguing “that blatant wrongdoing can become institutionalized through the *collective interpretation* of ‘ethically loaded’ activities. Such a social constructed reality provides an interpretation of wrongdoing that justifies, in the minds of organizational members, its continuation” (Brief et al. 2001, p. 484). This is meant by the notion of the emergence of a culture for ethical deviance. Here it appears that (from an outside view) obviously criminal behaviors are redefined as harmless by participants in a deviant ethical culture. This may be enabled through the application of techniques such as ‘euphemistic labelling’ (the use of emotionally sterile terminology or positive valenced language) and ‘dehumanization of victims’ (depicting victims of evildoing as faceless figures, unworthy or divesting them of their human nature). This way, a sense of guilt cannot develop, and, if widespread, such techniques contribute to the institutionalization of corruption in organizations (Brief et al. 2001, pp. 485ff., with many references to the literature dealing with these issues). Finally, in addressing

the question of how corrupt organizations are able to 'produce' inherently corrupt individuals as a condition of ongoing organizational corruption, the authors draw on socialization processes. Newcomers are forced to accept illegal practices by pushing them to take small steps along the road to deviance, gradually altering their psychological situation. Once taken part in corrupt practices, individuals tend to develop self-justifications, using socially constructed beliefs and values shared by the collective that help to redefine the criminal reality into something normal. Then, if successfully introduced into a culture of corruption, the individual may have the capacity for autonomous evildoing, contributing to a culture that supports ongoing corruption (Brief et al. 2001, pp. 489f.).

In sum, the processes reconstructed above shed light on what can be called the emergence of corrupt organizations. Whatever the situational factors may be, organized contexts – especially the dynamics of groups – obviously do matter more than individual characteristics or differences in bringing about and perpetuate collective corruption.

(2) Another instructive analysis that contributes to our understanding of collective corruption is presented by Ashforth/Anand (2003; see also Anand et al. 2004). In their paper "the normalization of corruption in organizations", the authors point out how corruption becomes embedded in the organization such that it is – more or less – taken for granted and thus is more easily perpetuated. By stressing the potentials of an institutional analysis, their approach to corruption is an in-depth discussion of collective corruption. Since some of the main features of the institutionalization process already have been addressed above (cf. Brief et al. 2001), the contribution can be presented briefly by following the main arguments.

Ashforth/Anand (2003) also confine their analysis to the group level (that way bridging the gap between the individual and the organization as units of analysis). The main question is about how corrupt acts become normalized, "that is, become embedded in organizational structures and processes, internalized by organizational members as permissible and even desirable behavior, and passed on to successive generations of members" (Ashforth/Anand 2003, p. 3). The authors identify three fundamental mechanisms that underlie normalization: *Institutionalization* means a process whereby corrupt practices,



usually without consciousness, are enacted and become a matter of routine, that is become entrenched in organizational processes and structures (Ashforth/Anand 2003, pp. 4ff.). Viewing corruption as a property of the collective, collective corruption is called to be a 'slippery slope' where initial corrupt acts, supported by a deviant (sub)culture, become embedded in structures and processes, finally leading to mechanical, highly programmed operations reducing the salience of practices, that is routinization. This way organizational members receive normative prescriptions, and corruption comes to be seen like procedures should be done. Processes of habituation and desensitization contribute to a seeming normality, and mindlessness of action may be the most probable outcome. "The mindlessness induced by institutionalization may cause individuals to not even notice what might arouse outrage under other circumstances. In a real sense, an organization is corrupt today because it was corrupt yesterday" (Ashforth/Anand 2003, p. 14). Once established, corrupt practices may survive the turnover of employees, thus becoming resistant to examination and change.

*Rationalization* describes a process whereby corrupt individuals justify and value corruption by using self-serving ideologies that can legitimate their practices – at least in their own eyes (Ashforth/Anand 2003, pp. 15ff.). In doing so, corrupt individuals are able to distance themselves from their own criminal acts and can reverse immorality into morality. The authors refer to several types of rationalization – among them are legality, denial of responsibility, injury and victim, social weighting, and appeal to higher loyalties – that together promote the malleability of language (euphemisms, labels, jargon), a technique that operates as denying the implications of criminal activities. In sum "rationalization ideologies are highly seductive. They offer not only to excuse actors from their misdeeds but to encourage them to forget the misdeeds or reframe them as something necessary and even desirable" (Ashforth/Anand 2003, p. 24).

*Socialization* finally means a process whereby newcomers are exposed and familiarized to corrupt practices which bring them to accept corruption over time. Ashforth/Anand (2003, pp. 25ff.) examine the general role of social influence, stressing the concept of social cocoon that helps to explain the dynamics in cohesive corrupt groups. Such groups "often create a psychologically (if not physically) encapsulated social cocoon where: (1) veterans model the

corrupt behavior and easy acceptance of it; (2) newcomers are encouraged to affiliate and bond with veterans, fostering desires to identify with ... (3) ... are subjected to strong and consistent information and ideological statements such that the gray ambiguity of action and meaning is resolved in clear black and white terms ... (4) ... are encouraged to attribute any misgivings they may have to their own shortcomings ... rather than to what is being asked of them ... (5) ... receive frequent reinforcement for displaying the corrupt behaviors and their acceptance of them ... (6) ... are discouraged and possibly punished for displaying doubt, hesitancy, or a tendency to backslide into non-corrupt behavior” (Ashforth/Anand 2003, p. 26). In shaping cognition, affects, and attitudes to corrupt behavior, the social cocoon can be regarded as a relatively closed microcosm, a localized, self-referential world that supports the identification with a particular role and its prescriptions. Identification with the group and its ideologies begins with the alteration of cognition, affects and attitudes, then passing over to display the expected corrupt behaviors. Socialization here describes a mechanism by that newcomers are subtly forced into corruption, not realizing that their actions are immoral or illegal. Probably such socialization also involves a kind of coercion that can be expressed by the demand for loyalty and obligation as well as by the fear of the group’s repression or punishment. This way newcomers face a situation that may be overwhelming, forcing them to adjust themselves.

Together, the three pillars of normalization of corruption described above are regarded as reciprocally interdependent. Socialization itself can become institutionalized, institutionalization supports rationalization, and, finally, socialization and rationalization are mutually reinforcing (Ashforth/Anand 2003, pp. 34ff.). As a result, there obviously seems to be a strong force at work, because “once established in an organization, the pillars create a situation where corruption is practiced collectively by employees and may endure indefinitely” (Ashforth/Anand 2003, p. 3).

Both examples from the literature are outstanding examinations of mechanisms that enable and perpetuate corruption in organized contexts, indicating the efficiency of institutional perspectives on collective corruption. They provide a rich inventory of questions and opportunities of analysis, thus enabling varied forms of inquiries. For example, they show the way and name analytical instruments of how to deal with superindividual processes leading to a culture

of evildoing that exercises great pressures on organizational members as well as on newcomers to engage in corruption. However, as founded in the main assumptions of institutional theory, active resisting, consciousness, and even rational social actors (that, by the way, also appear to be responsible for their actions) are largely ignored. Remembering the main imperative of institutional analysis – “To *be* institutional, structure must generate action” (Tolbert/Zucker 1996, p. 179) – this lack of individualism may be no disadvantage in principle. But for a coverage or overview of the whole range of issues concerned with collective corruption, individual consideration or reasoning – even by looking at the beginning of the process of institutionalization – cannot entirely be left aside. Therefore the next section deals with the functions of ethics and legal norms as well as with the individual as a unit of analysis.

### Corruption as Individual Decision

Why do most countries of the ‘Third World’ always score low on the Transparency International Corruption Perceptions Index, and why do the Scandinavian countries always score high, only changing the top-five positions among each other? Is this more likely caused by the functioning of economic and legal institutions or is it rather the particular culture of the countries that has formative influence on moral standards in business? (Or – as a somehow cynical question – is it the standard of the northwest European countries or that of Transparency International that define moral ?) Whatever analyses may prove, if culture does matter in business – and of course, as the investigations of Hofstede (1980; 1983) show, it matters, – then the emergence and perpetuation of corruption in organizations must have something to do with culture’s consequences to business practices. Without going further into this topic, one can assume that specific cultures affect the behavior of the individuals by transporting norms and values (through socialization processes, e.g. in family, education, job, etc.) accepted by a majority. These norms and values predetermine how to act or behave in particular situations. Together with legal norms and the legal system they prescribe what is meant to be upright and what to be evil.<sup>6</sup> Whereas these prescriptions are often unconscious, normally

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<sup>6</sup> Defining something or someone as upright or evil always requires to take up a normative position that relates to a specific standard. Implicit in each and every standard concerning this topic there are models of honesty and evildoing, drawing

leading individuals to automatic adherence, there may be situations of hesitation – exceptional situations in which individuals become aware of orders and bans, weighting up the pros and cons regarding norms and values or failure to comply. Additionally, ethical considerations may be of importance, too. But the main question that is to be answered here is about the function of values, norms, and ethics in individual reasoning, that is: *deciding whether acting corruptly or not*. This individual decision is to be addressed here because, as stated in the sections above, it might set off the initial corrupt act that, under circumstances, leads to collective corruption. In sum, bringing in the individual means analyzing his or her decision, more precisely: the *conditions that constrain his or her decision* to act corruptly.

In the remainder of this section the focus lies on the active, conscious, and (of course, bounded) rational individual in contexts that effect his or her reasoning or – as economists would prefer to say – calculation to act evil or not. But this individual is – many economists would hesitate to agree – culture bound, that is he or she is endowed with (non-economic) norms, values and moral as well as self-interest. Therefore, a complex set of variables, functions, and theories may come into play if regarding corruption in organizations on the individual level, and only a few of them can be treated here in a cursory way.

If dealing with corruption as individual (but not solitary) action, one can refer to the body of literature on political corruption. Here much work already has been done on the motivation and the motives of those acting corruptly. As Jain (1998, pp. 19ff.; 2001, pp. 85ff., with many references to the relevant literature) points out, *models of corruption* try to explain the level of corruption within a society with regard to discretionary power (over the allocation of resources, held by corrupt individuals) as well as to given both incentives (value of economic rents) and disincentives (deterrents to corruption, e.g.

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a white line between the good and the evil. Obviously this line is of problematic nature in so far as it characterizes individual or collective opinions as well as a significant feature of corruption, that is the corrupt act as the core of corruption (and therefore, at the surface, this act seems to be the ‘natural’ point of reference for a definition of corruption). But as to be seen in the final section, the problem of differentiating between the right (acts that are not supposed to be corrupt) and the wrong (acts that are supposed to be corrupt) also arises if analyzing corruption from a distant or analytical point of view.

strength of political institutions, moral and political values, and penalties). Models that describe individual estimation concerning corrupt action relate to problems corrupt individuals have to solve, that is information asymmetry, uncertainty, and risks. There are two types of models that have emerged throughout the discussion (cp. Elliot 1997; Rose-Ackerman 1999): *Resource allocation models* analyze corruption from the viewpoint of decision-makers with reference to changes of the (relative) costs both of inputs and outputs and of expected penalties, then looking at the behaviors of those involved in corrupt exchanges as well as the outcomes, that is the output of an economy. Dealing with rent-seeking behavior as part of an economic activity, these models, for example, try to show how actors will behave in the case of competition for rent-seeking or cooperation among each other including the analysis of the effects of rent-seeking activities on the market structure, that is their influence on the equilibrium by altered costs of resources. *Agency models* regard individual decisions to act corruptly as affected by perceived incentives as well as by perceived constraints, then looking at effects that changes of incentives and constraints may cause on these decisions. Relying on agency theory, these models are most frequently used in analyzing political corruption (and therefore should also be regarded as of certain importance if looking at corruption in organizations from an individual's perspective). Here two directions of research can be differentiated: The first one, which represents individual actors in more metaphorical understanding, refers to the principal-agent relationship between the populace (as principal P) and the government (the political leaders) and the legislators respectively (as agent  $A_0$ ). Problems arise from the misuse of legislative powers given to the agent. Applied to the political elite, this kind of corruption is labeled 'legislative corruption' (cf. Kurer 1993; Lien 1990). Second, problems of the principal-agent relationship between the legislator (as principal  $A_0$ ) and the bureaucrats (as agents  $A_1, \dots, A_{m-j}$ ) arise from the misuse of powers delegated to public officials. Therefore, this kind of corruption is named 'bureaucratic corruption' (cf. Rose-Ackerman 1978; Shleifer/Vishny 1993).<sup>7</sup> Although the last perspective has attracted most attention, both seem to be instructive if being transformed to private sector

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<sup>7</sup> For the whole range of principal-agent relationships and their potential conflicts concerning political corruption – the involvement of the populace both as principals (P) of the government ( $A_0$ ) and as clients ( $C_1, \dots, C_n$ ), served a) by profit making organizations ( $S_1, \dots, S_j$ ) regulated by the government ( $A_0$ ) through the enactment of law, and b) public hold server organizations ( $S_{j+1}, \dots, S_m$ ) controlled by public officials ( $A_1, \dots, A_{m-j}$ ) appointed by the government ( $A_0$ ) – cf. Jain (1998, pp.14ff.).

organizations for the purpose to reconstruct individual reasoning or calculation concerning corruption in organizations. In this economic framework, the emergence of political corruption depends on three conditions: First, someone exercises monopolistic power over a process (regulation or public service), second, the individual willingness and ability to misuse that power, and third, economic incentives provided by the misuse of power (Jain 1998, p. 18). As this short overview illustrates, joining the field of corruption models available in the literature on political corruption means entering new institutional economics that apply methodological individualism as the main paradigm of analyzing economic issues.

However, remembering the definition of corruption applied in this paper – ‘collective deviant, especially criminal behavior or evil action on behalf of and/or against the organization’ –, the ability of constructing a principal-agent model of corruption in organizations has to face some limitations. One of them, obviously the most problematic one, concerns the concept of organization. While understanding organizations as social systems, principal-agent theory suggests that they are (consist of) “legal fictions which serve as a nexus for a set of contracting relationships among individuals” (Jenson/Meckling 1976, p. 310). From that point of view, organizations are only means in the hands of owners (principals). As a nexus of contracts, organizations are economic institutions designed to control the behavior of the agents (Williamson 1985). With respect to corruption as criminal deviant behavior on behalf of and/or against the organization, there is – strictly speaking – no subject that is able to benefit from or to be damaged by corruption. Therefore, transforming agency models of corruption to a framework that takes organizations as social systems cannot mean applying agency theory but only to make use of some of its main ideas as well as to learn from its analytical strength concerning the individual’s economic rationality. The somehow appropriate term for corrupt behavior, opportunism – in the end – is displayed as “self-interest seeking with guile” (Williamson 1975, pp. 26). Given this fundamental orientation of actors in new institutional economics, corruption can analytically be treated the same way as opportunistic behavior.

Keeping in mind the limitations stated above, an ‘agency model’ of corruption in organizations should better be called an ‘as if-agency model’. This is supposed to indicate an application of some main ideas but not of the theory itself

or its typical kind of analysis. Aiming to describe a nexus of agency relationships in and around organizations, the model has to meet the following assumptions:

- (1) Regardless of ownership structures, the organization as a legal person or entity is supposed to be the principal (P), but cannot act for itself. Therefore owners, for example a supervisory board, are supposed to act (collectively and indirectly) instead of the organization.
- (2) All individuals as members of the organization are supposed to be agents ( $A_1, \dots, A_i$ ). This assumption takes into account that individual corrupt behavior is always regarded as part of collective corruption.
- (2a) In addition, hierarchy, as a graduated system of supervision and subordination, may be the point of reference for the identification of 'second-level' principal-agent relationships. That means, except of those at the bottom, every individual can be seen both as principal (as superior looking downwards ( $P_1, \dots, P_j$ )) and as agent (as subordinate looking upwards ( $A_{i-k}, \dots, A_k$ )). Those at the top (the executive board) are agents of the organization (as a corporate body) as well as principals of those below them. This differentiation also allows for the issue of collective corruption within an organization.
- (3) Individuals as members of the organization are expected to serve clients ( $C_1, \dots, C_m$ ) on behalf of the organization (provision of goods and services). Clients and organizations contract with each other on markets, whatever the contracts are about.
- (4) Outsiders ( $O_1, \dots, O_n$ ) do not contract neither with the organization nor with clients, but they can be affected (damaged) indirectly by actions of the agents or by those of the clients.

As a consequence of these assumptions, corruption in organizations appears as follows:

- On the one hand, corruption on behalf of the organization means that agents act corruptly at the expense of clients or outsiders. Obviously, regarding the intention of acting corruptly, there may be alignment of interests between the agents and the principal, but there is conflict between principal/agents and clients as well as – unter certain conditions – outsiders.

- On the other hand, corruption against the organization assumes that agents and/or clients act corruptly at the expense of the organization. Regarding interests, this case obviously indicates two possibilities: First, conflicting interests between the agents and the principal as well as – under certain conditions – the clients, and, second, a kind of cooperation between the agents and the clients that is directed against the organization. Nothing can be said about the role of the outsiders, because – formally – they do not contract with anyone.

Given this range of corruption relationships, one can formalize them with respect to the question of who – perceiving both incentives and constraints – acts corruptly and profits at the expense of (→) whom. There are three cases to be distinguished:

(I)  $P; A_1, \dots, A_i \rightarrow C_1, \dots, C_m; O_1, \dots, O_n$

(IIa)  $A_1, \dots, A_i \rightarrow P; C_1, \dots, C_m \mid O_1, \dots, O_n$

(IIb)  $A_1, \dots, A_i; C_1, \dots, C_m \rightarrow P \mid O_1, \dots, O_n.$

Obviously, corruption – in a (contracting) relationship – may occur under the general conditions a) that someone disposes of control rights over resources to affect the results of others involved, b) that someone is willing to act corruptly, and c) that the expected economic incentives weigh more than the expected penalties. Differentiations concerning ‘second-level’ relationships will alter the formulas in so far as subordinates ( $A_{i-k}, \dots, A_k$ ) may act corruptly together with or against the intentions of superiors ( $P_1, \dots, P_j$ ) at the expense of the organization as principal, the clients, and the outsiders. (Note that principal-agent models traditionally do not allow for analyzing opportunism or evil action of the principal against the agent or others.)

Now, concerning the traditional assumptions of principal-agent theory – in short: incomplete contracts, information asymmetry, individual utility maximization, opportunistic behavior, consistent preferences, alignment of the agent’s interest through systematic modifications of his or her constraints, controlling the agent by incentives, supervision, and improvement of information systems (cf. Arrow 1985; Eisenhardt 1989; Fama 1980) –, the individual reasoning to act corruptly can be constructed as follows: Individuals make decisions that take into account a) the perceived constraints (attributes of contracts, infor-



mation, incentives, monitoring, legal norms and their enforcement, penalties) as opportunities to act corruptly, b) the expected benefits or outcomes in the light of individual preferences, and c) the individual's predetermination or willingness to act corruptly. But since nothing can be said about the last aspect, the worst case has to be the point of reference because individuals that might act corruptly cannot *ex ante* be distinguished from those who will not act corruptly. Corruption then happens when governance structures or existing institutions do not hinder or restrain corruption in general, that is influence the calculations of individuals to act corruptly. In short, in principal-agent models corruption in organization deals with inappropriate (creation of) institutions. On this basis, further work should carry out a more specific analysis of how constraints effect individual calculations or decisions to act corruptly within the corruption relationships formalized above.

No doubt – there are many shortcomings in this ‘as if-agency model’ of collective corruption in organizations. Irrespective of the problematic construction they will become visible when analyzing the constraints that effect individual reasoning and decision making whether to act corruptly or not.<sup>8</sup> For example,

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<sup>8</sup> Even the concept of opportunism has been strongly criticized. As Ghoshal/Moran (1996, pp. 17ff.) show, opportunism is used both as *behavior* and as *attitude*, enabling its utilization once as *behavioral assumption* and some other time as *behavioral outcome*. Criticizing Williamson, they argue that “it is this absence of any distinction between opportunism and its manifestation that permits his logic to hang together and keeps it from being underspecified and indeterminate. For his theory to pass, opportunism has to be both an assumption that is independent of context and an outcome that is not” (Ghoshal/Moran 1996, p. 18). Therefore, opportunism is positively related to the favorability of such behavior that is dependent on institutional constraints, and it is negatively connoted to safeguards that rise transaction costs. This may have far-reaching implications for analyses: “However, while accom modating both the existence of individuals of different types (i.e., the extent of inclination to be opportunistic) and the individuals’ propensity to vary the behavioral manifestation of their individual attitudes, the theory does not accomodate their propensity to change their attitudes with changes in time and place. Because Williamson does not theoretically separate opportunism from its behavioral manifestation (i.e., opportunistic behavior), we must infer that either opportunism (i.e., the attitude) is considered to be a fixed trait, unaffected by context, or it is a covariant with opportunistic behavior (i.e., both variables function as a single construct), each affected by context in the same way. That is, even though one contextual variable (i.e., asset specificity) may systematically influence an individual’s perceived valence (or scope) for opportunistic behavior and another variable (i.e., sanctions) may moderate the individual’s expectancy from this behavior, context is believed not to have any effect on the individual’s attitude toward opportunism that is independent from its effect on opportunistic behavior” (Ghoshal/Moran 1996, p. 19f.).

as noted above, economic self-interest may not be the only or even the decisive orientation of individuals, and context does matter in so far as it may socialize individuals, that way altering both their preferences and their moral. Because many individuals are well-socialized and may have high moral standards, the presumption of the worst case (in order to avoid it) is certainly acceptable as analytic demand, but it falls short if (non-economic) norms, values, and moral should be incorporated into the framework, too. Therefore, a final consideration has to address the role of ethics in individual reasoning concerning corruption.

Corruption is a normatively connoted term that relates to more general ideas of accepted and non-accepted behavior. As a product of culture, these ideas or, in other words, social values differ between countries and even among members of a given society. Corruption also is related to legal norms that mark a specific kind of behavior as illegal and impose penalties on it. Maybe there are differences between authoritative provisions of illegal practices and behavior that individuals or the majority consider to be morally unacceptable. In everyday usage, the term corruption is negatively connoted and often considered to be an outcome of a general decline of customs, virtue, and moral in society. Notwithstanding, especially the economic literature works on the assumption that moral and ethics cannot contribute to resolve the problem of increasing corruption (e.g. Klitgaard 1991). This is in contrast with the assumption stated above that culture, moral and ethics do matter in business and therefore are of importance for individual reasoning. So the question arises whether positive economics and normative ethics can be brought together for the purpose of exploring the role of moral and ethics in the individual's calculation. This may provide for more differentiation concerning both preferences and utility in decision-making and, finally, shed some light on the individual rationality to act corruptly.

Starting from the fact that almost all relevant contracts in business – because of long-range planning, complexity of performance and exchange, and the intention to come to commitments among partners – are necessarily incomplete (Milgrom/Roberts 1992), they do not contain exact specifications of services and return favor. These complex and incomplete contracts often are connected with specific investments in nonmonetary and human capital that enable superior productivity but lead to mutually interdependent relation-

ships, too. The given opportunity of unilateral exploitation – or corruption against the contract party – that arises in this connection is considered to be the main problem of long term contracting. Therefore, a solution requires trust between partners, including fairness, integrity, goodwill, and a sense of justice. That is why ethical considerations in internal (employees) and external affairs (customers, suppliers) become critical to success, and here the function of normative ethics can be realized (Homann 1997, pp. 189ff.): It is the ethical reputation of a business partner, for example the corporation's culture of fairness, trust, loyalty and justice, that signals trustworthiness or reliability. Ethics and moral then enable a flexible relationship for the advancement of both partners and they determine the extent of productive incompleteness of contracts. In other words, ethics and moral – as reliable rules that constrain evil action – help to remove information asymmetries and uncertainty, this way reducing transaction costs, encouraging investments, and enabling rational handling of interdependencies (cf. Buchanan 1990, with regard to constitutional economics). In this view, an altered interpretation can be given to the problem of corruption, now presenting it as a problem of incentives to be upright. It is the incentive to profit from fairness (or the missing of returns from cooperation) that effects individual reasoning and constrains his or her decision of how to behave in an interdependent relationship. It is not the individual's mentality but his or her understanding of the function of ethics – the advantage from being upright – that matters. Business ethics then appears to be an incentive-based moral, this way bridging the gap between positive economics and normative ethics. But the (theoretical) price one has to pay for this kind of integration of ethics and economics is high. It is that ethics will become a function of economics, that is to analyze ethics functionally. In the end, moral self-commitment needs backing by benefits and sanctions – and if corruption occurs, it is not because of the individual's disposition, personality or moral, but because backing was not adequate or sufficient. That way, ethics becomes *institutional ethics*, and if individuals act corruptly, then the institutional conditions (the constraints to individual decision-making) are to be modified (cf. Pries 2002, p. 38). Accepting this as a condition to analyze individual reasoning means to admit that individuals *have* to profit from being upright because normative appeals or non-economic imperatives cannot have any effect on his or her decision to act corruptly or not. This solution remains unsatisfactory, but institutional economics does not offer a different one.

## Conclusion

The purpose of this paper was to outline possibilities of research on corruption in organizations. The topic dealt with has not been largely studied but recently there are some promising contributions that seem to extend our understanding of processes and circumstances by which corruption becomes a matter of organizations as social systems. In this paper, corruption in organizations has been introduced with regard to action systems, organized contexts, and individual decision-making. These views are supposed to lay the foundations for a frame of reference that may serve as a guidance for interdisciplinary research on this topic. Using new institutionalism in organizational analysis in particular provides useful insights into the microcosm of group dynamics independent from conscious control of those involved in it. Viewing organizations as institutions that habituate behaviors means trying to explain the emergence and continued existence of corruption in organized contexts. From here, two directions of investigations are following necessarily: The first one is about the individual, taking an active role in the process, and with emphasis on his or her decision. Bringing in the individual as a unit of analysis also helps to explain the function of ethics and legal norms concerning corruption but it falls short if asking for individual differences in orientation that may have an impact on acting corruptly. The second direction of investigations raises the question of how to relate different levels of analysis – individual, group, organization – as well as of how to combine different theoretical approaches in order to stimulate interdisciplinary research. Taking Giddens' concept of duality of structure seriously may provide for a general frame to relate elements of action to those of structure.

However, a so far unsolved problem is how to combine approaches that, from a methodical point of view, are incommensurable in principle. As suggested in this paper, trying to bring together microinstitutional approaches in organizational analysis (depending on interpretative social theory), and positive economics as well as normative ethics in order to explore and explain corruption in organizations means to face difficulties that hardly are to overcome. One potential but pragmatic attempt to do so may be to combine discrepant statements from different approaches, but not the approaches themselves. That does not mean melting them but to relate them to each other in fictitious dialectical dialogues, this way complementing description as well as stressing

contradiction and ambivalence of explanation. Taking discrepant statements both as mutual heuristics and analysis of restrictions then also offers an opportunity to enable interdisciplinary research (cf. Grieger 2004, pp. 475ff., for an example of relating instrumental to normative approaches in order to uncover divergent rationalities concerning the process of transforming labor power into performance). Beyond it, if trying to combine different (types of) approaches to get a more detailed knowledge base of the corruption phenomenon (and not to build a consistent theory), a wide range of additional problems – concerning incompatible assumptions and, as a consequence, the trade-off between rigour and relevance (cf. Nicolai 2002) – will appear, too, and a lot of work is left to be done to resolve only some of them.

In addition, as yet there are some other questions largely unanswered: One of them concerns personnel politics, because nothing has been said about the implications of corruption for human resource management, especially with respect to demands on practices of HRM-systems in order to provide against corruption. But if the presented perspectives of analyses are of importance or useful – and indeed, it seems that they are –, then it should be possible to derive statements concerning mechanisms and instruments that may help to fight corruption both at the individual- and at the group-level. For this, the presented approaches directly offer some practical advice. On the one hand, individuals can be influenced, for example, by establishing incentive schemes that reward moral behavior and encourage whistle-blowing by insiders, by scaring off potential offenders through credible announcement of severe punishment, and, after all, by making clear to everybody that corruption will not be tolerated, however at what level or dimensions it will occur. This also requires unmistakable statements by top-management and an anti-corruption policy actively pursued by the organization, its representatives and management staff. On the other hand, supervising group dynamics – such as compartmentation, socialization of newcomers to specific rituals, views, insider-languages, etc., putting members under pressure to behave in expected ways – may help to get pointers for potential threat as a focus of prevention. Training employees and supervisors by external agents as well as detailed behavior-based performance evaluations that place emphasis not only on outcomes or ends but also on means or ways of achieving goals will help to make aware unconscious practices that are corrupt or can lead to corruption (Anand et al. 2004, pp. 47ff.). In so far, a lot of indications can be derived from the findings

in order to develop a consistent HRM-strategy that successfully diminishes or eliminates corruption in organizations.

Concerning this, empirical investigations seem to be of great interest because they could not only add more detailed descriptions of features and processes of corruption in organizations but can enhance our understanding through enabling an examination of the appropriateness of approaches available. Therefore, some future consideration should also address the question of how to get data of, for example, current cases of corruption that may provide for a reconstruction of causes, conditions, and outcomes of corruption in organizations. Another possibility for empirical research may be to ask companies about their policy on corruption issues (e.g. ethical codes of how to avoid or how to deal with corruption as well as manifestations of the spirit of the company): Using document analyses and narratives, addressing whether respondents are open to discussion, observing whether there is congruence between what respondents tell and what is written in ethical codes of behavior or what is lived in the company – all this may be a challenge for potential future research and can foster profound insights.

Moreover, all efforts to make progress in understanding the topic theoretically will need a more precise definition of what is meant by corruption in organizations. In this paper, the term corruption has been expanded very much in order to deal with phenomena of crime or evil action on behalf of and/or against the organization. So the question is left whether this may be adequate or whether this means taking corruption as a generic term for various forms of crime or evil action within organizations. It has already been said that in colloquial language varied forms of criminality (deviant behavior) within organized contexts are named corruption. This specific contextual focus – organizations – adds the meaning of hidden misuse of a powerful position of trust, putting such behavior in more concrete forms as collective or aggregate wrongdoing. Collective corruption then could be defined as a special form of crime that depends on power given by an organization. Efforts to describe such forms necessarily will result in classifications, drawing lines between behaviors that are regarded as corrupt and that are not. Regardless whether this approach can be successfully employed, above all, the question has to be addressed whether corruption is a high-order concept or only related to specific and unique behaviors. But if behavior-based definitions should show to be

not sufficient – and there is much to be argued for this (cf. Johnston 2001) – then a more precise look at structures and outcomes is unavoidable, emphasizing the supposition that corruption in organizations can adequately be studied only by the use of extensive analyses. Probably such efforts will lead to concepts of corruption that tend to define it as a special mixture of behavior and structure, including conditions and outcomes, that way obviously going to create high-order concepts.

A final remark concerns the problem of normativity associated with corruption. Although almost all contributions to this topic consulted in this paper are anxious to avoid normative statements, a normative position or touch cannot be concealed. As the consulted literature shows very clearly, corruption always is connoted with a negative sign, entering a symbiosis of naming and conviction (Fleck/Kuzmics 1985, p. 7f.). But while the standards of moral applied to scientific analyses or everyday life differs at varied times and places, being subject to social change, naming and conviction of corruption always appears at the same time. This may be caused by dominant behavioral understandings, those defining corruption traditionally as a kind of unethical and antisocial behavior. In so far corruption joins the same class or category of terms like theft, fraud, and murder that are condemned by any civilized society. Because corruption is negatively connoted by understandings developed throughout a historical process, no one can free oneself from conviction as long as he or she shares the common values of a society. And it seems extremely questionable whether outcome-based definitions or concepts of higher order will make any difference to that point. Therefore, if analyzing corruption from an analytical point of view, one should be aware of this unavoidable connection between naming and conviction – and of possible consequences for serious analyses.

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