



Charting Corporate Corruption

Agency, Structure
and Escalation

Peter Fleming
Stelios C. Zyglidopoulos

Charting Corporate Corruption

Charting Corporate Corruption

Agency, Structure and Escalation

Peter Fleming

Queen Mary College, University of London, UK

Stelios C. Zyglidopoulos

Judge Business School, University of Cambridge, UK

Edward Elgar

Cheltenham, UK • Northampton, MA, USA

© Peter Fleming and Stelios C. Zyglidopoulos 2009

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2009921523



ISBN 978 1 84720 516 2

Printed and bound by MPG Books Group, UK

Contents

<i>Preface</i>	vii
1 Introduction: The enigma of corporate corruption	1
2 ‘Bad apple’ approaches to organizational corruption	17
3 Rationalization, self-deception and corruption	34
4 ‘When giants stumble’: agency, rationalization and the ruin of Barings Bank	52
5 ‘Bad barrel’ perspectives on corporate corruption	68
6 Environmental pressures towards corruption	84
7 Structure and the 2002 accounting scandals	98
8 The escalation of corruption in organizations	112
9 Conclusion: Individuals, organizations and the political economy of the firm	128
<i>References</i>	142
<i>Index</i>	153

Preface

It seems that corruption is now a key concern for many interested in the way in which business is conducted, especially in and around the modern corporation. Not only has there been an explosion of academic articles on the subject following the truly shocking accounting scandals of Enron and WorldCom, but government, non-governmental organizations (NGOs) and business schools all have drawn corruption out of the shadows and made explicit statements about its causes and prevalence. We do seem to be surrounded by the phenomenon and discourse of ‘corruption’. As we write, mountains of rubbish rot in the streets of Naples, with organized crime deemed a prime cause; the president of the Russian Federation Dmitry Medvedev announced that corruption is ‘a way of life’ in Russia and is now considered a threat to national security. Closer to home, the UK government has been implicated in seedy dealings in which the arms company BAE Systems bribed Saudi Arabian officials to win contracts (the Serious Fraud Office discontinued the probe). The German company Siemens – once considered a textbook example of the ethical high-tech firm – is investigated for alleged cases of bribery. In the United States serious doubt has been aimed at the fairness of the myriad of contracts between private firms and the Bush administration. And the list goes interminably on and on. Indeed, each day it seems that new revelations of corrupt practices in the business world hit the headlines. It is almost as if an inversion has taken place and we now expect corruption to be part of everyday corporate life, and are rather surprised if it does not feature somewhere in the business model of large global-spanning corporations.

This book focuses specifically on corruption in business organizations and corporations. It is difficult to tell whether the frequency of corruption took an exponential turn upwards in the raging deregulatory 1990s (culminating in the Enron collapse) or whether corruption has always been a feature of contemporary capitalism and is only now being recognized (with the help of a few high-profile cases). One aspect of this book is to demonstrate the social limits of capitalism in which the drive to make profits commonly bumps up against other values and norms relating to citizenship and democracy. More importantly, what we find fascinating – and is a central inspiring fact underlying this book – is that the post-Enron regulatory moves in the US, Western Europe and elsewhere appears to have

done little to curb the incidences of corporate corruption. In particular, the Sarbanes–Oxley Act 2002 in the US put a great number of obligations and responsibilities on firms regarding their financial reporting systems. Moreover, it is reasonable to think that the very attention placed on the corporate world following the scandals at Enron, WorldCom, Parmalat, Tyco, Global Crossing and the many others would scare the others into ‘going straight’. But even in this context of media scrutiny and regulatory constraints, corruption cases are a very common occurrence. For sure, one is reminded of Simpson’s (2002) startling observation that companies investigated in the past by a regulatory body for legal infringements are actually more likely to engage in future illegal practices. In relation to the contemporary business scene in the US and Western Europe, how do we explain the counter-intuitive fact that corporate corruption is as pervasive today as it was during the heyday of rampant deregulated capitalism of the 1980s and 1990s?

The purpose of this book is to explain why this might be the case by suggesting that corruption is a complex and multifaceted phenomenon that involves more than just greedy individuals – or ‘bad apples’ – pilfering the firm for their own gain. While this may be one aspect of corruption in contemporary corporations, we must also look to the more opaque features of the organizational social system that courts corrupt practices, rationalizes them, makes them seem inevitable and normalizes them in a business environment that often demands unrealistic and unattainable financial returns. Indeed, we fully concur with Ashforth et al. (2008) in their recent analysis of contemporary cases of corruption:

Although some corrupt behavior could be attributed to old-fashioned personal greed, some to creative fraud by employees acting on the behalf of organizations, and some to corrupt organizational cultures, some of it also was simply mysterious and difficult to understand. (Ashforth et al., 2008: 670)

It is the aim of this book to demystify the enigma of corporate corruption by using concepts from organizational, social psychological and business ethical analysis. Given the complexity of the phenomenon, the book suggests that commentators of contemporary corporate corruption require multiple levels of analysis to grasp the ways in which it can be initiated, maintained and hopefully detected or prevented. In particular we use the notions of agency (individual choice), structure (organizational and environmental pressure) and escalation (the rapid increase in the severity and scope of illegal and/or unethical practices) to chart organizational corruption. We think that it develops in corporations because of individual choices, in an organizational and business environment that ‘tempts’

actors to break the rules, and can swiftly escalate to engulf the firm. We use an array of examples – including the notorious accounting scam pulled off by Enron and the almost incredulous feats of illegal trading by Barings Bank stockbroker, Nick Leeson – to illustrate our points.

The book has intentionally been written for multiple audiences and in a style that is hopefully accessible. Students at both the undergraduate and postgraduate level ought to find the key concepts useful for exploring dilemmas and cases in a variety of contexts including business ethics, organization theory, corporate social responsibility and corporate law. Academics will hopefully find some fresh ideas to help in demystifying the sometimes enigmatic elements of corruption, especially in relation to motivation, organizational environment and the unresearched facet of escalation. And we have also written this book with an eye to the practitioner – be that the corporate manager, public servant, employee or whatever – by presenting concrete examples to illustrate the theories we have developed as well as providing practical recommendations about the ways in which corruption might be managed.

This book is the result of a collaborative research project between the authors that has been ongoing since 2003. Many others have given important advice, insights and comments on the development of the arguments in this book. The authors would like to acknowledge their appreciation to colleagues in their respective universities for the support they have given during the writing of this book. Peter would like to thank colleagues at Queen Mary College, University of London. In particular Gerry Hanlon, Stefano Harney, Matteo Mandarini, Arianna Bove, Janet Dine and Cliff Oswick for their scholarly support. Stelios would like to thank colleagues at the Judge Business School of the University of Cambridge, and Stephanie Schreven for her support. Peter would like to also acknowledge staff at Lund University in Sweden – especially Mats Alvesson, Dan Karreman and Sverre Spoelstra – for inviting him as a visiting scholar during September 2007 where chapters 1, 2 and 3 were written. Papers related to the arguments delivered in this book have been presented in a number of forums that were important for the development of some of our main ideas. We would like to thank staff at the University of Warwick, especially Glenn Morgan, Andre Spicer, Chris Grey, Andy Sturdy, Philip Hancock and Alessia Contu; the Free University of Amsterdam, particularly Frank de Hund and Frank de Bakker; and the Rotterdam School of Management of Erasmus University, particularly Pursey Heugens, Muel Kaptein and Nikki den Nieuwenboer, for their excellent comments. Papers were also presented at the Organization Studies Summer Workshops (organized by Hari Tsoukas) in Santorini and Cyprus – we thank those who attended our session and gave very useful feedback. Peter would also

like to acknowledge his students at Queen Mary College who attended his Corporate Social Responsibility classes in 2008 where he ‘road-tested’ many of the ideas in the book and was duly kept on his toes with some excellent discussion and debate.

1. Introduction: The enigma of corporate corruption

Popular mistrust of the modern corporation and its activities has never been so salient as it is today in Western societies. In the past, the corporation was deemed an important and fundamental facet of liberal democratic societies, allocating resources via the mechanisms of the market, providing goods and services to millions and employing a large variety of citizens. While the for-profit firm – and its complex relationship to the nation state – has perhaps always received criticism from intellectuals and activists worried about its growing dominance on our lives, the popular imagination has hitherto been unreservedly positive about the role and function of the corporation. This conservatism reflects the deeply embedded assumption that the market and its institutional forms are somehow a precondition for a liberal polity. Today, however, the atmosphere appears to be quite different. A pervasive mistrust of the corporation permeates popular consciousness. One has only to take a cursory glance at media representations of the firm to note this acidic cynicism. Documentaries such as *The Smartest Men in the Room* and *Bowling for Columbine* only scratch the surface. Films like *Office Space* and *Devil's Advocate* – to name just a few – depict the corporation as an agent of nefarious deeds. Pharmaceutical companies are portrayed as inherently corrupt in the movie *The Fugitive*, and George Clooney plays a lawyer entangled in a web of a sinister corporate conspiracy in the blockbuster *Michael Clayton*.

There are undoubtedly many reasons for this widespread cynicism about the modern corporation. The growing dominance, power and wealth of the elites running the largest firms in the US and UK, for example, certainly do give good cause for concern (see Parker, 2002; Fleming and Spicer, 2007). Another obvious catalyst of this general mistrust of the corporation, we suggest, is the veritable explosion of serious corporate corruption scandals that have shaken the business world. The post-Enron era – that period after 2002 in which a landslide of large firms was named as fraudulent and lawlessly greedy – has precipitated a shift in how we all view the firm. Many concluded that the sheer magnitude and scope of the corruption demonstrate that the corporation is inherently inclined towards illegality if given half the chance. Alongside Enron,

WorldCom and Tyco were hundreds of other firms caught misrepresenting their financial status, engaging in bribery, putting the health and safety of workers and consumers in serious jeopardy, price-fixing . . . and the list goes on. The default assumption of corporate legitimacy is no longer a luxury enjoyed by the business community. One recent newspaper article, for example, nonchalantly reported that there is evidence of unusual trading prior to the official announcement of at least two-thirds of mergers and acquisitions in the UK (indicative of insider trading). Even seasoned business reporters are no longer scandalized by these figures of illegality since it is something we almost expect.

In the post-Enron era, governments initiated a major ideological campaign to save the firm in light of the growing legitimacy crisis it was experiencing. This operation is still unfolding, and its success is yet unclear. Governments and big business had to convince us that corruption was not endemic or in any way linked to the systemic operation of the firm today. The aim was to point the finger at a few 'bad apples' that might spoil the barrel, a process that subtly relegitimated the basic principals of the barrel (or the corporation). It was not the business community that was corrupt but a small number of rogue firms run by avaricious and unscrupulous individuals.

On the surface, corporate corruption of the nature and scope we have seen in these large scandals seems pretty easy to explain. The ideological rescue operation noted above, of course, offers a straightforward explanation. Some people are corrupt by nature and if given half the opportunity and/or a conducive environment, they will break the rules. However, what do we mean by a 'conductive environment' and how does this affect the moral reasoning of individuals in a corporate setting? Running counter to the 'bad apple' explanation is the social environment argument, which has been growing in popularity in the academic literature (and is often deployed by corrupt individuals themselves as a justification for their wrongdoing). A whole host of social forces such as authority relations, peer pressure and cultural normalization may lead otherwise law-abiding and ordinary people to participate in financial malfeasance, fraud and bribery. But why would otherwise normal citizens choose to transgress basic laws? Underscoring this question is the fact that in many first-hand accounts of corruption, the illegal practices appeared to snowball out of control and take on a life of their own, making it difficult for individuals to opt out. The rapid escalation of corruption is a defining feature of Enron, WorldCom and other famous cases. What are the mechanisms and processes that drive such escalation, and what role do 'bad individuals' and a 'conductive environment' play? Indeed, a phenomenon that initially appeared easy to explain has clearly become much more enigmatic.

The aim of this book is to chart the enigma of corporate corruption by

focusing on three important components that are illustrated in many of the cases of corporate crime that we have mentioned above. The first is agency, which focuses on the choices, deeds and personality traits of specific individuals who engage in corruption. The second is structure. This consists of the extra-individual social forces that might tempt otherwise law-abiding individuals to engage in corruption. The third component is escalation. We argue in the latter part of the book that the interaction of agency and structure provides the conditions for a process of escalation. Here we attempt to address the interesting question recently posed by Ashforth et al. (2008): 'How do organizations, as entities, descend into corruption?' (2008: 673). By escalation we mean the rapid increase in the ease, severity and pervasiveness of corruption. Take the example of financial misrepresentation. After the first lie, an actor finds it easier the second time around for various reasons, the misrepresentation grows in severity and more people become involved in the wrongdoing as it spreads through the social structure of the firm. In some cases the corruption may escalate so swiftly that it consumes the organization and infects the basic operational mechanism of day-to-day management.

We use the term 'chart' in two important ways. A chart or map provides an abstract representation of an otherwise raw, messy and unrecognizable landscape. When we open the lid on Enron or the seedy activities of Nick Leeson at Barings Bank, for example, it is easy to be overwhelmed by the complex, overlapping, contradictory and sometimes arcane deeds we observe. Most academic accounts of corruption focus on either agency or structure – we use both of them to provide a comprehensive description of the lay of the land that hopefully sheds light on an otherwise bewildering phenomenon. Most importantly, however, our charting of corruption intends to reveal not only the sterile processes of anonymous characters from an objective point of view, but also the kinds of quotidian 'maps' that people deploy to orientate subjective experiences in the midst of the everyday life of the business world, especially those who find themselves breaking the law. Our emphasis in this book thus begins with the tragic and oftentimes humorous 'view from below' rather than from the standpoint of abstract ethical theory or the heady climes of normative moralizing. Towards this aim, we draw upon a heterodox literature. We combine the conventional sociological accounts of corporate corruption (including business ethics) with insights from the fascinating disciplines of the social psychology of crime and the moral philosophy of 'good and evil' (in particular Hannah Arendt in our chapter on agency). By putting the corrupt individual at the heart of the analysis, the aim is not necessarily to sympathize with them, but to understand their worldview and the influences that shape or mitigate their ethical reasoning. Such a 'charting' we feel will

provide a more realistic and useful explanation of corruption from which we can build more abstract explanatory concepts. For sure, it is in the final chapters of the book that we begin to model the processes that might underlie the chaotic and unenviable worlds of corrupt actors. This is so especially in relation to the escalation process, which requires us to conceptualize the relationships between various components of agency and structure. In this sense, we fully concur with Ashforth et al. (2008) that what is needed is some kind of blending of agency and structure – or to put it in their terms which we will use in this book as well – ‘bad apples’ and ‘bad barrels’:

. . . the micro view assumes that bad apples make bad barrels (e.g., Felps, Mitchell, & Byington, 2006), whereas the macro view assumes that bad barrels make bad apples (e.g., Punch, 2003; Zimbardo, 2004). A deep view would consider how variables interact within and between levels of analysis. For instance . . . Greenberg (2002) found, as predicted, that theft was effectively eliminated only when representatives had relatively high moral development and an ethics program was in place. In short, theft was a function of an interaction between individual and situational factors. (Ashforth et al., 2008: 678)

WHAT IS CORRUPTION?

One of the underlying problems when it comes to explaining corruption is the confusing complexity in defining it, especially when deployed by lawmakers, governments and the general public. Corruption is a phenomenon that is heavily embedded in a particular cultural appreciation of the way in which the public and private spheres relate to each another. In this sense, the typical definition of corruption reflects some very ingrained Western assumptions about the office (whether public or corporate), the office holder and those who depend upon them, for example, the consumer, suppliers, workers, and so on. As Bratsis (2003) argues, at the heart of Western conceptions of corruption is the misuse or abuse of the office, with particular emphasis on the subversion of the public good by private self-interest (also see Clarke, 1983; Williams, 2000). An example might be a manager using their position to appropriate funds for private use. This was clearly the case in the Enron case, where Chief Financial Officer, Andrew Fastow, funded a lavish and exceedingly conspicuous lifestyle through illegal dealings and accounting vehicles. Another striking case was the way in which the firm Halliburton was suspiciously awarded many of the contracts to ‘rebuild’ Iraq following the US invasion and occupation. Vice-President Cheney had long advocated the privatization of war and had very strong corporate connections with the firm – the conflict of interest is one of the more distasteful chapters of the war (Phillips, 2004).

Following Anand et al. (2004), we might approach organizational corruption as the ‘misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain, where misuse in turn refers to departures from accepted societal norms’ (Anand et al., 2004: 40). This definition is echoed in other conventional statements on corruption such as these:

Behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or state gains; or violates rules against the exercise of certain types of private-regarding influence. (Nye, 1989: 966)

Corruption is a kind of behaviour which deviates from the norm actually prevalent or believed to prevail in a given context, such as the political. It is deviant behaviour associated with a particular motivation, namely private gain at public expense. (Friedrich, 1989: 15)

Or,

Organizational corruption [is the] pursuit of individual interests by one of more organizational actors through the intentional misdirection of organizational resources or perversion of organizational routines . . . (Lange, 2008: 710)

As Bratsis (2003) concludes from his analysis of definitions like these, ‘put simply, no corruption in the modern sense is possible if there is no public and private’ (Bratsis, 2003: 12). It is often the individual agent gaining from the malfeasance that has dominated our understandings of corruption. Moreover, such acts are usually classified as corrupt because they break the law. If organizations, economic interactions and markets are embedded in public networks of trust and fair play as Granovetter (1985) and Fukuyama (1995) suggest, then corrupt actors misuse these networks for private gain.

This narrow and specific definition of corruption is useful since it certainly delineates the various forms it might take today. We can enumerate just a few to provide substance to this definition:

- private appropriation and fraudulent use of funds;
- misrepresentation of the financial condition of the firm;
- receiving and offering bribes;
- industrial espionage.

We run into trouble with this definition of corruption, however, when we move away from the individual as our focal point to the collective level. As Heffernan and Kleinig (2004) point out, the definition of corruption as the

illegitimate personal gain by a public officer misses too much of what actually goes on. Moreover, since it relies on the public–private split, undue attention has been given to state officers as the key agents of corrupt activities:

... it leaves out much of what has historically been deemed corrupt; and it relies upon the superficial clarity of a public/private distinction and an unexamined view of what counts as improper use. Corruption is not the exclusive failing of public officers; there may also be personal corruption, corrupt institutions and corrupt cultures. (Heffernan and Kleinig, 2004: 3, quoted in Dine, 2007: 3)

Turning back to for-profit organizations, definitions of corporate corruption run up against the distinction often made between it and corporate crime. We want to blur this overly rigid division between corporate corruption and criminality. It is commonly argued, for example, that corporate crime is different because it represents a category of activities in which the corporation as a whole benefits from the illegality, rather than specific individuals in the firm. Corruption is more thought of as a form of deviance from societal norms by individual agents. Building on Braithwaite (1984), the distinction and the rationale behind it is articulated by Simpson (2002) in her analysis of corporate crime, law and social control. She argues:

On the whole, illegality is not pursued for individual benefits but rather for *organizational* ends. Thus, in order to maintain profits, manage an uncertain market, lower company costs, or put a rival out of business, corporations may pollute the environment, engage in financial frauds and manipulations, fix prices, create and maintain hazardous work conditions, knowingly produce unsafe products, and so forth. Managers' decisions to commit such acts (or order or tacitly support others doing so) may be supported by operational norms and organizational subcultures. (Simpson, 2002: 7)

We fully concur with this definition of corporate crime, but wish to use the overall category of corruption to explain both individuals benefiting from the misuse of their position as well as these broader organization-level violations of the law. The reason we do so is that after Enron, WorldCom and all the others, the act of corruption cannot be viewed simply as individual deviance – whole firms might be involved in the corruption, making it difficult to tell the difference between individual corruption and organizational crime, or 'corruption against and on behalf of the organization' (Lange, 2008: 718). Corporate corruption could thus be expanded to include activities such as:

- Price-fixing.
- Anticompetitive behaviour.

- Marketing and sale of unsafe products.
- Misleading, deceptive and false advertising.
- Illegal environmental damage.
- Irresponsible working conditions.
- Tax evasion and money laundering.

By blending corporate crime and corruption in this way we are also able to capture some unusual and ambiguous cases of organizational transgression. For example, take the case of Nick Leeson. As we shall discuss in more detail in Chapter 4, Leeson was enormously deceptive in his illegal trading activities, and ended up bankrupting Barings Bank. However, what makes this case somewhat striking is that Leeson apparently did not personally benefit from his malfeasance. According to his own account, having lost a comparatively minor sum of money through illegitimate trades, he tried to make back the loss and consequently lost everything. While no personal gain was involved, it still smacks of corruption. Another case is the Siemens bribery scandal. The German company allegedly operated an illegal bank account specially designed to bribe clients in order to win contracts. Bribery is considered a classic act of corruption, given the way it benefits an official agent, but in this case it was the organization that benefited rather than an individual *per se*.

The understanding of corporate corruption that we have been developing assumes that the germane act is a violation of the law and/or involves a ‘departure from accepted societal norms’ (Anand et al., 2004: 40). This aspect of corruption raises some interesting questions that help clarify its meaning with more precision. The most obvious point here is the notion of legality. It goes without saying that almost all of the forms of corruption that we discuss in this book are a violation of the law. There is a raft of laws that might be broken by organizational actors – one of the most prominent of these in the US is RICO (the Racketeer Influenced and Corrupt Organizations Act) among many others. An archetypical case of an illegal corrupt practice might be the financial reporting protocols at Enron – designed to hide large amounts of debt – or the Ford Pinto case in which defective automobiles were left on the roads.

Things get a little trickier, however, when we bring in the dimension of ethical and unethical conduct. Just as ‘good’ moral ethical conduct is simply not defined by its adherence to the law, ‘bad’ ethical conduct similarly does not necessarily involve breaking the law. Some may argue that a tobacco company is a corrupt firm since it sells products that kill people and places an enormous strain on public institutions dealing with the attendant health issues. But its practices are well within the law. Or take this case relayed by Simpson in relation to rapacious profiteering:

At General Dynamics, for instance, while the workforce was being cut by 18 000 in 1991, 23 top executives received \$35 million in salary, bonuses, and stock options. (Simpson, 2002: 14)

While there was nothing necessary illegal about the way in which these chief executive officers (CEOs) rewarded themselves amidst such brutal redundancies, most would consider their behaviour as in some way a violation of societal expectations and norms (defined by equality, justice, and so on). Could we argue that such corporate practices are corrupt? For union officials, the answer might be a resounding yes. The conspicuous and greedy expropriation of wealth in the face of social suffering would surely be counted as profoundly corrupt. As Bertold Brecht memorably wrote ‘What is breaking into a bank compared to the founding of a bank?’ For others, perhaps members of the corporate elite, the exorbitant bonuses and salaries might be tasteless, but not corrupt, since they do not violate the law in any technical sense. The ambiguity here results from the extremely subjective nature of defining an unethical deed, especially if no laws are broken. This book provides no straightforward answer to this dilemma, since we feel that corruption can include both lawful and unlawful deeds. Having said this, almost all of our examples of corporate corruption in the following book are practices punishable by law.

GLOBALIZATION, CORRUPTION AND CULTURAL RELATIVISM

The question of subjective standpoint and cultural embeddedness raises another thorny issue when we endeavour to pin down what corruption looks like. Since business practices differ widely across the globe, it is difficult to arrive at a theory of corruption that fits every cultural situation. For bribery might be considered corrupt in the UK, but perfectly acceptable in China, Turkey and India. In Italy, for example, what some call corruption is normal business practice in many instances. In his excellent investigative analysis of the Mafia in Italy, Saviano (2008) reveals just how endemic bribery, kickbacks and backroom deals are in the Italian economy. It has been estimated that up to 7 per cent of the gross national product (or US\$127 billion) consists of illegal business controlled by crime organizations. How does a firm from the US or New Zealand do business in Italy without being in some way implicated in this systemic corruption?

Bratsis (2003) and Heffernan and Kleinig (2004) suggest that it is the public–private divide (often at the heart of common definitions of

corruption) that causes much of the confusion. The public–private split is an ideological frame peculiar to Western democratic societies in particular. The idea that I am a public person in one environment and a private person in another and never shall they meet is alien in other cultures. It is perfectly legitimate to begin a business deal in China or Greece with gratuitous gift-giving. Such practices have personal significance and symbolism regarding the public role of tendering contracts, favouring suppliers and so forth. Moreover, even in Western countries, this staunch division involves grey areas. Take the common practice of pharmaceutical companies wooing general practitioners and other medical professionals with lavish dinners in exotic locations. The official rationale for such events is the communication of information about new drugs, but many have acknowledged the fine line between information and personal gain (Braithwaite, 1984).

This problem extends to business ethics more generally, of course, since some have argued that there can be no hope of discovering a universal set of ethical principles that apply to all situations. This would not be a problem if countries, business communities and cultures remained isolated and detached. But in an increasingly integrated and transnational corporate environment, it is perfectly realistic to expect an organization based in the US to be doing business with a subsidiary in a country where bribery or fraudulent activities are the norm. The general rule of thumb in such situations is that the home company applies the same legal framework to its overseas operations as it would to its home-based activities. However, this somewhat idealistic view is often abandoned in practice. Let us take the problem of bribery that has recently been revealed as a fundamental operating practice in erstwhile respectable companies like Siemens, as well as less respectable companies like Halliburton. A recent survey published by Control Risks and Simmons & Simmons showed how many companies felt they had lost business due to bribery by competitors. We especially found interesting the suggestion that companies in Germany, Britain and the Netherlands among others use intermediaries or agents to bribe local officials in host countries in order to secure a favourable business relationship. Many firms rely upon different cultural standards and complex business networks to spread and conceal corruption. The report is indicative of the growing use of outsourcing by certain companies to conduct morally questionable activities. Just as the US government subcontracts the interrogation of suspected terrorists to countries with lax human rights regulations, some companies outsource the business of corruption to local agents and intermediaries. This makes it difficult to trace or formally connect the corruption to the company in question. National-based corruption mechanisms obviously need to take into account the increasingly globalized nature of such illegal transactions. The outsourcing of bribery

has sparked attempts to ensure a more level playing field regarding competition for contracts. Institutions such as Transparency International have endeavoured to chart not only the sometimes murky value chains of transnational firms, but also provide some generic frameworks for organizations operating in such environments.

There is no clear answer to the problem of defining corruption when globalization and cultural relativism collide. However, the global context does demonstrate the ways in which the very term of corruption might be used. In a perceptive essay, Dine (2007) analyses the politics of 'anti-corruption' and how it can be used to shore up First World domination over less powerful nations, shaping the distribution of aid and war. This, of course, takes us to the root meaning of the word 'corruption', deriving as it does from religious-ethico notions about purity, virginity and innocence. The non-corrupt and/or incorruptible are on the side of light and sweetness, whereas the corrupt are on the side of profanity and debasement. Indeed, Ashforth et al. (2008) even liken it to a disease: 'Corruption is both a state and a process . . . the dangerous, virus like "infection" of a group, organization or industry' (Ashforth et al., 2008: 671). Bratsis (2003) quotes Mary Douglas's *Purity and Danger* (1966) at the beginning of his excellent analysis of corruption to demonstrate how it must be made sense of in the context of a broader moral economy:

Defilement is never an isolated event. It cannot occur except in view of a systematic ordering of ideas. Hence any piecemeal interpretation of pollution rules of another culture is bound to fail. For the only way in which pollution ideas make sense is in reference to a total structure of thought whose key-stone, boundaries, margins and internal lines are held in relation by rituals of separation. (Douglas, quoted in Bratsis, 2003: 9)

This notion of corruption and pollution being inextricably connected to separation and isolation is important. It is no coincidence that when we think of corruption, officials in countries like Ghana, Brazil or Russia almost automatically spring to mind. The anti-corruption discourse, espoused by NGOs, nation states and international bodies, might feed into the broader ideological system of the new world order. A good example of this is the Organisation for Economic Co-operation and Development (OECD) list of corrupt economies and Transparency International's Corruption Perceptions Index. Dine (2007) rightly points out that:

it is note worthy in this context that 'corruption indices' have always concentrated heavily on rating countries by the frequency of receipt of bribes, rather than the source of the bribes . . . In 2005, 159 countries were included in Transparency International's Corruption Index. Only in 2006 was a Bribe

Payers Index composed rating companies from 30 countries . . . It takes two to be corrupt and in the Global witness instance it is clear that the bribes were coming from the west. (Dine, 2007: 4)

Anti-corruption discourse can become a weapon to enforce various policies and conditions on less powerful nations by more dominant ones. Dine (2007) explains how the meaning of corruption has been ‘captured’ by powerful agencies to generate specific political outcomes such as the imposition of conditions on grant loans. Perhaps this is why the Enron and WorldCom scandals came as such a shock to the West – it was not the non-Western Other who was engaging in perverse acts of pilfering and looting, but respectable businessmen who had very strong links to the federal government (the Bush dynasty in the case of Enron CEO Kenneth Lay), the Church and other institutions of moral legitimacy. Dine (2007) quotes a telling reflection by Haller and Shore (2005) that sums up this concern:

Europeans and Americans cannot assume that grand corruption is something that belongs primarily to the non-western Other or to public-sector officials in defective state bureaucracies: corruption (both massive and systemic) we should not be surprised to learn, can also be found in the very heart of the regulated world capitalist system. (Haller and Shore, 2005: xxx)

THE NATURE OF THE FIRM AND GOVERNANCE

The Haller and Shore (2005) quotation above is provocative, as it begs the question about the link between the capitalist firm and the proclivity for corruption. There are a number of positions on this. First, it could be assumed that profit-making activity is fundamentally an ethical activity that by and large takes place within the rules of the game. On some occasions, corporations and individuals might break those rules (motivated by greed, power or recognition), but these must be considered aberrations to an otherwise just and fair system. A second position might be more critical. It suggests that the firm by nature will always attempt to make more and more profits, and simply cannot control or regulate its own pecuniary logic – if left unchecked it would completely override any other consideration (see Heilbroner, 1986). Corruption is merely a fuller expression of the inherent rationale underlying profit-making activity. Take, for example, the notorious ‘vulture funds’ currently exploiting poor African countries (see Allen-Mills, 2008). These hedge fund organizations (such as the New York-based Elliott Associates) buy packages of debt from poor countries that are rich in oil reserves, and make a startling profit from the lawful confiscation of oil shipments and other resources. There is nothing illegal in

this. Indeed, their army of detectives have revealed in turn a complex web of corrupt and fictitious organizations in the West attempting to aid the evasion of such debt repayments by the local elites of Congo-Brazzaville and other poor countries – receiving their own cut of the oil revenues of course. According to this second perspective, such vicious profiteering, both inside and outside the law, is intrinsic to the capitalist firm. This is what it is designed to do, just as the scorpion cannot help but sting. This more radical position has the implication that the firm needs to be stringently regulated by a third party such as the state and other regulatory compliance bodies. It simply cannot be trusted, and corruption is thus a certain expression of the corporation and not necessarily an aberration.

In analysing the nature of the firm in relation to corporate corruption, however, we need to make an important distinction between its various forms. Since this book is mainly charting corruption in Western organizations, we can unpack two modes of business firm here – the Anglo-American variant, and the Continental or ‘Rhenish’ type. These corporate types reflect different expressions of capitalism, and thus have significant implications for how we understand corruption in various contexts. Let us take the Rhenish model first. As Matten and Crane (2007) point out, this type of capitalism (and corporate form) is defined by networks among various types of stakeholders and constituents including trade unions, owners and consumers. There is an interlocking pattern of ownership that involves large banks and conglomerates, and ownership does not change very often. The corporate form is usually driven by long-term goals and is salary based, and boards are accountable to key stakeholders. The corruption that we might expect here usually derives from collusion among stakeholders – for example, senior management paying off union officials with prostitutes in order to pass a potentially contentious policy (as happened recently in Volkswagen). It is the kind of corruption that comes from proximity and close relations among stakeholders, given the networked nature of the business model.

The Anglo-American model of the firm underpins many of the corruption cases that have dominated the media. According to Matten and Crane (2007), this type of capitalism is representative of the way in which businesses in the US and the UK are governed. This approach is dominated by market capitalism rather than networks. Ownership is dispersed among a variety of shareholders and there are frequent changes in the ownership structure via mergers, acquisitions and hostile takeovers. Most importantly, shareholder value in terms of short-term profits is the sole aim to this approach to running the firm, an ethical principal immortalized by Milton Friedman (1970) in his cantankerous article, ‘The social responsibility of business is to increase its profits’. Shareholders enjoy much control over the firm and remuneration is related to performance, sometimes involving

gargantuan executive bonuses. Why would this model of the firm attract so many incidences of corporate corruption, especially those pertaining to accounting and financial misrepresentation? The answer lies in the legal and governance structure of the Anglo-American organization. Because its sole aim is to increase profits, a pressure exacerbated by quarterly reports for shareholders, there is more likely to be ‘corner-cutting’ and malfeasance in order to make the required figures. Other stakeholders frequently fall out of view when the logic of the firm is governed by the myopic quest for quarterly profit increases. Indeed, under current corporate law, this organizational form operates as if it were a person, shielding managers, executives and shareholders from direct liability. In this regard, Dine (2007) cites Enron’s Kenneth Lay at a meeting in a quotation which captures the frenzied pursuit for increased profits, which can override all other ethical concerns:

I don’t want us ever to be satisfied with a stock price; it should always be higher . . . Indeed, we still think that over the next several months that there’s a good chance that the stock price could be up as much as 50 percent, and I think there’s no reason to think that over the next two years we can’t double it again. (Kenneth Lay at Enron meeting, 1 December 1999, quoted by Dine, 2007)

The audacious challenge that ‘there’s no reason’ profits cannot be doubled has a chilling ring, given what subsequently transpired at Enron. The governance structure celebrated here is an unbridled quest for profits that ought to have been checked by safeguards and other stakeholders. Unsurprisingly, the corporate governance model at Enron emerged in the wave of deregulation and marketization in the United States, and key shareholders were also in the position of managing directors (thus confounding the usual principal–agency couplet used to regulate strategic management elsewhere). At Enron, the shareholder was king, and the company aimed to control every facet of its business (including governments) in order to generate revenue. Of course, the frenetic drive to yield higher returns to shareholders eventually destroyed Enron and WorldCom. Perhaps this reveals the ultimate contradiction of the capitalist organizational form.

THE PURPOSE OF THIS BOOK

As we have hopefully indicated in our introduction to the notion of corporate corruption, what at first appears to be a fairly simple topic does indeed harbour a number of enigmas upon closer scrutiny. The overall purpose of this book is to provide more analytical clarity on the topic by charting corporate corruption as it has unfolded in the innumerable cases witnessed

over the past few years. In light of the issues we have discussed above, we will approach corruption from a broad perspective (and not just the violation of a public office for private gain), as something that is generally punishable by law, with a special focus on Western corporations (including both Anglo-American and Rhenish organizational forms).

The present work aims to achieve a number of purposes that contribute to the growing literature on corporate corruption. First are the constructs we use to describe and explain the corruption that has gained so much attention in the popular media and business press. The terms ‘agency’ and ‘structure’ are of particular importance in the book since they capture important facets of corporate illegality, but also allow us to draw upon distinct literatures, providing the added benefit of a multi-perspective view. These terms have not been isolated and explored in the literature to date, so we feel that they might yield some interesting insights about what makes corruption tick in contemporary corporate life. As we mentioned in the introduction to this chapter, most of us think of corruption as something deriving from agentic intent and self-knowledge. People choose to participate in bribery and other types of wrongdoing because of the sort of person they are, perhaps motivated by greed and power. This is often called the ‘bad apple’ theory of corporate crime. Moreover, these agents may then rationalize this decision by justifying it to themselves and others through various excuses. A classic rationalization is the statement, ‘If I didn’t do it then someone else would do it’. When taken to an extreme, the ‘bad apple’ perspective becomes problematic because it reverts to an exercise of spuriously sorting out the ‘good guys’ from the bad, leaving many other factors unexplored (since many governmental investigators in the Enron, WorldCom and Tyco cases, to name a few, were struck by the fact that a large number of the perpetrators were pretty ordinary and unassuming individuals – the ‘quantum of evil’ was missing).

The concept of structure points to the social forces that lead us to act in particular ways that we would not otherwise have done under normal circumstances. This idea mitigates the extreme agentic approach to corporate illegality. Ordinary people can commit some extraordinary deeds when put in the right circumstances. In isolating the construct of structure, the purpose is to chart the different forces that might lead otherwise law-abiding citizens to break the rules.

This brings us to escalation. Again, as we briefly intimated in the introduction to this chapter, a major lacuna in the literature on corporate corruption is a plausible explanation of the forces underlying the escalation of corporate crime. We have all heard of how actors felt they were on a ‘slippery slope’ and then found their corrupt practices – cooking the books, offering bribes, pecuniary malfeasance – snowballing out of control. We

are convinced that the escalation of corruption demands more thorough explanation if we are to gain a better understanding of the phenomenon. In the last part of the book we do this by blending both agency and structure to demonstrate how an increase in its scope and seriousness can occur, sometimes in a relatively short period.

The second purpose of the book relates to drawing upon a rather unorthodox cache of literature in order to flesh out our analyses of agency, structure and escalation. To gain a subject's perspective – the messy everyday lived experience of those finding themselves involved in corruption – we do not only use the standard business ethics literature. We have also tapped the social psychology discipline, especially as it relates to authority, criminal deviance and conformity, as well as a sometimes obscure moral philosophy. In the next chapter, for example, which unpacks the role of agency in corrupt organizations, we utilize theories about the banality of evil developed by Hannah Arendt. Her discussion of the infamous trial of Nazi war criminal Adolf Eichmann may seem remote from everyday corporate life, but it does allow us to draw out some basic conceptual principles in order to cast light on hitherto under-researched elements of corruption and its causes.

With these purposes in mind, the book is ordered in the following manner. Chapter 2 explores agency from what is often referred to as the 'bad apple' approach to corruption. The idea here is that it is the deeds of a few bad individuals that cause corruption rather than the environment. The chapter is particularly interested in the meaning of 'bad' and how it might be theorized in the context of the contemporary corporation. The chapter also surveys some of the more conventional literature on character and moral development. The third chapter takes a more complex view of agency by introducing the concept of rationalization and self-deception. Here individuals choose to justify their deeds to themselves (and others), and even lie to themselves to alleviate potential feelings of anxiety and guilt. The fourth chapter provides a case study example of agency and corruption, that of Nick Leeson and the downfall of Barings Bank in the mid-1990s. The drama, tragedy and humour of Leeson's skulduggery is a textbook example of the importance of agency apropos corporate corruption. The fifth chapter turns away from agency and highlights the role of structure. Especially significant here are the internal social forces such as socialization and peer pressure that can lead otherwise good people to behave badly. The sixth chapter focuses on the external business environment – that of the business community and its rhythms and trends – as a force that might transform law-abiding organizations into corrupt ones. The seventh chapter surveys a number of case studies to provide some illustrative examples of how structure operates in corrupt organizational

forms. Chapter 8 develops a model for explaining the escalation of corruption. We argue here that escalation or ‘snowballing’ occurs when components of agency and structure interact with each other – the result is a dynamic escalating social system. The concluding chapter then turns to practical questions. Given what we have learnt about corruption, how can it be prevented?

A final note on methodology and data. The book relies upon the multitude of empirical accounts, reports and analyses of the many cases of corporate corruption that have occurred over the last few years. While we do not use original empirical data, the examples included are often rich first-hand accounts from those involved in the corruption. Moreover, this approach has allowed us to explore a wider sample of cases to build a robust approach to corporate corruption. We have analysed these empirical accounts in a rather journalistic way to enhance the readability of the book. We hope that this makes for a more colourful, yet still scholarly charting of the enigmatic phenomenon of corporate corruption.

2. ‘Bad apple’ approaches to organizational corruption

After viewing the secretly shot video of Andy Fastow, the Chief Financial Officer of the doomed Enron Corporation, one is left with the undeniable impression that this man is a ‘bad apple’. In the grainy footage, he successfully convinces dim-witted bankers of the integrity of his shady business model. Indeed, given what we now know about the fraudulent nature of Fastow’s Byzantine accounting methods, Fastow himself comes across as a scoundrel with few scruples about the harm he was causing others. Moreover, as Fastow fools his audience and manipulates the figures in such a brazen fashion, the physicality of the man himself exudes badness, a kind of devilish spark reminiscent of the protagonist in the film *American Psycho*: handsome, intelligent and assertive, yet devious, wily and patently dangerous. We get the same feeling when Fastow later takes the stand during his court appearance before receiving a six-year prison term. His discourse and demeanour betray the figure of a Machiavellian schemer who would not think twice about wrecking the company in order to make more money.

From Fastow and Richard Nixon to more extreme cases such as Charles Manson and Adolf Hitler, popular consciousness is rife with images of people who appear to be ‘bad to the bone’. And this is how corporate corruption is often explained in the media, popular culture and law. A distrustful agent with nefarious motives is posited as the source of certain unlawful actions and deeds. The prevalence of this somewhat naive causal explanation is unsurprising since it is indicative of how we understand moral agency in contemporary society more generally. When an unethical deed or criminal activity is identified within a social setting, we automatically search for the perpetrator behind such behaviour in order to apportion ownership and blame. But as moral philosophy has discovered, this approach to ethical behaviour represents a major historical achievement and is by no means natural. With the emergence of modern society out of the dank darkness of the Middle Ages, jurisprudence and criminal law shifted in a significant fashion. The work of French philosopher and historian Michel Foucault (1977) has demonstrated that up until then (in the West at least) it was the criminal deed itself that was first targeted by

authority figures, then after that the effects of the deeds, and finally with the birth of the modern penal apparatus, the individual agent. While unsavoury characters have always dotted the Western cultural landscape, they tended to be seen in a tragic light, as someone fooled by a more diabolical power or as victims of plain bad luck (one thinks here of the hapless King Oedipus). It is only in the modern era that we might view people as innately 'bad', whatever this loaded term might mean. Unscrupulous and manipulative Iago-like figures are considered to be sinister to the core, freely choosing a path of wrongdoing either for personal gain or simply to upset the compass of the human affairs around them. Accordingly, the magnitude of the unethical deed is proportionate to the moral character and disposition of the individual in question.

What we have outlined above can be labelled the 'bad apple' approach to ethical reasoning, and it still figures largely in dominant accounts of organizational corruption, especially in the popular imagination as represented in the business press and media. As Bass et al. (1998: 14) state: 'according to the bad apples argument, one can attribute organizational unethical behaviour to the personal characteristics of individuals'. But the rather folk term 'bad apple' implies a little more than this. It also assumes that most people (in society, organizations, and so on) are by and large good, but a small minority of disreputable agents can spoil the social barrel via the chaos they inspire (much like a contagion). This explanation of corruption trades in a deeply established cultural narrative that we have briefly discussed above. Bad individuals perpetrate bad deeds – thus unethical behaviour derives from the dispositional make-up of the perpetrator who disrupts an otherwise harmonious social system. But what is the nature of this 'badness' in the context of corrupt firms and is it wise to use this emotionally loaded term to enlighten every facet of unethical corporate practice?

This chapter will explore the strange social psychology around the unethical agent, exploring what it means in terms of the decisions, choices and characters of corrupt individuals who might be considered inherently bad à la Andy Fastow. We will present an overview of the folk 'bad apple' theory of moral agency that is especially dominant in Western cultures. It accentuates individual responsibility and autonomy to frame self, action and ethics in relation to corruption. The full-blown version of the 'bad apple' perspective suggests that we all have the ability to make choices regarding right and wrong, and thus ultimately we cannot blame 'environmental' pressures for morally reprehensible acts. In order to explore this account of corruption, the chapter draws widely on a number of sources from psychology, philosophy and organizational science. Are some people just 'born' bad, and what does badness mean here? And how might it be

socially mediated by socio-biographical circumstance? The fascinating philosophy of evil will be discussed to address this issue, with special mention of Hannah Arendt's (1963) celebrated analysis of a key mastermind of the holocaust, Adolf Eichmann. In relation to unpacking the causes of corporate corruption, we will see that agency, decision-making and responsibility are axiomatic concepts for understanding bad individuals.

In order to illustrate the power that the 'bad apple' theory has on our moral imagination, we will review various cases, including the Enron electricity traders and the Ford Pinto affair. The chapter will conclude by outlining the important criticisms of an overdrawn emphasis on agency and trait-based theories of organizational corruption. We will maintain that agency is still very important for understanding corruption, since no one makes our choices for us and those engaged in corruption can always choose to leave the organization, disobey authority or 'blow the whistle'. However, environmental, situational or structural factors play a major role in facilitating corrupt actions, and this fact might move the analytical frame away from the moral personality of individuals.

'BAD APPLES' SPOILING THE ORGANIZATIONAL BARREL

In the wake of the corporate scandals associated with Enron, WorldCom and more recently Siemens in Germany (involving secret bribery accounts), a major crisis of confidence in the global economic system was averted through the 'bad apple' account of corporate misbehaviour. Some companies took their chance and decided to do business in an unethical and morally reprehensible manner. But these were isolated cases. The overall economic system is fundamentally virtuous, populated by firms who work within the boundaries of the law and accepted moral codes. In other words, we cannot infer any systemic rottenness from a few bad apples, and thus we should all rest assured that the corporate infrastructure is morally sound. The same rationale also works at the individual level of corrupt actors who engage in bribery, fraud, falsifying safety reports and the like. It is not the organization that is bad per se, but the unscrupulous agent who, if left unchecked, spoils the rest of the group by spreading their wrongdoing. What interests us here in this folk conception of corruption is the identification of certain individuals as bearers of unprincipled dispositions, personalities and traits that lead them to be inherently untrustworthy and eventually predisposed to corporate crimes. Regardless of whether we posit these character traits as innate or the outcome of a long education, it is the unique person that becomes the focus of causal accounts of corruption.

In trying to understand the reasons why what appear to be normal citizens choose to transgress clear moral boundaries, a struggle breaks out between dispositional and situational explanations. As the term implies, a dispositional approach to corruption brings to the fore the individual and his or her deeds; the bad apple is someone who is morally tainted and psychologically primed for unlawful behaviour. The situational explanation places more emphasis on the environmental forces that lead particular individuals down the path of corporate illegality. The distinction is important, but slippery and in many ways unsatisfactory. Take the example of the Ford Pinto case: in the early 1970s Ford engineers noticed an unusually high number of deaths resulting from impact-ignited fires in the Pinto model. After further investigation, it was discovered that the Pinto carried a major design flaw since its petrol tank was positioned too close to the car's body, leading to devastating fires following even minor accidents. What then transpired was a sequence of managerial decisions that are definitive examples in the business ethics literature, given their cold regard for human life. Sophisticated risk–benefit calculations communicated in the infamous internal memorandum entitled, 'Fatalities associated with crash-induced fuel leakage and fires' revealed that it would be too costly to redesign the defective model or issue a recall, given the numbers of units already on the road. It would be less expensive to leave the Pinto on the market, allow the fires to occur and pay the litigation awards caused by the deaths. Human life was famously valued at US\$200 000.

When the scandal broke, there were the usual scapegoats and accusations of greedy corporate profiteering at the expense of people's lives (see Birsch and Fielder, 1994). The most obvious reaction to the case posited a dispositional explanation – it was clear that certain senior managers exhibited psychological attributes that some would call pathological. As they calculated the number of deaths against their sinister balance sheets, they lacked any sense of conscience, guilt or empathy and were driven by an almost sociopathic desire to minimize costs for the firm. But there are some obvious situational factors here as well that blur the distinction between the bad individual and the bad environment. In the Ford Motor Company, the environment was suitably geared to make such behaviour more acceptable through accounting systems that objectified consumers and distanced bureaucrats from the lived horror they were causing. As Gioia (1992) shows, certain institutional scripts were present that rationalized the decisions, thus allaying the remorse that the agents might otherwise have experienced as a mitigating inhibition. These and other situational factors will be explored in more detail in the following chapters. But as far as the situational explanation fared as the scandal unfolded in the media, business schools and the business press, any discussion of 'the

environment' was dismissed as a tricky mechanism for absolving the guilt of the key perpetrators. In the face of such a gross disregard for human life, few had any truck with the excuse, 'It was the culture that made me behave in such a manner, not my own ethical decisions'.

The assumption operating here is that we are ultimately responsible for our own moral choices, behaviour and ensuing consequences. If we act unethically, then we have decided to do so and thus should fully own the outcomes of those deeds rather than blame the social situation. It is worth delving a little deeper into the nature of this assumption, given its sway on explanations of corrupt behaviour in the corporate setting. As mentioned earlier, this narrative apropos social behaviour and ethical reason is extremely powerful, with embedded antecedents in modern thought and institutional practice. More specifically, political liberalism has always held onto the notion of the sovereign individual as sole author of their destiny. Class, station, race or gender should not be used to hold back individuals nor, conversely, used as an excuse to explain one's failure to get ahead. This ideology is also the basis of private property rights and individual freedoms, and is most preponderant in the realm of ethics and criminality. If an individual breaks the law and causes others harm, it is not because they have been socially conditioned to do so, but because they make decisions as ethical agents and could always have acted otherwise. It is fascinating to study the cultural emergence of this discourse, since it appears so natural to our modern eyes. In his history of the prison and criminality, Michel Foucault (1977) identified the sociocultural invention of the individual at the heart of political liberalism. Before the consolidation of this moral framework, it was the deeds and their effects that attracted the focus of punishment. The nature of the agent themselves was precluded from scrutiny since religious dogma held that all living beings were vessels of God's will. Even truly evil individuals were considered to be so only insofar as they were not in control of themselves, possessed by more menacing forces that required cleansing, often resulting in 'throwing the baby out with the bathwater' in the case of the Spanish Inquisition where the victims often died from the cleansing process. The arrival of modern thought changed this – the corrupt deeds and their effects flow from free-willing agents who are fully cognizant of their actions. Once this assumption is established, the human personality and all its dark secrets becomes the forum of a forensic-like search for badness. Not only do psychiatry, criminal psychology and other psychometric testing mechanisms become crucial for discerning our moral make-up, but we also begin to label the agents of immoral behaviour as 'bad people', sites of unethical countenance (see Adorno et al., 1950). Punishment is fundamentally related to our ability to gauge the magnitude of the individual's immorality and – *lex talionis* – meting out retribution accordingly.

While this individualizing shift of responsibility onto the ethical agent has something of a conservative and neoliberal flavour about it (for example, ‘if you are poor, it’s your fault not the system’s’, and so on), one of the greatest proponents of ethical responsibility was in fact the left-leaning philosopher Hannah Arendt. In her very influential book *Eichmann in Jerusalem* (1963), she reported on the trial of the infamous Nazi Adolf Eichmann. Arendt makes some powerful observations about the kind of person Eichmann appeared to be as he faced the death penalty for crimes against humanity. First of all, what makes the Eichmann case interesting is that he was thoroughly tested by psychiatrists of all persuasions to figure out whether he was insane or not, the working assumption being that only a dangerous psychopath could be behind the monstrous deeds he helped design and implement apropos genocide. Of course, the tests discovered little that was defective in his personality. In fact, he was actually quite normal, and some doctors went so far as to state that he seemed a very nice and personable man. The caricature of the Nazi fiend may fit the sadistic concentration camp guard and black-shirt bullyboy, but as far as the grand designer was concerned, he was a relatively ordinary man. Hence the famous phrase with which Arendt ends her book, regarding the unnerving ‘banality of evil’. Evil is calm, measured and often quite pleasant when observed in a domestic setting. In this respect, even Hitler was a committed animal lover, and kind to children. However, Arendt was fervently against the then fashionable conclusion that Eichmann’s normalcy indicated that it was the situation that was truly corrupt rather than the man himself; that any one of us has the propensity to become an unethical monster if placed in the right conditions. Surprisingly, Eichmann himself opted for this defence by stating that he was just following orders – and in that sense was being obedient to the bureaucratic apparatus he found himself in, just as his prosecutors were doing now. Arendt’s dismissal of this situational ethics still remains a powerful justification for a dispositional explanation of corruption. Simply put, she argued that not everyone in such awful circumstances would act as Eichmann did, and merely ‘follow orders’. Indeed, some would choose not to obey, regardless of the repercussions that such a decision may provoke. She writes:

Under conditions of terror most people will comply but some will not, just as the lesson of countries to which the Final Solution was proposed is that ‘it could happen’ in most places but it did not happen everywhere. Humanly speaking, no more is required, and no more can reasonably be asked, for this planet to remain a place fit for human habitation. (Arendt, 1963: 233)

Arendt is making a major philosophical statement here about how we ought to make sense of unethical behaviour, connecting directly to the

agency approach to organizational corruption. She concurs that Eichmann was partially socialized by his participation in the Wannsee Conference where he probably witnessed the most respectable, upright members of the bourgeoisie propose the annihilation of the Jewish race, thus casting his subsequent criminal behaviour in an acceptable light. However, according to Arendt, choice, deliberation and decision are vital here. Not everyone in his position would have simply 'followed orders' and acted as he did – some of us (and Zimbaro, 2007 is right to say that we always like to put ourselves in this category and never the former) would have acted otherwise through refusal, exit, disobedience and so forth. As Arendt clarified elsewhere, paraphrasing Mary McCarthy:

If someone points a gun at you and says, 'Kill your friend or I will kill you', he is tempting you, that is all. And while a temptation where one's life is at stake may be a legal excuse for a crime, it is certainly not a moral justification. (Arendt, 2005: 18)

To put the argument in the context of corporate corruption, not all of us would have acted as Andy Fastow or Enron CEO Jeff Skilling when confronted with their problems, issues and circumstances. Indeed, when one senior member (Sherron Watkins) discovered the trail of 'funny figures' under the Enron house of cards, she blew the whistle and alerted authorities. Arendt's argument is heavily indebted to existential philosophy, in which we have no recourse to environmental factors to justify our actions and non-actions since we could always have acted otherwise. We must bear the burden of full responsibility on our own. The question now becomes primarily dispositional – what type of individual lacks such moral rectitude to resist the temptation to participate in acts of corruption, and thus knowingly and/or intentionally enters the sphere of badness by breaking basic rules? In addressing this question, however, we must remember that Arendt is working with a very stripped-back notion of dispositionality. The ethical subject is not 'full' of accomplished traits and biographical baggage. For Arendt, people must be considered 'empty' except for the moment of choosing since ethical character hinges on the chosen act – or non-act – and not the complex of characteristics that give us our unique personal structure.

THE ARCHITECTURE OF 'BADNESS' IN CORRUPT FIRMS

When Enron energy traders decided to cut electricity supplies to California in order to increase its price illegally and take advantage of the ruthless spot markets, audio-recordings of their conversations, remarks and jokes

are chilling in their sheer malice. As relayed in the documentary film *Enron: The Smartest Men in the Room*, the dialogue gives a flavour of how ruthless and downright nasty the Enron culture had become in its pursuit of profits. As California reeled under heatwave temperatures, Enron's West Coast trading desk decided to play with the market by simply switching off the power generators for a few hours. Moreover, the company devised a plan to make more money by buying cheap price-capped energy, channelling it outside the state and back into California, selling at exorbitant prices. The profits were naturally enormous. The audio-recorded dialogue is unsettling because the traders' moral reasoning appears to be of a different order to the cool, officious calculation in the Ford Pinto decision. Here we witness vindictive agents gaining pleasure not only from tremendous illegal profits, but also from the distress and discomfort caused to consumers. Indeed, the Texan traders had a particular disdain for Californians, and thus took great joy in disconnecting their electricity in such hot weather. When a fire broke out in the sun-scorched state, taking down a major electricity line, a trader can be heard relishing in the misfortune: 'Burn, baby, burn, that's a beautiful thing'. Another trader remarks, 'Just cut 'em off . . . They should just bring back . . . horses and carriages . . . lamps . . . kerosene lamps.'

In the following exchange, traders comment on the corrupt practices of a senior manager:

[Trader A:] He . . . steals money from California to the tune of about a million.

[Trader B:] Will you rephrase that?

[Trader A:] OK, he, um, he arbitrages the California market to the tune of a million bucks or two a day.

In another particularly disturbing exchange, relating to the state government's attempt to recoup some of the extortion-level profits, traders enjoy the distress caused to some of the more vulnerable customers:

[Trader A:] They're . . . taking back all the money from you guys? All the money you guys stole from those poor grandmothers in California?

[Trader B:] Yeah, Grandma Millie, man. (*laughing*)

[Trader A:] Yeah, now she wants her . . . money back for all the power you've charged . . . \$250 a megawatt hour.

Returning to Arendt's argument about moral culpability, we can notice two interesting points that unpack in more detail the dispositional explanation of corrupt individuals. Firstly, while it is clear that Enron has a culture of dishonesty and vicious profiteering that justified and socialized agents into its sinister world, they had the choice to act otherwise (also see Lewis, 1990). Following Arendt's moral prescript, not all of us put in

this position would behave in this manner. Secondly, Arendt's ostensibly pleasant and gentele Eichmann is here juxtaposed with the outwardly malicious and vindictive traders who enjoy hurting others. Arendt suggested in the quote above that what really matters when discerning the nature of unethical acts apropos evil, criminality and corruption are deliberate and consequential choices, nothing more and nothing less. In this respect, the element of nastiness among the anti-Californian Enron traders would be of little importance to her. However, not only did the traders actively participate in defrauding the energy system, they also relished in the harm they caused. This imbues an element of 'colour' to the corrupt disposition missing in Arendt's account of 'evil'. Indeed, the literature exploring the psychology of evil is very interesting for mapping the types of disposition prefigured in acts of corruption and unlawful business dealings of the order seen in the Enron case.

What is the nature of evil and how can it help us understand some of the more nasty cases of corruption from the dispositional perspective? Evil has been an enduring topic of scholarship, especially in theology. In most religious discourses, including the Judaeo-Christian variants, evil is the dialectical counterpart of goodness and virtue. Evil involves those actions, thoughts and words that are hateful, violent and without conscience, defying otherwise accepted codes of moral conduct. In religious discourse, these derive from some kind of satanic source and are closely related to the notion of sin (Baumeister, 1999). In Christianity, God must necessarily posit free choice among men and women, otherwise faith would simply be a self-referential mechanism. We must be free to make the choice to love God, but this freedom also means we might turn our back on him, towards sin and evil. More generally, the philosophy of evil is fraught with many problems, given its indefinable and unquantifiable nature. For example, are people evil, or their deeds? Can a person commit evil deeds without being evil themselves? And what about the cultural specificity of the concept? What was once considered evil might now be morally acceptable (homosexuality, for example). Moreover, perhaps the very term 'evil' represents a form of symbolic violence designed to label and control the acts of undesirable others.

But according to many commentators, the term does capture the enormity of some acts. When we survey well-known examples, such as the Holocaust, the Rape of Nanking or the South American torture chambers, there is a weighty ontological excess that differentiates these cases from mere misbehaviour or gross negligence (Staub, 1989). What is this near mystical feeling of fear and disgust evoked in us when we hear the malevolent traders discussing the miserable plight of a low-income grandmother in California? According to Zimbardo (2007), we can define evil in the following way:

Evil consists of intentionally behaving in ways that harm, abuse, demean, dehumanize or destroy the innocence of others – or using one’s authority and systematic power to encourage or permit others to do so on your behalf. (Zimbardo, 2007: 5)

Important in this definition is an implicit distinction between the inner and outer sphere of evilness – the inner intention (deriving from our dispositions) and the outer behaviour that ensues. Evil acts cause harm, abuse and demean the goodness of others, and this is perpetrated by an intentional agent who is diabolical in their appreciation of some facet of the world. As we shall note in following chapters, Zimbardo argues in relation to Abu Ghraib prison and other examples that we should probably place more emphasis on situational variables.

But the key to Zimbardo’s definition for our purposes here is intent, which of course evokes the moral economy of individual responsibility that we discussed earlier as a fundamental facet of modern ethical reasoning. What makes an action particularly evil is intent and agency in transgressing moral rules, which is why children, the insane and animals cannot be evil since they have diminished levels of responsibility. According to Darley (1992) we must add another facet if we want to get to the heart of an evil disposition: that of gratuitousness. He writes, ‘to be labelled evil, a wrongdoing act has to have a quality of egregious excess, such as a murder gratuitously committed in the course of a crime’ (Darley, 1992: 201). It is this part of the picture that properly captures the anti-Californian energy traders, who went beyond mere amorality when conducting their fraudulent business, by excessively revelling in the harm it was wreaking. This is what also shocks us about the Abu Ghraib prison abuse case – it was not the clinical torture of prisoners that surprises us, but the gratuitous excess involved, including souvenir photographs of a smiling female guard giving a ‘thumbs up’ over a dead prisoner. Only certain kinds of people would act in this way.

Where does this leave our ‘bad apple’ explanation of organizational corruption? So far we have established that the cause, facilitation and maintenance of corruption might be explained by recourse to the dispositions of certain moral agents who choose to act in unethical ways. The reasons for such actions may be varied, but they usually include self-gain or simple wanton harm to others. The types of individuals involved exude an inexplicable aura of badness, be it the sinister pleasantness of Eichmann, the manipulativeness of Fastow or the vindictiveness of the Enron energy traders who cut California off from the national grid. Our discussion has therefore identified three important elements of the disposition that perpetrates corruption. Following Arendt, the first is choice (given the

knowledge that one could have always acted otherwise), the second is intent (which brings us into the realm of evil) and the third is egregious excess, which is perhaps the rarest of the three when studying corrupt practices in corporate settings. Importantly, such an approach does not necessarily require us to pit dispositional and situational explanations against each other. It may be the case that situational variables (such as strong socialization, bureaucratic distance, and so on which we will explore in following chapters) may 'trigger' the dispositions latent in certain individuals and not others because of differing personality traits.

HOW DO 'BAD APPLES' MAKE BAD DECISIONS?

One of the problems with discussions around evil people and deeds in relation to criminal activity and unethical behaviour is that the discourse often lapses into what Darley (1992) calls a kind of 'naive psychology'. By this he means that our image of evilness tends to be rather simplistic and unrefined, derived from Hollywood movies, myths and bad novels. It is as if bad people are somehow born this way and are thus morally irredeemable. Such a depiction of wrongdoing may perhaps be useful when discussing the horrible cruelty of concentration camp guards or the American soldiers leading the My Lai Massacre in Vietnam, but for corporate crime we need more subtle categories to account for how individuals choose 'not to act otherwise'. This takes us partially away from the 'born-to-be-bad' conception of unethical dispositions, and identifies more precisely the actual decision-making processes that appear to poise some individuals to be more prone to corruption.

Following Arendt, we can recall that the decision not to 'act otherwise' is crucial for understanding the immoral person, and the perpetrator of the kinds of corruption committed in a wide variety of cases, including Barings Bank, Enron and Ford among many others. Research investigating the types of people that are prone to corruption have therefore concentrated on the decisions they make, or more precisely the decision-making processes they employ as unethical agents (Trevino and Youngblood, 1990). While the mediating factor of situational forces (peer pressure, authority, and so on) is important, some research has claimed to have isolated significant features of an individual's character that make them more likely to commit acts of fraud, bribery and falsification in the corporate context (Haines and Leonard, 2007). Take the simple example of ambition and its effects on organizational behaviour: in Jackall's (1988) study of large banking firms, he found that those with exceedingly high levels of ambition were more likely to transgress moral codes, competitively stab colleagues in

the back and make dubious decisions relating to asset-stripping, disinvestment, and so on. It is more likely, therefore, that ambitious individuals (for example, Jeff Skilling) are going to be primed for corrupt activities. The rationale of this research agenda suggests that people are not necessarily born bad, but once they arrive at the office as an employee, manager or executive, they have acquired some fairly enduring characteristics that can be measured accurately. And this of course has important implications for recruitment policies in organizations wishing to maintain a culture of honesty and lawfulness.

The work of Trevino (1986) is notable here. Two questions regarding moral personality are crucial: firstly, whether someone actually perceives an event or issue as a moral problem; and secondly, how they decide to act in relation to this problem. Regarding the first question, Trevino suggests that certain traits reflecting the ethical maturity of agents can help us predict whether a person is more likely to see issues in a moral light, an amoral light or as simply neutral. Trevino builds on Kohlberg and Turiel's (1973) model of cognitive moral development to understand our level of ethical decision-making and its relationship to personality structure. There are various stages of ethical development that people pass through when advancing from childhood to adulthood as they hopefully become more principled and robust. While these stages are not in reality clearly separated, they provide a useful framework for understanding the moral development of individuals. The first stage is called 'preconventional' and it is punishment and obedience oriented. I will instrumentally follow the rules of ethical conduct for fear of reprimand. The second level is called 'conventional', where we follow social norms and expectations because they have become internalized as significant guidelines for engaging with others around us. The third level is 'principled', in which we have an awareness of differing moral positions, and freely choose to endorse certain ethical ideals, even if that is considered by others to be a minority position. According to Kohlberg and Turiel (1973), only around 20 per cent of American adults reach the final stage of moral development. According to subsequent measures, most find themselves somewhere in level two.

Extending the individual-centric approach to unethical and corrupt behaviour, Trevino (1986) adds other character variables that pin down the dispositional make-up of the bad apple. Important here is whether someone acts consistently with their moral dispositions as outlined above. For example, if a senior executive at Siemens felt it was morally wrong to establish illegal slush funds in order to win contracts through bribery, would they act in accordance with that conviction? The individual variables addressing this question are ego strength, field dependence and locus of control. If our Siemens executive has robust ego strength then they are

able to stick to their convictions and guide their actions accordingly. As Trevino says, agents with high ego strength 'are more likely to do what they feel is right' (Trevino, 1986: 609). Trevino identifies research that makes a connection between IQ and ego strength (Blasi, 1980). Field dependency relates to how people evoke social referents to make decisions about moral issues when the situation is ambiguous and unclear. If the Siemens executive is field dependent, they will use the information provided by others to make sense of the slush funds, perhaps taking a cue from peers to figure out whether it is acceptable business practice. If they are field independent, then again they are more likely to make their own judgements using autonomous criteria and to act accordingly. Another example of field dependence and independence is the Ford accountant who calculates the monetary value of a human life. They may feel a twinge of moral anxiety, but are unsure about the ethical status of such an exercise since it is embedded in an ostensibly neutral technical language. A field-dependent agent would succumb to the 'narratives' (Gioia, 1992) legitimating the activity, whereas field-independent actors would make their own call, autonomous from significant others. Finally is the locus of control variable. This refers to how individuals perceive the events occurring in their lives. If our Siemens executive has an 'internal' locus of control, then they feel that their actions are a direct result of their decisions. They will thus exhibit more consistency, responsibility and ownership over the moral consequences of their behaviour. If the executive has an 'external' locus of control, they feel that their actions result from forces beyond their power. In the context of the Siemens bribery case, they may participate in the illegal attempt to win contracts because they feel they have no choice, given the broader system in which they are embroiled. These types of people will be more likely to disown the outcomes of their behaviour, and thus act unethically since 'it is not their fault'.

In addition to these individual dispositional variables, others have pointed to demographic categories that might predict the moral rectitude of individuals and their proclivity to engage in acts of corruption. The review provided by Ford and Richardson (1994) provides a useful summary. They break down factors relating to those due to birth (nationality, age, and so on) and those due to socialization (personality, education, and so on). Together, these variables represent the sum of inborn characteristics, life experiences and circumstances of upbringing that might lead people to decide to act in a corrupt manner (or otherwise). First are personal attributes: strength of religious belief is linked to ethical standards. Sex and gender research indicates that females are more likely to act ethically, while research around age proves to be inconclusive as studies show both older and younger employees may be more ethically orientated. Second

is education and employment background: striking here is the research regarding differing types of education. It seems that business students might be more accepting of corrupt behaviour than non-business students (see Hawkins and Cocanougher, 1972). But the results of subsequent research tend to be mixed and thus inconclusive when identifying education type and level as an indicator of personal ethics. As does the research exploring the relationship between employment and corruption – although it has been found that professional managers were more ethically inclined than students. And finally are personality, beliefs and values: identified here in particular is the level of ‘Machiavellianism’ in the personalities of managers. Those who have a high level of cunning and wile are less likely to see ethical issues as a problem for the day-to-day running of a firm. This variable was again prominent in Jackall’s (1988) study of high-ranking banking executives who suspended all normal moral criteria once they entered the lush boardrooms of the ominous skyscrapers.

LIMITATIONS OF THE ‘BAD APPLE’ APPROACH

Aspects of the ‘bad apple’ approach for explaining the causes and maintenance of corruption are very useful. As we have pointed out, using the work of Arendt and Zimbardo among others, corrupt agents make a choice to act in unethical ways (since everyone has the option of acting otherwise, regardless of the contextual forces encouraging the behaviour), have an element of intent regarding the ethical act itself, (in cases of evil) cause harm to others in an egregious fashion, and enlist a set of decision-making processes representative of their unique characters. From a broad business ethics stance, the advantage of this perspective for approaching corruption is the way it brings agency to the forefront of the analysis. That is to say, when actors commit fraud, misrepresent the financial health of the firm to investors or negligently put the safety of consumers and workers at risk, a choice is made that displays agentic intent. Indeed, following Arendt’s formidable and gruelling ethical formulae, even in cases where authority figures use direct coercion and threat to elicit participation in corrupt practices, the agent always has refusal as a last resort, irrespective of the adverse consequences that may befall the agent as a result. Exit (Hirschman, 1970) or ‘blowing the whistle’ are always possibilities in the context of corrupt firms. The corollary of this perspective is that individual responsibility and ownership must frame any assessment of culpability relating to corporate crimes.

However, there are some fundamental problems with the ‘bad apple’ approach to corruption. The first concerns the role of situation – many

models of ethical behaviour now endeavour to inject some aspect of environmental forces into the mix when explaining why individuals might engage in corruption. If good apples are placed in bad barrels, then the focus shifts from bad individuals to the social supports and temptations that lead otherwise ordinary citizens to cheat. In other words, the 'bad apple' perspective downplays the environmental cues that might lead most of us to act unethically if placed in apposite conditions. Some have even gone so far as to deconstruct the dichotomy between the individual and the situation, since they bleed into each other in such an inextricable manner:

Many researchers have abandoned the bad apples/bad barrels dichotomy, suggesting that ethical/unethical decision making and behaviour involve a complex interaction between individual and organizational forces. (Bass et al., 1998: 16)

This too resonates with Zimbardo's (2007) argument regarding how good people might turn bad. In his re-examination of the Stanford Prison Experiment (where everyday middle-class students were randomly assigned the roles of prisoner and guard, with the guards especially committing stunning acts of degradation) he argued that any one of us would be vulnerable to turning bad if placed in the right circumstances. While Arendt is right to posit choice as the existential ground zero of her ethical framework, other analyses of the Nazi regime have pointed to the surprisingly high proportion of otherwise normal individuals participating in crimes against humanity. Perhaps the problem is one of analytical levels – from a highly abstract philosophical point of view, Arendt is correct to claim that 'in the end, we all have the choice to refuse'. But from a more practical ethical stance, Arendt is actually asking us to be existential heroes, which most of us would miserably fail to emulate. Arendt's ethics misses how the situation itself can shape morality or simply write ethical problems (and therefore decisions and choices) out of the picture (which is no excuse for some of the more nefarious actions she surveys). Arendt thus imputes a very abstract normative ideal, believing that everyone will hold these standards regardless of the defining context. If situations themselves can define our moral compass and even short-circuit ethical reflection, then our individual dispositions may be irrelevant. Lifton (1986) demonstrated this in his study of how German doctors (who had sworn to the Hippocratic Oath) could then go on to kill helpless death-camp prisoners. Individuals will summon up a whole raft of rationalizations to convince themselves and others that what they are doing is right and just. More broadly speaking, we all have a remarkable

capacity for self-delusion. And fear of punishment, disapproval and rejection can overwhelm even the most strident moral standards, quickly rendering the self-righteous hero a distasteful coward. In the less extreme case of corrupt business firms where most issues are reduced to a rationalized business problem, it is easy to see how the situation might determine ethical reasoning. As Brief et al. (2001) point out, 'it is unfair to label most managers who sanction corrupt practices as immoral individuals; rather, their decisions to sanction typically can be described as amoral' (Brief et al., 2001: 474). As we shall see in the next chapter, this observation is not meant to absolve unethical agents from responsibility, since we are also responsible for such rationalizations. Indeed, self-deception requires a high degree of agency.

Another limitation with this approach to explaining corruption is the way in which individuals become a site of blame and scapegoating, leaving the systemic environmental conditions largely unexamined. This point was broached briefly in an earlier part of the chapter. The 'bad apple' metaphor deflects attention away from a sometimes questionable corporate infrastructure, in which unethical behaviour might be considered endemic (for example, outsourcing bribery in Third World countries, executive bonus payments, illegal sweatshops, and so on). And how useful is the term 'evil'? Before the Enron scandal broke, Andy Fastow's characteristics were lauded in the business press as the guiding spirit of a new type of corporate executive. It is only in hindsight that he comes to epitomize the organizational Mephistopheles. Moreover, the predictive capacity of some individual-centric models is highly dubious. It is very difficult to imagine a psychometric test that would be able to predict whether someone was going to commit fraud or not. Such a test would miss the almost endless array of mitigating variables that lead to corrupt activity.

A further problem with the 'bad apple' approach to corruption is the role of decision-making as the key feature of ethical reason. In some cases, the very situation is organized in such a way that ethical issues or dilemmas fail even to come onto the radar. If the corrupt activity becomes normalized within the operating system of the firm over time, as it did in Enron, it ceases to pose a dilemma because it is lost in 'business as usual' rituals. In this sense, the ethical decision model places too much emphasis on cognitive processes and knowledge. It misses the way in which we often go about our everyday business with very little concern for the ethical consequences of our behaviour (for example, consumption patterns, effects on the environment, and so on). Even those agents that Kohlberg and Turiel (1973) might consider highly principled may unknowingly participate in a network of relations that have inimical outcomes for distant stakeholders.

CONCLUSION

To conclude, the 'bad apple' analysis of corporate corruption is useful in a very abstract manner, as outlined in the moral philosophy of Arendt. Every agent who engages in corruption has the choice not to do so. But when translated into a 'folk' explanation of corruption, this analysis misses a great deal too. Not only are the situational variables downplayed (which will be discussed in Chapters 4, 5 and 6), but it forgets how people are able to array a variety of excuses and justifications for their behaviour in order to alleviate their regret and even see themselves as right and proper. As we shall argue in the next chapter, however, agency still remains a crucial element in these rationalization processes.

3. Rationalization, self-deception and corruption

A fascinating aspect of the wave of corruption trials in the United States, Europe and elsewhere are testimonies provided by key participants. While some, such as the Chief Financial Officer (CFO) Andy Fastow, discussed in the last chapter, fully confessed that they were driven by greed and ambition, others maintained their innocence through a variety of strange and wistful justifications. The Enron debacle, yet again, provides such a colourful illustration of this phenomenon. Given the ideology of ‘greatness’ that the company had cultivated among its employees via propaganda campaigns, as well as in the gushing business press, a number of key participants in the fraudulent activity appeared to have convinced themselves that their unethical behaviour was justified. Indeed, not only did the company’s future success rely upon these dubious off-balance-sheet debt mechanisms and the posting of future profits, but such practices were actually instrumental in bolstering the US economy and therefore national well-being (see McLean and Elkind, 2003). Jeff Skilling was particularly strident in this explanation for his corruption, since he believed that the welfare of shareholders, customers and the entire energy industry was directly linked to the unusual success of the company.

Of course, it is very easy (and perhaps justifiably so) to view such explanations with a healthy dose of scepticism; surely he knew that condoning and participating in these schemes was fundamentally wrong, thus betraying a perverse level of hypocrisy. For sure, this hypocrisy is even more pronounced in light of Enron’s boastful statements regarding its exceptional commitment to business ethics (Ken Lay instigated a well-honed in-house business ethics policy). Hypocrisy may be one explanation. However, the picture of the intentional, knowingly and gratuitous agent of unethical deeds outlined in the previous chapter breaks down somewhat in light of the righteousness among those who participated in the corruption scandals of Tyco, Rite Aid Corp, British Airways and others. When we get inside the minds, lifestyle and rationale of corrupt executives, we realize that they have often woven an intricate fantasy of propriety. In this respect, the ‘bad apple’ approach to corruption does not capture the full nuance of some of

the more prominent cases of corporate misbehaviour that have emerged in the last few years. As Anand et al. (2004: 39) point out:

Many of the recent corruption scandals at formerly venerated organizations such as Enron, WorldCom, and Parmalat have some noteworthy features in common. In most instances, the fraudulent acts involved knowing cooperation among numerous employees who were upstanding community members, givers to charity, and caring parents – far removed from the prototypical image of a criminal. The involvement of such individuals in corrupt acts, and the persistence of the acts over time, is both disturbing and puzzling. (Anand et al., 2004: 39)

Puzzling indeed if we approach the topic of corruption and its causes from the folk ‘bad apple’ perspective. How are we to make sense of Anand et al.’s (2004) observation? There are three ways in which we could approach the problem. The first we have already mentioned, which is to level the charge of hypocrisy. This would undoubtedly be valid in many cases of corruption. As managers went about their criminal wheeling and dealing, they projected a false veneer of probity to the outside world (attending church, endowing business ethics chairs at universities, becoming active members in community groups, and so on). Hypocrisy involves preaching virtue while practising vice, and thus may also entail an element of cynicism in which the false veneer of ethical posturing is used for instrumental purposes. Tobacco companies which have articulate corporate social responsibility reports are good examples here. Nothing leaves a bad taste like ethical hypocrisy, be it in day-to-day interactions or heady corporate affairs. In terms of individual ethics, we have been educated to expect consistency between words and deeds, especially if the actor in question is prone to proselytize their morality in a purist fashion. The charge of hypocrisy would mean that corrupt individuals harbour a kind of schizophrenic consciousness and live in two separate spheres simultaneously. The first sphere represents the corporate cornucopia of agentic intent unpacked in the previous chapter, whereas the second involves the delusional ‘face-work’ of projecting a favourable image to others.

Another way to explain the puzzle observed by Anand et al. (2004) is through the concept of rationalization. This notion posits a more ‘sympathetic’ view of the unethical character when compared to the ‘bad apple’ image unpacked in the last chapter. As will be explained in the following pages, rationalizations are psychological mechanisms that we use to defend ourselves from the moral anxiety caused by the ethical status of our behaviour. The concept assumes that we realize how our behaviour falls short of common standards of ethical correctness, and therefore construct various explanations to justify the legitimacy of our actions. A classic case

of rationalization is depicted in Jackall's (1988) *Moral Mazes*. Having acknowledged the unscrupulous nature of their decisions, a number of bankers allayed their guilt by merely stating, 'If I did not do it then someone else would.' The idea of rationalization explains why individuals can engage in some of the most heinous corporate crimes whilst holding a neutral or even positive image of themselves. Like hypocrisy, the structure of rationalization divides the unethical self into two parts – one that feels or expects to experience guilt or remorse, and the one that neutralizes such anxiety through a set of justifications. The third way to approach Anand et al.'s (2004) conundrum is via the much more complex notion of self-deception. This is where we actually begin to believe the stories and justifications we tell ourselves (and others) about the rectitude of our patently unethical deeds. Many of the traders at Enron appeared seriously to believe that they were upstanding citizens of the community, so self-deluded they were in an environment that treated them as champions. Moreover, one of the most repeated defence claims espoused by Lay (Enron), Ebbers (WorldCom) and more recently Pierer (Siemens) is: 'We did not know what was going on in the company.' In the later part of this chapter, we shall suggest that such a claim is an exemplary example of self-deception. While we have all witnessed self-deception in others (and ourselves), it is notoriously difficult to unpack analytically. Self-deception implies that an individual is both the sender and the receiver of a lie. How can we fall victim to our deception if we assume that by definition the liar has some grasp of the truth being concealed?

This chapter will explore the thorny issue of why some individuals do not fit the typical stereotype of the diabolical 'bad apple' discussed in the previous chapter. In addressing the fascinating puzzle broached by Anand et al. (2004) above, we will explore the concepts of rationalization and self-deception to explain how individuals may escape the guilt and remorse that their behaviour may otherwise have induced. We take hypocrisy as the starting point from which our analysis begins. Importantly, we position rationalization and self-deception within the sphere of agency, since it requires effort, intent and thought to construct the excuses justifying dubious behaviour. That is to say, there is a fair amount of work involved when individuals rationalize. Having said this, the chapter takes another step away from the rather acontextual assumptions of the 'bad apple' approach. As we shall see in our extended analysis of Gioia's (1992) account of the Ford Pinto case, some environments are important for facilitating and even encouraging the rationalization process. While choice and intent are important aspects of rationalization and self-deception, this chapter will conclude by demonstrating the importance of situation and context as variables that mediate agency.

The chapter is organized as follows. First we concentrate on the problem of rationalization, which has been the topic of a growing body of research in organization science attempting to explain corporate corruption. The theoretical antecedents of the concept are explored in relation to Freudian psychoanalysis, social psychology and social theory before applying it to organizational corruption. We will discuss a whole range of rationalization mechanisms that individuals may use to justify their deeds. The classic case of the Ford Pinto as relayed by Gioia (1992) will be analysed in some detail to flesh out the powerful effects of rationalization. Then we turn to the more tricky issue of self-deception, which has received some attention in philosophy and social psychology, but until now has remained under-theorized in relation to corruption. Having explored the meaning of self-deception and its relationship to agency, we will scrutinize the oft-cited defence statement of 'I had no idea subordinates were engaging in corruption' as a prime example of self-deception. We suggest that the claim of ignorance is a synonym for 'I didn't want to know', especially among high-ranking executives who otherwise appear to have an in-depth knowledge of the firm's legal procedures. The chapter will close by discussing some of the limitations that the concepts of rationalization and self-deception entail when endeavouring to explain corporate corruption.

RATIONALIZATION IN CORRUPT FIRMS

How do people with a relatively stable and meaningful moral conscience behave unethically without experiencing a crippling sense of inconsistency, guilt or what Festinger (1957) famously called 'cognitive dissonance'? As we mentioned above, hypocrisy is a possible explanation for fathoming this inconsistency between moral discourse and unethical deeds. However, the large swathe of data that has emerged following the wave of corruption cases post-2002 around the world leads us to believe that hypocrisy may only be part of the story. As researchers like Anand et al. (2004) demonstrate, it seems many unethical agents were able to maintain a positive moral self-image while committing serious corporate crimes. Indeed, this is why 'corrupt individuals tend not to view themselves as corrupt' (Anand et al., 2004: 40). The idea of rationalization is chief among the concepts used to explain how people who believe they are morally upright can commit unethical acts. In this sense, then, rationalizations are explanations and justifications that allow actors to alleviate moral anxiety. We have all rationalized some aspect of our behaviour that we felt was probably 'wrong' when compared to our own standards. Take the prosaic example of stealing a pen from the office. We know that this rather insignificant

item of stationery belongs to the company and is not intended for private use. As we pocket the ballpoint pen and make our way home, we justify to ourselves why our recent act of theft was legitimate:

. . . the pen is not so important to the company since its monetary value is negligible in the grand scheme of things; I am not alone in taking home this pen, others do it all the time, and even my boss and the CEO probably do so as well; my salary is so low in this company, I have no problem taking home office supplies in order to compensate and redistribute the wealth; this is a victimless act of pilfering; etc.

Rationalizations allow us to act in a way that defies our moral principles and to avoid the pangs of guilt or conscience that may result. The power of rationalization extends beyond the rather mundane and banal act of stealing a company ballpoint pen, to serious forms of corporate crime in which the work of rationalization bridges the gulf between principles and deeds.

Rationalization in the Social Sciences

The concept of rationalization has a long scholarly history. It derives from two distinct fields within the domain of psychology, namely psychoanalysis and social psychology. Within the field of psychoanalysis, rationalization explains how we defend ourselves from painful truths, experiences and self-definitions proffered by the super-ego (Freud, 1937). As T.S. Elliot once said, humankind cannot stand too much reality. We have a variety of defence mechanisms that protect the ego from the reality of our condition; these include denial, humour, displacement, projection and rationalization. According to Freud, rationalization works as a defence mechanism by fortifying the ego from challenges to the constitutive narcissism of the psyche. We do this to maintain a positive self-image. For example, I may feel guilty for being unkind to my good friend (since I see myself as a kind person), and then rationalize my unkindness via a logical and plausible explanation: 'They deserved it because of what they said to me earlier.' This justification operates in a number of ways. It alleviates the pain inflicted on the ego by a punitive super-ego that tells me what I did to my friend was fundamentally wrong. Moreover, it allows me to build and maintain a positive self-image in the context of an ambiguous social world, since there will often be times where I act against my conscience. And finally, according to Freud's analysis of the death drive and self-destructiveness, rationalization protects us from the self-defeating quest to embrace the unreasonable demands of the super-ego and its crippling guilt-inducing judgements. In this sense, rationalization provides relief from the perversely strict and authoritarian facets of our conscience.

The second discipline that has furthered our understanding of rationalization is the field of social psychology. Researching in a very different epistemological paradigm to Freud, Festinger's (1957) very influential theory of cognitive dissonance theory uses the notion of rationalization to account for tensions between actions and normative self-definitions. The main proposition of cognitive dissonance theory is that if a person holds two cognitions that are psychologically inconsistent or if one's behaviour is inconsistent with cognition, this person experiences discomfort or dissonance. Because this is unpleasant they will strive to reduce it in any way possible (Festinger, 1957). Rationalization within this domain is seen as a way that individuals facing cognitive dissonance 'rationalize away' deeds that are at odds with or even contradict the ideals to which they subscribe (Festinger, 1957) or deeds that are in conflict with their self-concept (Aronson, 1992; Aronson and Carlsmith, 1962). According to Aronson and Carlsmith (1962) most individuals see themselves as being relatively competent, moral and consistent, and that any cognition or action that opposes these notions of self tends to be 'rationalized away'. Some have called this attributional or self-serving bias (Miller and Ross, 1975). This is where we view ourselves as somehow better than others around us – they mention the fact that most automobile drivers feel superior drivers to others on the road. Or take this further example. If I get promoted in my firm, I explain this by telling myself I deserve it since I have worked hard, put in my dues and performed my job professionally. When another employee gets passed over for their promotion, they explain it through an external cause that protects their positive self-image: 'I did not get promoted because the boss has something against me.' Rationalization therefore becomes an important psychological technique for explaining the social world around us in a manner that upholds an optimistic appreciation of ourselves.

The concept of rationalization has had a major impact in the field of human ethics. This research has endeavoured to explain how otherwise normal people can justify to themselves and others their horrendous acts of barbarism. Most arguments being with Arendt's (1963) observation regarding the 'banality of evil', which we discussed in the last chapter. Arendt's study of Eichmann is interpreted in a manner that downplays her normative statement regarding the importance of agency. It instead concentrates on the otherwise normal and ordinary nature of Eichmann himself. Given that he appeared to be a pleasant if somewhat simple-minded man in other spheres of life (rather than the monster we expected him to be), how did he justify to himself his unforgivable crimes? According to Lifton (1986), the situation is even more peculiar in the case of the Nazi doctors whose professional ethos is built around care and humanity. How could they then violate these principles in such an outlandish fashion (torture and murder)

and still sleep at night? We cannot attribute such actions to a ‘quantum of evil’ since:

The disturbing psychological truth is that participation in mass murder need not require emotions as extreme or demonic as would seem appropriate for such a malignant project. Or to put the matter another way, ordinary people can commit demonic acts. (Lifton, 1986: 5)

Lifton goes on to argue that they can commit these demonic acts because they rationalize their behaviour. A whole array of rationalizations justified the murder of innocent men, women and children. Some said to themselves that if they did not do it then others would – with the refusing doctor being sent to the dreaded Eastern Front. The function of dehumanization was also very important here, which connects to the broader ideology of racial cleansing (‘They are not really normal people’). Some doctors blamed their victims (‘They brought it on themselves, they were too stupid to flee before all of this happened’) or emotionally distanced themselves from the prisoners (‘I feel nothing’). In one of the more chilling examples, prison guards justified murdering children by telling themselves they were doing a good deed by putting these sorry souls out of their misery (also see Bandura, 1988; Staub, 1989). One guard confesses:

I must admit that the gassing set my mind at rest, for the mass extermination of the Jews was to start soon and now we had a procedure. I always shuddered at the prospect of carrying out extermination by shooting, when I thought of the vast numbers concerned, and of the women and children. I was relieved to think that the victims too would be spared all these bloodbaths and the victims too would be spared suffering until their last moment came. (Officer Hoess, in Lifton, 1986, quoted in Grunfeld and Smeulers, 1999: 5)

In the context of the death-camp, technical issues dominated and thus rationalized the barbarity. Lifton summarizes this and other types of rationalizations with the concept of ‘doubling’, which he defines as: ‘the division of the self into two functioning wholes, so that a part self acts as an entire self’ (Lifton, 1986: 418). This technique facilitates rationalization and allows people to say to themselves: ‘When I’m at work I have *this* moral compass given the demands the environment, and when I am at home I can then once again be my moral self.’ We can certainly see this type of doubling in the corporate world too, as Jackall’s (1988) study exemplifies – the ruthless and immoral corporate ‘pit-bull’ becomes at home a placid, loving and gentle family man. In his excellent review of Lifton (and its implications for how we understand other atrocities such as the Rape of Nanking, the torture cells of Argentina and the Turkish genocide of

Armenians, among others), Darley (1992) summarizes the importance of Lifton's insights, which is worth quoting at length:

Doubling created a self that would function within the Auschwitz walls that still remained in contact with, and drew on the knowledge – and strength – of the previous Auschwitz self. Doubling takes place largely outside of consciousness, and promotes the avoidance of guilt because it is the doubled self that commits the actions, and the doubled self is the one that renders coherent the entire Auschwitz environment. The Auschwitz self avoids guilt because it is upholding the moral principles of the Auschwitz surroundings, promoting the values of the state, achieving racial purity, staying loyal to one's oath of obedience, and so on. (Darley, 1992: 206)

As a fascinating coda to this body of research, Žižek (2006) identifies the unique reflexivity involved in these rationalized acts of barbarism. The concentration camp executioners used the 'Himmler trick' to allay their guilt. This states that the temptation to be resisted is not the natural inclination towards violence, but to succumb to pity and sympathy: 'My very violation of spontaneous ethical instincts of pity and compassion is thus turned into proof of my ethical grandeur: to do my duty, I am ready to assume the heavy burden of inflicting pain on others' (Žižek, 2006: 67)

Rationalizing Organizational Corruption

How do these observations help us understand the rationalization of unethical acts associated with corruption in the corporate context? Research is now beginning to gain momentum in applying the insights of the above research to explain the perplexing observation that many corrupt individuals: (1) still view themselves as ethical subjects; and (2) carry on a life outside the firm as ostensibly law-abiding members of the community. In their analysis of the topic, Anand et al. (2004) begin with this very point: how do we make sense of the fact that many of the participants in unethical practices in Enron, WorldCom and Lucent were otherwise decent individuals? Here the 'bad apple' perspective to corruption or the simple charge of hypocrisy does not really help us. According to Anand et al. (2004), a key component of corruption was the way in which organizational members justified or rationalized their behaviour through a set of ideas and mental strategies. As we have defined it, rationalization allows the corrupt individual to lessen or neutralize the attendant feelings of guilt or anxiety. This does not absolve them of responsibility since agency remains very important for understanding the motivation behind rationalization; it requires intent, work and effort to construct a narrative that justifies such misbehaviour. The importance of agency is nicely explained by Lewis (1990) in

his semi-autobiographical account of life on Wall Street. As a bonds trader at Salomon Brothers, he reveals how brutal, raw and vulgar the culture of trading was on the stock exchange trading floor. Lewis refers to this ethos as ‘The Law of the Jungle’, since it has little connection to morality, professionalism or even a knowledge of economics. The phrase ‘blowing up the customer’, for example, refers to convincing an unwitting customer to purchase stock that was obviously falling in value. Germane to us here is the high level of agency required to learn the vocabulary that would provide the justifications and rationalizations for behaving in this manner:

To learn how to make smart noises about money, I studied the two best Salomon salesmen I knew . . . My training amounted to absorbing and synthesizing their attitudes and skills . . . Dash and Alexander were as opposite as individuals as their respective choice of pseudonyms suggests, and their respective skills differed also . . . the luckiest thing that happened to me during the period I spent at Salomon Brothers was having Alexander take me into his confidence. Thinking and sounding like Alexander were the next best things to being genuinely talented, which I wasn’t . . . It reminded me of learning a foreign language. It all seems strange at first. Suddenly, words you never realized you knew are at your disposal. (Lewis, 1990: 172–5)

The language of agency is rife in Lewis’s account. A decision is made to learn the discourse in order to succeed in this environment or at least survive. Similarly, the language of rationalization involves an effort to learn the ropes and develop some literacy around how to justify one’s ethical conduct to oneself and others. Having said that, as we shall see in the discussion of rationalization at Ford, situational pressures can make rationalization tempting – we shall pursue this point in the conclusion. In the context of unlawful organizational practices, therefore, Anand et al. (2004) argue that rationalizations are ‘mental strategies that allow employees (and others around them) to view their corrupt activities as justified’ (Anand et al., 2004: 39). A common example of rationalization is someone who tells him or herself that their corrupt activity is acceptable because: ‘It is a one-off that hurts nobody.’

According to Anand et al. (2004) there are a wide range of rationalizations that lessen or neutralize the feelings of guilt or anxiety arising from corrupt behaviour. Each of these ‘mental strategies’ allows the individual to justify past or future actions that might otherwise have been deemed unscrupulous. The denial of responsibility is where someone denies control over the situation and thus the responsibility for outcomes of their actions. This kind of rationalization resonates with the concept of an external locus of control mentioned in the last chapter, since we feel that we have no choice in how we behave. An example of denial of responsibility as

a rationalization strategy is someone who says: 'This is the way things are done here, and if I was not doing it then someone else would.' The subtext is that the corruption results not from the individual, but from the system in which the individual is embedded. Moreover, and perhaps at a deeper level, is the assumption that the corrupt agent is no different to anybody else since anyone would behave in this way if they were in the same position.

The second rationalization mechanism discussed by Anand et al. (2004) is the denial of injury. When utilizing this rationalization, agents justify their corruption by denying that anyone is affected or hurt by the practice. Stealing a little money from the company's funds does not really harm anybody since the sum is tiny compared to the massive profits generated by the firm. Such a rationalization is wonderfully captured in the cult-movie *Office Space*, when the main characters decide to defraud their payroll customers by stealing 1 penny from each weekly salary. The rationale is that no one will miss such a meagre sum. Of course, when the scheme quickly accrues hundreds of thousands of dollars, the pangs of conscience begin to gnaw.

The rationalization of the denial of victim demeans those who bear the brunt of the corruption. An example is someone who steals from the company because they feel it deserves to be pilfered. This rationalization functioned in some of the more extreme forms of barbarity discussed above, where dehumanization desensitized moral anxiety.

Social weighting is where the unethical act is justified by arguing that the law prohibiting such behaviour is incorrect. In the case of Enron, for example, the price-capping of electricity by the Californian state was considered to be a distortion of the market. Executives thus felt justified in developing unethical methods for inflating prices to increase profits.

The appeal to higher loyalties is where agents feel justified in their corruption since it resonates with higher values. The Enron case again is apt: Jeff Skilling appears genuinely to have believed he was acting in a manner that would save the organization from complete doom, thus digging himself into an ever deeper hole.

The final rationalization strategy that Anand et al. (2004) discuss is balancing the ledger. This is where the corrupt act is deemed justifiable in the context of the broader benefits that the individual creates. Illegally appropriating funds from a pension plan, for example, might be deemed acceptable by someone in light of the wise investment choices they have made to consolidate its value for customers.

The concept of rationalization provides a very useful explanation for the apparent contradiction between the seemingly ethical individual and their unethical acts. In moving away from theories that simply posit an

evil character or a hypocrite, rationalization illustrates the banality of many forms of corruption – often it is ordinary and ostensibly honest and law-abiding citizens that engage in sometimes remarkable acts of unlawfulness (Audi, 1988; Williams, 1998; Tenbrunsel and Messick, 2004; Zygliopoulos and Fleming, 2007). Moreover, we must now build a more sophisticated analysis of agency in relation to these rationalization processes. While individuals still have the choice to confront and own the consequences of their actions, research has indicated why they often do not, in relation to the supports and rationalization mechanisms provided by the organizational environment itself. That is to say, rationalization processes sometimes carry an extra-individual momentum that insidiously draws people into the realm of illegality. Ashforth and Anand (2003) cite socialization structures, euphemistic language and other organizational properties associated with sanctions and punishments that help individual actors to neutralize feelings of guilt (also see Jackall, 1988; Bauman, 1991). This means that agency itself must be embedded in a mediating situational context, as rationalization is backed up by peer pressure, authority and other institutional forces. These forces will be unpacked in the second part of the book in relation to ‘structure’.

Rationalization at Ford

Gioia (1992) provides a compelling example of rationalization from his own experiences at the Ford Motor Company that attempts to situate agency within a propitious environment. We sketched the broad details of the case in Chapter 1: rather than recall the Ford Pinto model given the design flaw that caused fatal fires following even minor collisions, the company’s cost–benefit analysis found it cheaper to keep the Pinto on the road and deal with litigation instead. Gioia’s (1992) analysis is even more powerful since he was personally involved in the case, employed as a Field Recall Coordinator. In the context of the production management system, Gioia argues that it was unsurprising Ford decided not to recall the flawed design, or even incorporate a \$11-per-unit modification. The Pinto design template had been frozen by the tight economic and time margins for introducing a model to compete with diminutive foreign models. Other factors also allowed Ford decision-makers to rationalize their reluctance to make any changes, even as the ghastly human fatalities mounted up:

There were other reasons for not approving the change, as well, including a wide-spread industry belief that all small cars were inherently unsafe solely because of their size and weight. Another more prominent reason was a corporate belief that ‘safety doesn’t sell’. (Gioia, 1992: 381)

Gioia himself was part of the decision-making team that repeatedly opted against recalling the model; the reason being that the trickle of incidents did not trigger the pre-existing recall standards: 'After the usual round of decision making about criteria and justification for recall, everyone recommended voting against recall – including me. It did not fit the pattern of recallable standards, the evidence was not overwhelming that the car was defective in some way . . . it was a good business decision, even if people were dying' (Gioia, 1992: 382). Considering himself a man with a strong set of ethical values, Gioia wonders what happened to his moral compass when he entered the Ford environment. How could he make such a decision? He suggests that a formidable organizational 'script' guided the cognitive action of Ford employees, enabling them to perform almost inhumane 'cost-benefit' analysis since it 'precluded consideration of issues in ethical terms' (Gioia, 1992: 379). This script was a product of the business environment that processed information regarding the fatalities in purely rationalistic and mechanical ways. While the Ford production team (and Gioia himself) could see that people were dying, especially as the recall warehouse (nicknamed the 'Chamber of Horrors' by the team) filled up with burnt-out Pintos, the script schema confined the problem to one of rational economics. In this milieu, one did not have to confront the ethical significance of dying men, women and children: 'My own schematized (scripted) knowledge influenced me to perceive recall issues in terms of the prevailing decision environment and to unconsciously overlook key features of the Pinto case, mainly because they did not fit the existing script' (Gioia, 1992: 385). Here we have an interesting blend of agentic rationalization (choosing to avoid the ethical facts of dying consumers by using the script – Gioia recalls 'training' himself in the same manner as Lewis (1990) did apropos the language of bond traders) and institutional pressure regarding 'good' business practice and efficiency.

SELF-DECEPTION AND CORRUPTION

Returning to Anand et al.'s (2004) puzzle introduced at the beginning of this chapter, we have so far posited hypocrisy and rationalization as possible explanations. In unpacking the structure of rationalization in the context of corrupt practices, it is interesting to mention that the concept analytically retains the presumption of ethical knowledge. That is to say, somewhere deep down the agent knows that they are in the wrong. The compulsion to rationalize is driven by the anxiety that would otherwise engulf the individual participating in the corrupt practice. The third and final possible way to address the problem of why 'corrupt individuals tend

not to view themselves as corrupt' (Anand et al., 2004: 40) is the much more complex notion of self-deception. While the rationalizing agent is in some way still appreciative of their wrongdoing given their escape into the language of justification, self-deception implies that the individual has come to believe their own specious explanations. They actually believe that they have done no wrong and are thus curiously deluded. In many of the corporate corruption cases that have gained widespread media coverage, including Enron and WorldCom, some of the key actors have testified that they honestly believed that they were doing nothing wrong. For sure, as far as Jeff Skilling was concerned, the exact opposite was the case: the firm was adding value through its highly 'innovative' business model. Unlike Andy Fastow, who pretty much confessed his motivations, knowledge and intent in court, Skilling continued the charade to the bitter end. In his testimony to the House Committee on Energy and Commerce on February 2002, he once again conveyed his unfaltering belief in the Enron way:

During my time at Enron, I was *immensely* proud of what we accomplished. We believed that we were changing an industry, creating jobs, helping resuscitate a stagnant energy sector, and, by bringing choice to a monopoly-dominated industry, were trying to save consumers and small businesses billions of dollars each year. We believed *fiercely* in what we were doing. (Skilling, 2007)

More amazing is Skilling's explanation of why Enron failed. He argued that it had little to do with fraud, and was more the result of a common business problem faced by many organizations today:

. . . it is my belief that Enron's failure was due to a classic 'run on the bank:' a liquidity crisis spurred by a lack of confidence in the company. At the time of Enron's collapse, the company was *solvent* and *highly* profitable but, apparently, not liquid enough. That is my view of the principal cause of its failure. (Ibid)

Skilling's testimony is such a fascinating read. He goes on to argue that the off-balance-sheet entities or special purpose entities (SPEs) are 'common-place in corporate America; and if properly established, they can effectively shift risk from a company's shareholders to others who have a different risk/reward preference' (recall the rationalization regarding 'everybody is doing it'). While the credibility of Skilling's justifications must be doubted (he eventually received a 24-year prison sentence), he appeared sincerely to believe the flimsy excuses that he proffered. He pleaded his innocence on the basis of: (1) despite the unfair 'bad press' the company was by and large a first-rate example of corporate America; and (2) he was unaware of the unethical behaviour that had transpired below him. While there is perhaps a fair amount of dissembling going on here, Skilling is unusual in that he seems to believe his own rhetoric.

What do we mean by self-deception in the context of rationalization? Suffice to say here that the deception of others is the most elementary form of duplicity in corrupt organizations, because it involves a liar who conceals a known truth and a public who is duped. However, our understanding of deceit needs refinement in cases where the deceiver lies to him- or herself. A difficult tension develops in cases of self-deception because knowledge and intent, both axioms of lying that Simmel (1906) and Bok (1989) outlined, become uncertain when the deceiver is simultaneously the recipient of his or her own lies. The phenomenon of self-deception is paradoxical because it splits the self into two contradictory parts: the deceiver and the deceived (Bok, 1989; Martin, 1985). How can we be knowing agents of a concealment that targets ourselves? How can we be instruments of our own ignorance? According to Martin (1985), once we become cognizant of our self-deception then by definition we can no longer be deceived. Therefore, we must be unknowing victims of our own flights of fancy, delusions and unrealistic self-appraisals. But if we challenge the idea of unified and consistent self, as Calás and Smircich (1999) suggested, then self-deception no longer has to involve a paradox. In this light, McLaughlin (1988) raises the issue of self-induced deception in which people intentionally set out to hoodwink themselves about an aspect of their lives or actions. Such self-induced dishonesty is especially evident in cases of avoidance where guilt, inability or traumatic truths are assuaged through deliberately lying to and about oneself (Arbinger Institute, 2002).

Commenting on scandals in the US, Bennis (2002) suggests: 'lack of candour is often so deeply ingrained in corporations that they will practice self-deception even when they know that they will pay a terrible price for it' (Bennis, 2002: 12). Swartz and Watkins (2003) corroborate this observation. They argue that self-deception in Enron was manifested as a gross illusion of grandeur, permeating the upper echelons of the firm, that we also saw in Skilling's testimony (also see Carroll, 2002; Partnoy, 2003). Key figures in the debacle convinced themselves that shifting debt to SPEs was justified by the higher good of the company, knowing full well it could unravel at any moment. Such 'malignant narcissism' (Peck, 1998) allowed corrupt individuals simultaneously to see the nasty truth of their corrupt activities and to believe in their own heroic rightfulness. Indeed, federal investigators commented that even the credit rating agencies involved were self-deceived, choosing to interpret obvious signs of desperation as vitality, agility and growth (Blair-Smith, 2004).

Perhaps the most prevalent form of self-deception that occurs in large-scale corporate corruption cases is planned ignorance. So many of the CEOs involved in the 2002 round of scandals (and more recently) pleaded innocent on the basis that they did not know what was going on – one here

recalls Bernie Ebber's infamous defence statement: 'I know what I don't know.' Of course, ignorance was not deemed a plausible defence in these trials. This is because the CEO of any company is formally responsible for the conduct of their firm's operations; but more importantly it is simply untenable that a CEO would not have knowledge of large-scale acts of fraud. The news magazine *US Today* ran an interesting article on this very topic. They interviewed former Medtronic CEO Bill George in relation to a survey of CEOs regarding the plausibility of the ignorance defence:

. . . at companies such as WorldCom, Enron and HealthSouth, where the exposure of fabricated earnings led to criminal investigations, 'It's implausible that a CEO doesn't know what's going on,' George says. But the CEOs all said that it takes a large dose of imagination to come up with a scenario where clear-cut fraud that cost millions, even billions, of dollars was going on without the knowledge of the CEO. (Farrell and Jones, 2005)

The statement by Bernie Ebbers – 'I know what I don't know' – might represent a classic case of a 'large dose of imagination' at the heart of self-deception. We suggest there are two types of deceptive practices at work here. On the one hand are self-deceptive tactics based upon commission. This is where we build a fantasy justifying the unethical practices in the organization and fervently believe them at the expense of the real situation. This was certainly the case at Enron when senior managers believed the self-authored hype apropos the firm's beneficence to employees, customers and the economy. On the other hand are self-deceptive tactics based upon omission. This includes ignorance. This is where agents choose not to know some aspect of their firm that they simultaneously know might implicate them in unethical dealings. The rationale here is that once knowledge is established, then they are expected to have intervened in some manner, especially if the firm is illegally benefiting from such practices. Perhaps this was the case with Jeff Skilling and his near obsessive defence that he was unaware of the true financial condition of the firm. An interesting implication of these types of self-deception is that executives begin to lose touch with reality. As a former Enron managing director said: 'I'll always wonder how much of what we did there was real' (McLean and Elkind, 2003: 411).

LIMITATIONS OF RATIONALIZATION AND SELF-DECEPTION THEORY

Some limitations remain with the notions of rationalization and self-deception when endeavouring to explain the causes of corruption. First, it suffers from a similar problem that dogs the 'bad apple' perspective,

namely an overemphasis on the individual that misses the important role of the situational context. By focusing on the individual as the site of ethical deliberation (through various forms of justification, explanation and self-deception) the importance of how situational factors may define morality are downplayed. In some instances, the institutional context may have already rationalized what is externally considered unethical, and thus the cognitive processes of the individual may be of little relevance. Indeed, remember the way in which Eichmann described his personal ethics in the last chapter. The contextual forces of bureaucracy, efficiency and an institutional form governed by purely a 'technical problem' may negate the very need for rationalization. This can be noted in the banking industry where personal loans are targeted towards individuals who are anticipated to have a great deal of trouble meeting the ensuing debt (a major problem in the UK). When queried about the ethical significance of such loan schedules, most financial analysts (in the context of day-to-day business) simply compartmentalize it as an 'industry problem'. *Prima facie*, this may look like a typical bit of rationalizing. But the specious justification is more a reaction to the questions posed by the researcher than to any inner tension. In the tumult of a busy organizational life there is little to rationalize, since no problem is actually registered in the first place. It is the judgement of the external observer that imputes the moral issue (that demands rationalization in the face of contravening deeds) rather than any internal ethics.

This limitation of the rationalization thesis has another side, which we might term 'overmoralization'. It is presumed that people are infused with high ethical standards that then drive rationalization mechanisms as they fail to live up to such standards. It is now obvious from many of the studies of corporate corruption, however, that some perpetrators of corruption never need to pass through the hot crucible of moral anguish implied in the rationalization approach. While most of us would certainly realize if our actions were 'against the law', in the appropriate institutional setting, moral scruples may not be activated. Perhaps this leads us to the uneasy conclusion that there is something 'external' to morality – rather than sitting latent or realized in the heads and hearts of individuals, it is more the function of the external institutional environment in which individuals find themselves entangled. Rationalization and self-deception assumes too much cognitive work on the behalf of individuals, and downplays instances where corruption is officially sanctioned, collective, institutionalized and the result of extra-organizational pressures.

The rationalization literature also has a strange apolitical view of how rationalization might work, which perhaps reflects the abstract moralizing tone of much of this scholarship. Imagine the following scenario playing

out in an organization: a senior finance analyst, Robert, is a member of a tight-knit group who often meet outside of working hours, playing golf and squash or holding barbecues for their respective families. Robert is then invited by his cohort to participate in some shady financial transaction that he feels is most likely illegal, and undoubtedly unethical. The benefits are clear – both for him and the firm – and there do not seem to be any obvious victims; well, at least not yet. The narrative underlying rationalization theory would see Robert commit the unethical act and then rationalize his behaviour in various ways. But could not the opposite transpire? Robert wants to ‘blow the whistle’ on these financial transactions but his moral commitment to his friends makes this a difficult task. Finally, after much deliberation, he calls the financial industry watchdog – and rationalizes his decision by telling himself that anyone in his position would have done the same thing. The imaginary scenario demonstrates how rationalization might actually uphold certain moral principles, given the fragmented and pluralistic social universe in which we dwell. Rationalization is not only the preserve of those intending or engaging in wrongdoing, but also that of actors endeavouring to ‘do right’. The fixed moral standards that are implied in the literature are further testimony to a lack of sensitivity to the social context in which people become ethical agents.

CONCLUSION

This chapter has aimed to make our image of the unethical and corrupt individual more complex and nuanced. While agency still is of much importance, the kind of ‘pure agency’ that we explored in the last chapter in relation to ‘bad apple’ approaches to corruption has been tempered somewhat. For sure, one of the most perplexing aspects of the recent wave of corruption scandals has been the fact that the majority of agents involved appeared to live otherwise normal, law-abiding lives. Moreover, when questioned, they were able to maintain a curiously positive image of themselves that seems absurd to the outsider. Perhaps hypocrisy was indeed evident in many of these cases. But in addition, we have investigated two other kinds of processes, that of rationalization and self-deception. These strategies differ in tenor and effect, but both allow the agent of corruption to soften the pangs of conscience that may have bridled such excessive acts of criminality. Notwithstanding the limitations outlined in the previous section, the next chapter will discuss a detailed case of how agency, rationalization and self-deception might be used to understand how corruption is initiated and sustained in contemporary firms. The key aspects of agency that we wish to take forward in the remainder of the book are:

- individual decision;
- personal attributes;
- rationalization;
- self-deception.

In chapter 4 we will illustrate the agentic aspects of corruption in relation to the case of Nick Leeson and his destruction of Barings Bank. The book will then turn away from individual explanations of corruption and focus more on structure, situational context and the pressure of the financial environment.

4. ‘When giants stumble’: agency, rationalization and the ruin of Barings Bank

The Bank of England’s prolix report on the causes of the 1995 collapse of the esteemed 230-year-old merchant bank Barings cited the following problems that allowed such malfeasance and deception to go unchecked by internal and external auditors:

The key questions are:

- a) how were the massive losses incurred?
- b) why was the true position not noticed earlier?

Our conclusions, in summary, are:

- a) the losses were incurred by reason of unauthorized and concealed trading activities within BFS (Baring Futures Singapore);
- b) the true position was not noticed earlier by reason of a serious failure of controls and managerial confusion within Barings;
- c) the true position had not been detected prior to the collapse by external auditors, supervisors or regulators of Barings.

This report and the House of Commons Treasury Committee report that followed in 1996 belie the dramatic and nail-biting story of how one man, Nick Leeson (the self-professed ‘rogue trader’) managed almost single-handedly to bankrupt such an established financial institution. He was a Baring Securities (Singapore) Ltd derivatives trading manager at SIMEX, the Singapore International Monetary Exchange, from 1992 to 1995, when he quit his job sitting on losses of over £800 million and went on the run with his wife Lisa. The story has been the subject of numerous books and even a Hollywood movie starring Ewan McGregor. The sheer audacity of Leeson’s illegal trading activities and the measures he took to conceal them almost beggar belief. Even more fascinating was the way in which internal and external auditors were unable to detect the growing losses that Leeson accrued – how could a £300 million hole in the balance sheet be missed by auditors? He even concealed such activities from his wife, as she watched

his health deteriorate under the weight of the deception. It was only when the losses far outweighed the reported capital of Barings Bank and Leeson disappeared that the catastrophe was revealed. It is the perplexing character of Nick Leeson himself that has received much attention: a compulsive liar, cunningly dissembling the facts with charm, deflection and plain fraud – even resorting to using scissors and paste to construct phoney authorization letters for illegitimate contracts when the auditors got too close.

According to Leeson's own account of the corruption (boastfully entitled *Rogue Trader: How I Brought Down Barings Bank and Shook the Financial World*, 1996), he suffered great inner turmoil and crippling stress as he attempted to trade himself out of the mess. As the losses ballooned out of control, his gambling became ever more erratic and daring – he was constantly glued to the market index, watching for shifts in share prices and calculating how many millions of pounds he had lost. He would often leave the trading floor to vomit and was addicted to munching cheap sweets and biting his nails until they bled. At night he would go on drinking binges with other traders, trying to forget the impending doom back in the office. These drinking sessions became legendary, often resulting in fights and even a night in jail after indecently exposing himself to a group of shocked airline stewards. Moreover, Leeson craved attention, admiration and plaudits from his superiors and other traders. He wanted to be the 'King of SIMEX', and proved to be a nasty superior to his team when things went wrong. Leeson's obnoxious arrogance is evident in his autobiographical account, written from his prison cell in South-East Asia (he received a six-and-a-half-year sentence). He even begins the book with a quote from himself! 'I leaned across to Dan and told him I was a buyer at 19000. There was no need to whisper, I could hardly hear myself shout. He looked at me and queried: what size, Nick? "Any size, Fat Boy!"' Following his prison term, Leeson has gone on to profit from the after-dinner speech circuit, reinventing himself as a stress-management guru and life coach (see www.nickleeson.com).

Leeson's story proves to be a useful example of some of the concepts we discussed in the last chapter. Given his first-hand account in his autobiography, we are able to get close to Leeson's moral compass and the decisions and rationalizations he developed in narrating his story. When the scandal broke, much of the media focused on Leeson's undesirable character – nasty, brutish, dishonest and pathologically manipulative. From Leeson's own words, however, we are able to access the kinds of rationalization and self-deception that allow him to justify the fraud. The lengths that Leeson goes to, to justify and vindicate his fraud (and the subsequent downfall of Barings), are astounding. In this chapter we shall use this case to illustrate the power of agency, rationalization and self-deception as driving forces of

corruption. The collapse of Barings Bank especially lends itself to this task, given the importance of a single individual. We will begin by outlining the chain of events that eventually ruined Barings Bank. Then we will focus on Leeson's own narrative. In particular we emphasize agency (the decision to act one way rather than another), rationalization (the ways in which corrupt behaviour might be justified and cast in a good light to alleviate guilt) and self-deception (the practice of telling lies to oneself in order to escape unpleasant truths). The chapter will conclude by summing up some of the most important themes that we have investigated thus far in relation to agency and corruption.

THE DESTRUCTION OF BARINGS BANK

Baring Brothers & Co. was one of the oldest and most respected banks in England. It was established in 1762 as the John & Francis Baring Company by a German immigrant, and was consolidated by Francis Baring when he joined forces with the powerful Dutch bank Hope & Co. (Rawnsley, 1995; Gapper and Denton, 1996). As a family-owned bank, it was much esteemed among the establishment and was involved in a number of historic events including negotiating the purchase of Louisiana from Napoleon, and thus funding the Napoleonic Wars. It also counted the Queen as a client, thus adding to the revered reputation of the institution. As a number of commentators have suggested, the elitist and rather priggish nature of the bank seemed out of place in the heady and cut-throat 1980s, with the Cambridge-educated Peter Baring, in particular, oblivious to what was happening in the farther corners of the organization. In 1984 Barings became interested in the potentially lucrative Far East stock markets, purchasing Henderson Crosthwaite (Far East) in order to extend its activities in this area. What became Baring Securities Ltd was led by the strong vision of Christopher Heath, and had offices in Hong Kong, Tokyo and elsewhere in the Asia-Pacific area in order to exploit the Indonesian and later Japanese financial and futures markets. The distance between South-East Asia and London was not only geographical as Rawnsley (1995) has suggested: 'The clash in attitude between Baring Brothers and Baring Securities arose in the early Nineties and epitomized a market-wide cultural rift between the conservative world of banking and the more opportunistic environment of broking, but at Baring Securities Heath had created a phenomenon verging on a personality cult, which amplified that cultural gap' (Rawnsley, 1995: 33). Baring Securities had an environment steeped in 1980s excess, in which celebrity, risk and greed seemed to grate with the age-old caution characteristic of the London offices.

Baring Securities made a lot of money on the Tokyo Stock Exchange and its investments were well established when this market began to boom. The equity warrants market was especially profitable. The Singapore office was soon established as more and more business was attracted away from the Tokyo Stock Exchange to SIMEX because the commission charges were lower. Baring Securities (Singapore) Ltd was based on the twenty-fourth floor of the Ocean Towers office block in the city, which was left vacant by locals because they consider this number to be very unlucky. In the early 1990s trading between the Osaka and Singapore (and later, Tokyo and Singapore) stock exchanges became an important source of revenue for Baring Securities. The key was to exploit minute price differentials between the markets. As Gapper and Denton (1996) explain in relation to Leeson's activities:

Most customers wanted to buy futures in Singapore; it was cheaper than Osaka, because SIMEX did not require them to deposit as much cash for collateral. But SIMEX was a small exchange, so any large orders tended to move prices. When Leeson went to the pit with a big customer order for Nikkei futures, it would drive up the price before he was able to fill the order . . . Before going into the pit, he could buy the same number of futures for Barings itself in Osaka. He could sell futures to the customer at the SIMEX price from a Barings account . . . He would have arbitrated the prices on the two exchanges, leaving Barings with a risk-free profit that was equivalent to the gap between Osaka and SIMEX prices. (Gapper and Denton, 1996: 13)

This is called 'switching'. The problem that Leeson ran into was the margin calls on the contracts. Since the futures contracts might not be settled for a few months, stock exchanges asked for a margin sum up front in case a contract was defaulted on – these margin calls were funded by the banks. The 22-year-old Leeson joined Barings in 1989. He had worked for a number of banks before, and was sent to Jakarta to sort out the impending chaos around share certificates. Having solved this problem professionally and quickly he was promoted to General Manager in the Singapore office. He was not authorized to trade on the floor itself and was inexperienced in this regard. But he had impressed his superiors, who were hiring 'hungry talent' rather than staid and boring experience (Rawnsley, 1995). The first fatal mistake made by Barings was to put Leeson in charge of both the back office (where contracts would later be settled) and the front office or trading floor. In this way, Leeson's illicit trading could be concealed since he could ratify his own unauthorized activities. Moreover, the office was extremely disorganized, and given the complex trading activities, many found it difficult to keep track of all the contracts. Leeson would later use this complexity to his own advantage in order to hide unauthorized

trading. After a day's trading Leeson would go to the back office to settle and reconcile his trades. If there was a discrepancy between the SIMEX records and his own, Leeson would have to buy contracts to make up the difference. If the market had moved in the meantime, the price discrepancy would be placed in an error account, which was normal practice by banks to store unsettled losses for a short period while they were resolved (Gapper and Denton, 1996).

Gapper and Denton nicely map out the chronology of events that would transpire after Leeson's posting in their book, *All That Glitters* (1996). Since head officers found it difficult to process the hundreds of small errors in the normal account on a frequent basis, they asked Leeson to set up a new error account that would not be checked as frequently, and thus avoid clogging the system. He chose the number 88888, given that the number 8 was considered lucky in Chinese numerology. Head Office then changed its mind and asked Leeson not to set up the error account, but it was too late. Now Leeson had a secret error account, which was almost immediately used to hide his losses:

The 31st of July [1992] fell on a Friday. By then the five eights account contained a loss of Y11 (£49 200). Leeson had a choice of writing this amount off openly or trying to conceal it. It was a large sum to attribute to errors. There was a danger that if he declared it, he would show London he was not running a very tight ship. Because Leeson was in charge of the back office, he did not have to do so. (Gapper and Denton, 1996: 219–20)

Leeson decided to hide the losses by 'cooking the books'. When SIMEX asked for the margin call, he secretly withdrew 11 million yen from the Barings Citibank account to register it on the balance sheet, and then quickly transferred it back to the account so that nobody would notice it was missing. Leeson began to make many trading mistakes, placing them in the account. He argues in his autobiography that he got into real trouble when a junior member of his team misunderstood his orders and sold 20 futures contracts for Fuji Bank rather than buying them, leaving Leeson 40 contracts short (at a value of £18 000). It is interesting to note that Leeson would later wrongfully claim that this was the first time he used the error account, when he gave an interview to television presenter David Frost in order to gain popular support to be tried in England rather than Singapore. He decided to arrange the books so that it looked as if the contracts had been sold by the 88888 error account rather than Fuji, and trade (or 'switch') his way back to zero (Gapper and Denton, 1996). With the contracts open and the market fluctuating, the losses ballooned to £220 000. At the time Leeson was becoming very popular, lauded as something of a stockbrokers' hero, since he was posting the profitable trades on the balance sheet and simply

putting all of the bad ones into the secret error account. This praise certainly reinforced his spiralling behaviour as the losses grew.

After a few months of trading, Leeson had racked up £2.7 million of losses, which he funded through the Citibank account to make the margin calls, shuffling the money back after the credit was registered in the 88888 error account. When the auditing firm Deloitte & Touche announced a routine inspection, Leeson requested Head of Futures (Gordon Bowser) for a balance sheet reading, and then used the letter to forge an authorization (using scissors and paste) in order to pass inspection. It worked, and there is evidence that he had been practising the forgery of Bowser's signature for some time (Rawnsley, 1995). Leeson then turned to options trading to attempt to recoup his losses through 'straddles' (an extremely risky process of anticipating that the underlying and strike price of stock will remain stable). Money is made by pocketing the premium. Leeson sweated over the stock index, dreading price changes since huge losses would result. Only experienced traders make money this way and it requires a very good mathematical knowledge of the market, which Leeson lacked. Leeson's trades were massive and reckless, and he soon gained the reputation of a stock-broking hero that he so desired. At this stage a senior auditor noticed a £10 million loss in the balance sheet – which management simply put down to a time gap between a client's margin call and them paying Barings.

Amazingly, by April 1993 Leeson's gamble had paid off and he had reduced the secret account to zero. But as Gapper and Denton (1996) argue, Leeson could not help himself – he could only impress other traders and his superiors by using the error account to take losses. He soon began using it again, but rationalized the process:

so far he had produced results by taking risks and putting any gambles that went wrong into the five eights . . . he was already subsidising the accounts of Tokyo traders and customers from five eights. This could be done more simply. He could adjust the price of an actual trade, and switch the loss into the five eights account. (Gapper and Denton, 1996: 234)

Leeson also turned to options again to try and make some quick cash to balance his books, and these soon began to spiral out of control once more. In August 1993 he was £3.1 million down. Leeson became a nervous wreck, gaining weight, drinking excessively and getting into embarrassing fights. His attempt to use 'straddles' was a failure and the error account was concealing £21.6 million by November 1993. Leeson now needed a lot of money to fund the margin calls, and devised an intricate web of deception to obtain the funds from Barings (which they thought would be recouped when the contracts were supposedly settled, since they did not realize that they were actually funding losses). By this time Leeson was in big trouble,

and making stupid decisions on the trading floor: ‘traders assumed he was selling on the behalf of a rather ill-informed or naïve customer’ (Gapper and Denton, 1996: 241). Leeson was awarded an annual bonus of £135 000 for all his good work.

The end of Barings Bank was now close. The bank had successfully petitioned the Bank of England to allow the London office to expose more than 25 per cent of the group’s capital base. Credit risk rules are designed to minimize the exposure of financial institutions, but this concession allowed London to transfer funds to Singapore in order to shore up Leeson’s margin call payments. It now seems remarkable that the bank was willing to trust Leeson to such degree. But they did, and it was the 17 January 1995 earthquake in Kobe and Osaka that caused the market to drop dramatically. Leeson had a lot riding on ‘straddles’ that required a steady market price in order for the premiums to make good – following the earthquake Leeson took some tremendous gambles. By the time the discrepancies began to dawn upon auditors at Barings in February 1995, the infamous 88888 error account had clocked up £827 million. Leeson and his wife Lisa decided to run (not before taking a white-water rafting holiday and faxing a pleasant letter of resignation to his superiors), and were eventually arrested in Frankfurt, Germany a few days later. Barings was bankrupted (its assets once valued at £5.9 billion now worthless) and sold to ING for the nominal sum of £1. Leeson was extradited back to Singapore and sentenced to six and a half years’ imprisonment.

AGENCY, RATIONALIZATION AND SELF-DECEPTION

We now want to apply some of the ideas developed in the previous two chapters to the case of Barings Bank and Nick Leeson’s corruption. The ruin of Barings Bank was a sensation in both the financial and the popular media. The idea that a young working-class lad from Watford could bring down such a pre-eminent institution fascinated the public and frightened the banking industry. There was no doubt that the internal and external controls Barings relied upon were seriously deficient. Leeson should not have been in a position where he was in charge of both back and front office duties. This was simply organizational incompetence that directly fuelled the subsequent fraud. Moreover, the controls that Leeson was subjected to were almost non-existent. He was in a position to build his own empire and run the show as he desired. The London offices left him to his own devices and believed his lies when he started to display profit-making potential. As Rawnsley (1996) puts it:

it is certain that Leeson's bosses made it easy for him to slip off the leash . . . the lust for profits within Barings was no greater than that in any other securities firm, but the atmosphere and attitude within the firm was perhaps significantly more optimistic than most and management controls were lax (Rawnsley, 1996: 160)

Even Leeson's misdemeanours (drunkenly exposing himself to a group of women) did not provoke rebuke from his superiors. He was the 'golden boy'. The cult-like admiration that Leeson painstakingly developed (with the aid of the 88888 error account) blinded many to what even Leeson himself considered obvious: that he was blatantly cooking the books under his superiors' noses. Leeson was as amazed by how much he could get away with as anyone else was. Indeed, he would cite his superiors' incompetence to justify his actions ('they're stupid, they deserve someone like me'), as we shall soon point out in relation to rationalization. Leeson's Singapore-based superiors could not admit their lack of knowledge regarding Leeson's increasingly complex trading activities. This would show them to be inferior to Leeson, and Leeson knew this, and used it to conceal increasingly serious acts of fraud. Moreover, given the extreme nature of Leeson's fraud, he knew that others would not confront him since to do so would challenge his integrity, 'a confrontation he successfully gambled would never occur' (Rawnsley, 1996: 164).

Moving from the organizational structure to the culture at Baring Securities, some have suggested that it was the pressure of the trading floor position that led Leeson to engage in such serious acts of fraud. Rawnsley points out that the culture at Baring Securities was built around a macho aura of making money, and traders were hired on the presumption that they could succeed at this. The pressure on them was immense. Greed, arrogance, mixed with fear of failure and the need for approval, can lead some to gamble irrationally. Rawnsley argues that Leeson was symptomatic of the environment in which he was placed: 'one of individual competition and insecurity, in which greed and fear are paramount characteristics. Such an environment negates traditional management and risk controls, namely the cultivation of teamwork rather than individual competitiveness, the sharing of information and the nurturing of self-confidence' (Rawnsley, 1996: 147). And the ex-pat conditions of Singapore have been said to create a moral vacuum for many, in which high earnings, isolation and elitism can suspend normal moral reasoning. But what of Leeson's agency in this case? Echoing our discussion of Arendt in Chapter 2, in which she states that we all have the choice to 'act otherwise' regardless of circumstance, Rawnsley makes this insightful observation:

... to suggest that lax controls alone are to blame for what happened is to miss part of the point. It was not only the absence of external 'controls' which were at fault, but the fact that Leeson lacked internal controls, which keep others in check. There are hundreds of Nick Leesons in dealing rooms and trading floors across the globe, but not all off them get off the leash, nor do they want to. (Rawnsley, 1996: 161)

This brings us back to agency, because we cannot simply blame the environment as the sole causal factor for what Leeson did. He chose to act in a particular way rather than another. The question then becomes, what was it about Leeson that made him different to the hundreds of other traders who chose not to engage in such fraud?

Character, Decisions and Action

Building on Chapter 2, we might look to what type of person Leeson was in order to deduce his moral character as a 'bad apple' that in this case destroyed the barrel. Indeed, much has been written about the arrogance and dishonesty of Leeson's personality, and its probable basis for his subsequent actions. Let us begin with his obvious dishonesty. When applying for a trading licence in Singapore, he lied on his application regarding his financial history – he had an outstanding private bank debt that he failed to disclose. When the authorities raised this act of dishonesty with Barings, no action was taken, even though honesty is considered a bedrock value in the financial services industry. Leeson's penchant for lying has become evident through subsequent accounts from fellow workers. He had a desire to be liked, and manipulated his colleagues to create a positive image of himself. One fellow worker at Morgan Stanley remembers Leeson boasting about his footballing skills and how he played for the semi-professional team, Hayes. When the fellow worker went to see the team, he did not see Leeson anywhere – he then got suspicious. He played along, asking Leeson if he had got a game that weekend. Leeson replied that he had, and it was then that the fellow worker revealed that he was there and did not see him – Leeson never talked about being a semi-professional footballer again (Gapper and Denton, 1996). When other traders tried what Leeson was doing ('switching'), they failed – but an internal auditor, James Baker, believed Leeson's explanation for his success. As Gapper and Denton put it: 'this was partly because Leeson was an exceptionally fluent liar. He had by then spent nearly two years fooling people and his patter had improved with practice' (Gapper and Denton, 1996: 249). Coupled with his keen demand to please others and be liked, this compulsive lying meant that Leeson was extremely manipulative. For sure, 'Leeson learned it made people like him, in order to gain something from them' (Gapper and

Denton, 1996: 189). He could lie and remain calm and, more treacherously, give the impression of genuine honesty and professionalism.

Other character traits in Leeson contributed to his choices to act in an unethical manner. Leeson's arrogance was notorious – he thought he could manipulate the markets single-handedly since he was such an important player on the floor. He says at one point when waiting for the markets to turn, 'then I couldn't stand the inertial anymore [sic]. I had to do something about the market' (Leeson, 1996: 216). Indeed, Leeson's autobiographical account drips with superciliousness as he proudly recounts many of the acts of fraud that he felt he could get away with. This arrogant and egoistical posturing also carried a nasty element of aggression. On two occasions Leeson ran into trouble on the streets of Singapore – one where he exposed himself to a group of female airline stewards and spent the night in jail. The second was when he refused to show his membership card at a pool-hall. His group were involved in a scuffle in which a member (Leeson does not recount the story in his book) called a club official 'a fucking black bastard' – nobody is certain who in the group issued the racial slur (Gapper and Denton, 1996). Leeson's treatment of his staff is recounted in flowery words of commitment and harmony in his autobiography, but staff apparently were treated in a very aggressive manner by him (Rawsley, 1996). This was especially so when the tension and stress began to build. This aggression and bravado was also directed at fellow traders, as Leeson abused his 'golden boy' image: 'Leeson was so powerful he could behave as he wanted at SIMEX. He would swagger onto the trading floor, threatening to cut out any local who displeased him . . . sometimes he would walk up to someone who had offended him, insult him and simply walk away laughing' (Gapper and Denton, 1996: 251). And finally, some have pointed to Leeson's greed. This was evident even as he was escaping the mess he had created. While Leeson has suggested that he was simply trying to save the bank, he was also prepared to walk away (or escape) with a £500 000 bonus, 'in full knowledge of the fact that it would have been obtained deceitfully' (Rawsley, 1996: 190). There is still some ambiguity about whether Leeson personally gained from his fraud, notwithstanding his adamant denial of this (Norris, 1996).

Character analysis takes us only so far in discerning the agentic aspects of the fraud that Leeson chose to perpetrate. For sure, many of the negative and downright nasty features of Leeson's personality might be found in many traders who still would not have acted the way he did. Indeed, as we argued in Chapter 2, decision and agency can be identified through observable actions. There are nine junctures in the chronology of the fall of Barings where Leeson could have acted otherwise, to paraphrase Arendt. We can enumerate these moments as follows:

1. March 1992: deciding not to disclose outstanding debts when applying for a trading licence with the Securities and Trading Authority.
2. July 1992: deciding to use the 88888 error account to conceal a £49 200 loss rather than openly writing it off.
3. August 1992: deciding to conceal the error of £18 000 allegedly made by his assistant rather than openly declaring it.
4. August 1992: using the Citibank funds to dissemble this error rather than openly writing it off.
5. October 1992: concealing losses from auditors by forging an authorization letter, using a cut-and-paste mock-up.
6. October 1992: resorting to high-risk 'straddling' trades to generate cash to fund the error account margin payment.
7. July 1993: having reduced the error account to zero, deciding to use it again to conceal losses rather than starting afresh as an honest trader.
8. October 1993: conspiring to invent a business using 'switching' to conceal the massive losses in the error account.
9. February 1995: deciding to take his bonus and run, rather than give himself up.

At each of these pivotal moments, Leeson could have been like most other traders and acted otherwise than the way he did. These points were crucial in allowing the calamity to unfold and consume the organization as it did. Why Leeson did not act otherwise could be put down to character, environmental pressures and so forth, but as a moral agent who has the power to decide (according to Arendt), they define his ethical tenor. While traits and action are important guidelines for conceptualizing the agential elements of Leeson's corrupt activities, we also must look at the array of rationalizations and self-deceptions that were vital for maintaining the fraud.

Rationalization

We can recall from Chapter 3 the significance of rationalization for initiating and perpetuating acts of corruption. A weakness of the 'bad apple' approach to corruption is that it does not explain an important aspect of unethical and corrupt behaviour in organizations. Anand et al. (2004) endeavoured to explain why many of the participants of unethical practices in Enron, WorldCom and Lucent were otherwise decent individuals. Hence, Anand et al. (2004) argue that rationalizations are 'mental strategies that allow employees (and others around them) to view their corrupt activities as justified' (Anand et al., 2004: 39). This is why corrupt actors often do

not view themselves in a negative or compromising light, but sometimes the exact opposite. Also recall that rationalization requires a degree of agency, a wish to make oneself feel better in order to continue with the questionable behaviour. Much of Leeson's (1996) autobiographical account of his time at Barings is imbued with the kinds of rationalizations that Anand et al. (2004) outline. Given the timing of the publication of *Rogue Trader*, some have argued that its veracity must be seen in a somewhat sceptical light. As one reviewer put it: 'nothing in this book or his history encourages you to believe he is an especially reliable reporter' (Norris, 1996). Indeed, one is surprised by how little responsibility Leeson seems to take for his behaviour, and the exaggerated positive image of himself as victim, hero and all-round good guy who was trying to help the company and colleagues. Rawnsley (1996) suggests that this is not surprising:

It is unsurprising that Leeson would have us believe that this is the case, hoping to win the sympathy of the British public, traditional backers of the underdog, by convincing them that fate alone placed him in the hands of inept management who tempted him to gamble with hundreds of millions of pounds. (Rawnsley, 1996: 190)

One commentator has placed Leeson's narrative in a class context – Leeson often blames his upper-class, blue-blooded superiors for trusting him with so much money. Leeson lessens the moral impact of his behaviour by depicting himself as a kind of working-class hero. For sure, blaming others in order to deny responsibility for his deeds is a major rationalization in Leeson's narrative: 'throughout the grotesque build-up in the 88888 account I'd taken some comfort in the fact that I was trying to trade out of a loss which had been forced upon me' (Leeson, 1996: 176). Leeson's first target is the office assistant who he claims to have covered for when she misunderstood his command – the £18 000 loss was not actually the first time Leeson used the error account (as he claims). He writes:

I buried my head in my hands for a minute . . . I swore . . . How could have she done it? (Leeson, 1996: 40)

Later in his account, when the losses were spiralling out of control, he once again blamed his assistant for ultimately putting him in this predicament. Like any good rationalization, the effect is not only to neutralize moral responsibility, but also to paint a positive image of the actor. Leeson does this by saying that his concealment of the £18 000 error was motivated by his beneficence towards his fellow workers, covering for them in an altruistic manner:

I ordered a hamburger and thought of Kim Wong sitting on the bus on the way home. She lived with her parents on the far side of the city. It wouldn't be easy for her to find another job on SIMEX . . . And if she lived with her parents, she'd be bringing in money which they needed. (Leeson, 1996: 42)

And again:

There were other errors in the London account, but I put into 88888 the particularly large discrepancies which I thought would get my newly recruited traders into trouble. (Leeson, 1996: 46)

Leeson then goes on to blame his behaviour on superiors who were considered too cheap to hire the type of help he needed to avert such a mistake. This is where the class component becomes clear, since he portrays top management as dim-witted and miserly elitists:

It was all Simon Jones fault, I swore, and Mike Killian's in Tokyo: the mean tight-fisted . . . wouldn't let me employ anyone experienced. They wanted to keep our costs down to the bone . . . it was disgusting . . . (Leeson, 1996: 40)

Here is another example:

Good old tight-fisted Simon Jones! He was obsessed with keeping staff costs down to a minimum, which was why he wouldn't allow me to hire the best people for decent salaries. And his refusal to pay for a risk compliance officer meant that I would continue to go unsupervised. (Leeson, 1996: 93–4)

Next Leeson blamed his superiors for incompetence and turning a blind eye to his behaviour. As Norris puts it: 'Leeson prefers to place the blame on superiors, who he viewed had more blue blood than brains, and who failed to spot some clear signs of fraud (the fact that he himself was clearly over his head is de-emphasized)' (Norris, 1996). Evoking the salary differential between Peter Baring and his own working-class father, Leeson argues:

They should have known better. Certainly Peter Baring should have known better. Making money is never easy . . . nobody in the real world thinks that making money is not actually terribly difficult. My father knows that you have to work hard and you get paid £20 a square yard for plastering . . . If Peter Baring had ever come out on the trading floor in SIMEX, when we were thrashing ourselves to work harder . . . (Leeson, 1996: 73)

Leeson then blames the company for creating a situation that would facilitate his fraud:

Given that I was in charge of both the front office and the back office, it was astonishing that nobody really pushed anyone to change the system. It ran against the one great rule of any business. (Leeson, 1996: 92)

And again, about his superiors' abilities to realize what Leeson was doing:

The idea that Gordon Bowser in Hong Kong would be able to keep up with anything I was doing was laughable. (Leeson, 1996: 94)

This was especially the case because Leeson was so successfully able to pull the wool over the eyes of internal and external auditors. He did this with lies and forgery, but also by exaggerating the complexity of his activities. In effect, his superiors risked looking ignorant if they questioned his trading practices. Moreover, according to Leeson and a number of commentators, his superiors were blinded by the profits that Leeson was apparently generating in Singapore – this clouded their judgement in serious ways:

I was astonished that nobody stopped me. People in London should have known that I was making up the numbers. Brenda Granger, Tony Hawes and Tony Railton should have known that the daily requests for cash were totally wrong yet they still paid them over. (Leeson, 1996: 185)

Leeson uses other rationalization strategies. For example, when referring to error account 88888 and its use as a method of concealment, Leeson downplays its significance by arguing that this is not an unusual procedure, and that it is accepted practice in the financial services industry. He justified his concealment and eventual fraud in the following manner:

... it is also thoroughly unprofessional to go back to the client, cap in hand, and admit to some crass mistake. So, for all these reasons, it was widespread practice to conjure up fictitious deals if an error took place, and then solve the problem internally. It happens every day in the brokering world. (Leeson, 1996: 44)

And finally, a more subtle type of rationalization was to reduce the impact of his fraud to a simple numbers game. In this way, Leeson did not have to weigh the moral significance of the losses he was causing since they were just abstract numbers on the computer screen: 'I turned off my Reuters screen and the green flickering screen died an instant quiet death. They were just numbers on a screen, nothing to do with real cash' (Leeson, 1996: 2). When the numbers started to move against him in such an unlucky manner, Leeson admits: 'I needed something, anything, to get me out, and morals no longer mattered' (Leeson, 1996: 177). Such abstraction is common in a profession such as stock trading. Leeson used it to justify his behaviour and

alleviate the guilt he might otherwise have experienced. Indeed, it is telling that when the Kobe earthquake struck, sending the stock prices tumbling, he makes little mention of the tragedy in human terms (5000 people died). The event was made sense of only in terms of its impact on stock prices. He even writes, 'given the circumstances of Lisa's miscarriage and the Kobe earthquake, it wasn't a bad weekend' (Leeson, 1996: 163).

Self-deception

In Chapter 3 we argued that another way in which corrupt actors might alleviate their moral compunction about the activities they were engaged in was through self-deception. This is where one lies not only to others, but also to oneself. We demonstrated the complex nature of this process, since some part of the actor's consciousness must know the truth in order for the lie to be defined a lie. There are two ways in which self-deception played a role in the corruption at Barings. Firstly, those around Leeson ought to have known something was wrong, but decided to believe the flimsy excuses he proffered. Leeson realized this and used it as much as he could:

As each day went on, and my requests continued to be met, the explanation dawned upon me: they wanted to believe it was all true. There was a howling discrepancy which would have been obvious to a child – the money they sent to Singapore was unaccounted for – but they wanted to believe otherwise because it made them feel richer. (Leeson, 1996: 160–1)

We suggest, secondly, that aspects of Leeson's narrative appear to indicate that he was self-deceived as well. There was his own willingness to ignore the kinds of losses he had generated. In some cases, he simply did not want to know, a sentiment similar to the chief executive officers (CEOs) who pleaded ignorance in the last chapter. Leeson admits at one point: 'I knew I'd lost millions of pounds, but didn't know exactly how many. I was too frightened to find out' (Leeson, 1996: 2). Perhaps more poignant are cases where Leeson apparently begins to believe his own hype. As Gapper and Denton (1996) put it: 'he started quietly and shyly, but he had come to behave as if he believed his own press' (Gapper and Denton, 1996: 251). A case in point is when Hoffman, an options and futures trader in Tokyo, was so impressed by Leeson's profits that he encouraged a separate profit and loss account specifically for Leeson so that his contribution could be more fully recognized. Of course, this would have brought Leeson unwanted scrutiny. But as Gapper and Denton (1996) explain:

. . . he knew it would be dangerous. If he was seen as a trader there was a much greater chance that someone would examine his books closely, and discover

what was really happening . . . Not long afterwards, temptation overcome him and he asked Hoffman to keep a separate spreadsheet of how much he contributed to the volatility and arbitrage books. (Gapper and Denton, 1996: 232)

It seems astounding that Leeson would invite such attention given his predicament. But he now partially believed in the star-like status he had so carefully cultivated within the Barings group (and beyond), to the point where part of him really believed he was generating amazing profits. Leeson concludes *Rogue Trader* with some exceptionally arrogant statements that blend both his penchant for blaming others (rationalization) and an exaggerated positive image of himself (self-deception). The rationale is fascinating in its simplicity, deflection and delusional self-aggrandizement. It is worth quoting at length to grasp the quality of his argument:

For the first time since my arrest, I realised that I was glad to have played my part in this fiasco rather than theirs. I was happier in my prison cell than they were, sitting at home nursing their credibility back to pieces and always knowing what their friends were saying behind their backs. . . . I could face all my family and friends and look them in the eye . . . They'd never be able to go to a single cocktail party without someone whispering behind their backs: 'That's Peter Norris . . . That's James Bax . . .' and they'd know that everyone thought they were stupid. (Leeson, 1996: 263)

This concluding diatribe puts the blame onto his superiors and portrays Leeson as some kind of dignified hero who has been the victim of a nefarious financial institution. In relishing in the bad fortunes of his superiors, given the disasters he had actually created, Leeson attempts to retain his own integrity above that of all the others involved in the Barings collapse.

5. ‘Bad barrel’ perspectives on corporate corruption

Until now we have focused on the agent who initiates the corrupt act with a degree of intention and foresight, for whatever reasons (greed, power, and so on). As we have mentioned in the previous chapters, this ‘folk’ approach to corruption is powerful since it posits individuals who can be made responsible for ‘corrupting’ the organization through their misdeeds. It also appeals to our imagination of the unethical wrongdoer. Our discussion of rationalization and self-deception, however, has muddied the waters slightly in the sense of showing how people may actively engage in forms of illegality whilst believing that they are acting ethically. In this and the following two chapters we turn our attention to the structural forces or pressures operating both inside and outside organizations involved in corrupt practices. The basic assumption in what follows is this: whilst people may engage in corruption for a whole host of reasons linked to their personalities, motivations and general ethical demeanour, it now appears that many actors in corrupt organizations might have been otherwise ‘good’ citizens. In other words, ethical people enter into unethical situations that lead them to participate in forms of illegality that they may otherwise have avoided. How does this happen?

Earlier in the book, we referred to King Oedipus, from the play *Oedipus Rex* by Sophocles, as an example of bad luck which led to a series of ‘evil’ acts. Indeed, perhaps it is through the story of Oedipus that we can most clearly demonstrate the strongest version of the ‘bad barrel’ approaches to organizational corruption. Oedipus was born to Laius and Jocasta, King and Queen of Thebes. But, as the Oracle at Delphi predicted that Laius was ‘doomed to perish by the hand of his own son’, Laius and Jocasta decided to expose the child ‘on Mount Cithaeron’. However, the shepherd who was to do so felt sorry for the child and gave it to another shepherd passing by on his way to Corinth. So it came to be that Oedipus was raised in the court of the King of Corinth, believing that he was the natural son of the King and Queen of Corinth, Polybus and Merope. However, when some suspicions about his parentage surfaced, he decided to ask the Delphic Oracle who his real parents were. Instead of answering the question, the Oracle told him that he would mate with his own mother and kill his father. Believing Polybus

and Merope to be his real parents, Oedipus left Corinth and wandered in the direction of Thebes. On his way he met Laius, had an argument with him, and killed him. Then he went on and solved the Sphinx's riddle: 'What is the creature that walks on four legs in the morning, two legs at noon and three legs in the evening?' Man, was the correct answer, which Oedipus provided, thus freeing the kingdom of Thebes from the Sphinx's curse. As a reward for this heroic act he was offered the hand of Queen Jocasta in marriage and the kingship of Thebes. Years later, when the play actually begins, we witness King Oedipus discovering all this as he is searching for the source of a plague that is seen as a result of an unclean act committed by someone in the city. At the end of the play he finds out that he was the source of this unclean act that had offended the gods. In remorse, Oedipus blinds himself and leaves Thebes in exile, in obedience to his own decree that he would exile the man responsible for the offence to the gods. Eventually, as we find out from another play by Sophocles, he finds refuge in Athens, where the mythical King Theseus allows him to settle and die in peace.

In this story Oedipus is the agent behind the most evil acts that ancient Greek society could imagine: patricide and incest. But was Oedipus inherently evil? From a 'bad barrel' approach he was very much innocent and did absolutely nothing wrong; he killed a man who tried to kill him (his father, but he did not know it at the time) and married a beautiful widow (his mother, but again he did not know that at the time). He did what any man would have done in his place, it was fate that pushed him to evil, there was nothing he could have done differently. This is the nature of tragedy. The moral often drawn from this story is that nobody is immune to becoming an agent of evil – in this sense, and somewhat paradoxically, there are no 'evil-doers' and no innocents: under the right conditions we all have the potential for evil. In other words, according to the strongest version of this line of reasoning, there are no bad individuals, just unfortunate ones who happened to find themselves in bad situations. All the best intentions could not have saved Oedipus, or anyone else who had found himself in his shoes. It is this tragic element that makes many of the revelations about those involved in the recent spate of corruption scandals so poignant. Many actors entered Enron and WorldCom as good corporate citizens, and were slowly but surely implicated into a system of corrupt practices that was difficult to escape. A whole set of processes were at work behind the backs of the agents themselves, incorporating them into the fraud and financial misrepresentation. Indeed, Keane (1993) nicely frames the kind of analytical level we are pursuing in the following argument:

Just over forty years ago, ground-breaking work by Sutherland (1949) focused attention on corporate crime. His research informed us that corporate offenses

cannot be explained by individual pathology, and that any search for the causes of corporate crime should begin with an examination of the context wherein most corporate crimes occur – the organization. (Keane, 1993: 293)

Of course one could argue that Oedipus did not know a very important piece of information (who his father and mother really were) and that is why he ended up acting as he did, whereas this is not the case in many instances where individuals perform evil or corrupt acts. But a stream of very influential and disturbing psychological experiments has shown that random individuals are capable of performing the cruellest acts, when any reasonable outsider can clearly see that they should have known better. For example, Milgram (1974) in his famous obedience experiments found that randomly chosen individuals, both college students and blue-collar workers, assured by a white-jacketed scientist that they were serving science, were willing to inflict obviously lethal electric shocks to others. Whereas Zimbardo (2007), mentioned in a previous chapter, in his famous Stanford experiments found that randomly chosen college students turned into sadistic guards in less than a week, just by being asked to play the role of the guard in a hypothetical jail. It was the roles that were the carriers of grievously unethical conduct rather than the individuals themselves. Therefore, the fact that one should have known better does not carry as much weight as we might have expected, and it would not be an exaggeration to say that the subjects of the Milgram and Stanford experiments were not much more in control of their fate than Oedipus was.

In short, to paraphrase Bass et al. (1998: 14), the ‘bad barrel’ approach states that one can attribute individual organizational behaviour to the characteristics of the situation in which the individuals found themselves. Contrary to the ‘bad apple’ approach to wrongdoing, the underlying assumption here is that most individuals are not inherently good and not inherently evil, but have the potential for both, and under the right circumstances this potential materializes. Does this mean that anyone under the right circumstances can turn into an Eichmann? With reference to our analysis of Arendt’s (1963) study of Eichmann in the previous chapters, a particularly disturbing thought experiment is the following: we are informed in Arendt’s (1963) book that prior to his joining the Nazi Party Eichmann was a shoe salesman. One can imagine a counterfactual scenario where he remained a shoe salesman all his life and never joined the Nazi Party. Does this mean that he would have never turned into the monster that sent millions to their deaths? Or does it mean that the monster would have been there all the time, hiding in the friendly shoe salesman? It certainly makes one apprehensive when buying shoes, as well as when involved in most other mundane interactions with other human beings. The ‘bad apple’ approach,

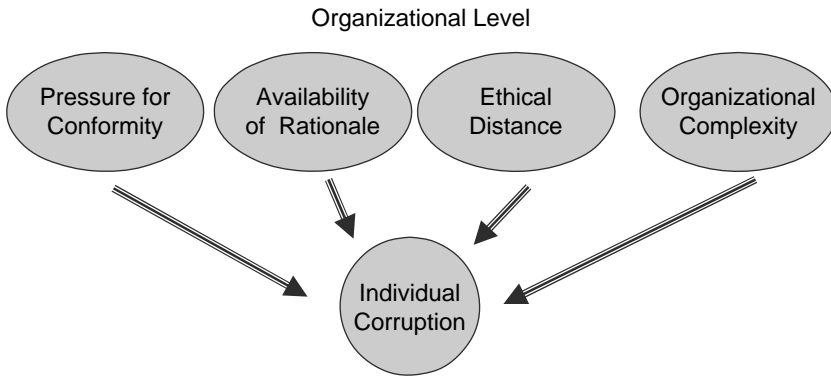


Figure 5.1 Organization-level factors influencing individual corruption

in its strongest version, would tend to say that Eichmann would have been Eichmann even if he had remained a shoe salesman all his life. Whereas on the contrary the ‘bad barrel’ approach, in its strongest version, would tend to say that he would have remained a shoe salesman, end of story. Of course, as we have argued earlier on, both are rather simplified extremes that miss the complexities and the dynamics between character and circumstance.

In this chapter, we will explore four factors that seem to ‘push’ individuals towards corrupt acts, from minor transgressions to major crimes, when they find themselves in the right environment. These factors, exemplifying the ‘bad barrel’ approach to corruption (by taking advantage of certain predispositions that we all seem to share) tend to diminish personal responsibility in that individuals seem not to be able to act otherwise, and at times can be seen to be as helpless as Oedipus. These factors are: (1) conformity; (2) available rationalizations; (3) ethical distance; and (4) organizational complexity (see Figure 5.1). After discussing the importance of these structural factors for organizational corruption, we will get back to the limitations and potential insights of this perspective, before proceeding to the next level of analysis, the pressures towards corruption at the organizational level.

CONFORMITY

... far more, and far more hideous, crimes have been committed in the name of obedience than have ever been committed in the name of rebellion. (Snow, 1961)

The ‘I was just following orders’ excuse has been used too many times – even once would be once too many – in the history of mankind as an excuse

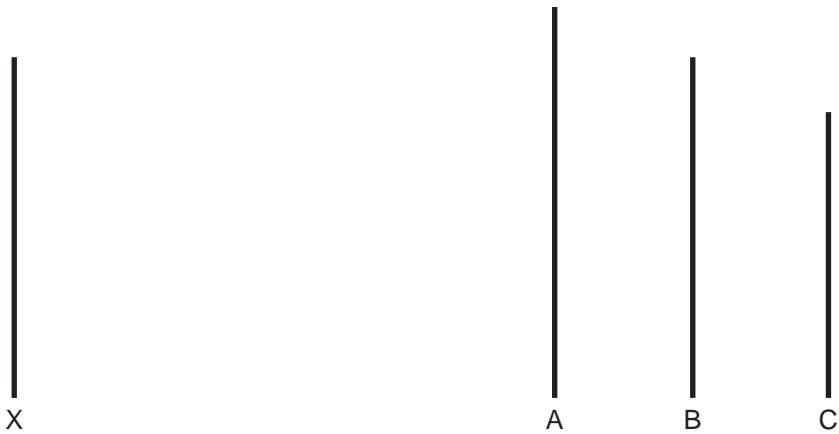


Figure 5.2 *Ash's lines*

for most crimes. At one level, this fact is most counter-intuitive since most of us believe ourselves to be independent-minded individuals, who would critically evaluate what we are asked to do. We would not inflict lethal levels of electric shocks to helpless victims for the sake of science, neither would we turn into sadistic guards just because we were given a uniform and the power to inflict pain. So who are those people who did inflict the lethal shocks in Milgram's experiments? If we all believe ourselves to be independent-minded, critical adults, then who are those conformists? According to *Zimbardo (2007)*, these individuals are us, and it is no wonder, given the power of certain circumstances, that even the most critical and independently minded among us will often succumb to the force of the situation.

It is a well-known fact that we act very differently in groups than we do as individuals. When we enter a group, we tend to take more risks, be more willing to hold the group's views even if they directly contradict our own, and are likely to suspend individual moral judgements in favour of those made by the group. In 1951, Solomon Ash performed a social psychology experiment that has ever since become a classic in the field of social psychology in illustrating the importance of group pressure in individual decision-making (Ash, 1951, 1956). Ash arranged student volunteers in groups of four, showed them the following lines (see Figure 5.2), and asked them which line from the choice on the right (A, B, C) is closest in length to the line on the left (X). Obviously, the correct answer is line B, but three out of the four participants had been instructed by Ash to identify line A as the one closest in length to line X, so when the turn of the fourth participant,

who was the only real subject of the experiment, came, they were faced with a situation where their senses contradicted the judgements of all of their peers. The subject then faced two options, to go with his or her senses or to go with what he or she thought was the expectation of his or her peers.

As Aronson (2004:17) put it: 'the task was so easy, and physical reality was so clear-cut, that Ash himself firmly believed that there would be little, if any yielding to group pressure'. However, this was not the case. Ash, to his surprise, found that about three-quarters of the participants conformed to their group's opinions at least once, even though it was blatantly obvious that the group's opinion was wrong; or in other words on average 35 per cent of all responses conformed to obviously incorrect judgements. Of course one could argue that those results had something to do with the particular population from which Ash chose his subjects, or the method he used. But the experiment itself and other similar ones have been repeated again and again in different settings and cultures, with the same surprising results (Deutsch and Gerad, 1955; Wolosin et al., 1975).

Again, this confirms Zimbardo's (2007) argument that the answer to the question 'Who are those conformists?' seems to be 'We are'. There are many reasons why we are likely to conform to the group's opinion, even if it directly contradicts our own. For example, we all want to be liked and admired by others. As a result we are sometimes unwilling to go against the group since this might result in being ostracized, being viewed in a negative light or having the legitimacy of our character challenged. Others have argued that there is a kind of pleasure involved in conforming to the demands of the group – to be an individual takes effort and risk, whereas in the group we can relinquish the existential anxieties that arise from being alone and having to choose our own path. This is what Fromm (1942) calls the 'fear of freedom'. A classic instance of conformity occurs in bureaucratic organizations apropos authority. As Max Weber (1948) argued, one of the key functions of the bureaucratic office is the execution and acceptance of authority relations – if someone gives an order, we are bound to follow it.

But what happens when those orders are patently unethical or corrupt? Take for example this scenario: having worked hard to gain employment in a management consultancy firm, David is asked by his direct superior to 'adjust' certain figures in order to make a report more palatable to the auditors who are arriving the following day. Let us think about the thought processes that David might follow – he has worked hard to land this job, his boss is experienced and very authoritative in his role. He wants to make a good impression, and avoid a negative appraisal from his boss (and peers). Most importantly, his superior has given him a direct order that he is loath to disobey. Many of us simply want to 'get along' in our work environments, and thus it is difficult to 'go against the grain', which

means that many of us would also engage in various types of wrongdoing as a result. Our individual values and ethics can thus be suspended by the power of obedient conformity. Indeed, as Jackall (1988) noted an ex-vice-president of a large investment bank to declare: 'What is right in the corporation is not what is right in a man's home or in his church. What is right in the corporation is what the guy above you wants from you. That's what morality is in the corporation' (Jackall, 1988). For example in one instance of the WorldCom saga, the board of directors of WorldCom approved a request that should have been categorically denied, the reason according to Haddad (2002) being that Bernie Ebbers won their devotion with numerous perks (cited in Zecany et al., 2004).

If we are so susceptible to peer pressure when the physical, directly perceived reality is so clear, as in the case of the Ash experiments, how much more would we be prone to peer pressure, under stress, when it relates to a reality that is largely socially constructed, indirectly perceived (or even deduced) and uncertain most of the time? That is to say, if people are willing to conform to group pressure when faced with a physical, undisputed reality, how much more willing would they be to adopt vague accounting principles, especially since not adopting them could really make them suffer negative financial consequences? For example in the WorldCom case, Sullivan, WorldCom's CFO at the time of the scandal, developed an elaborate rationale that argued that this method of reporting would allow the company to 'have the ability to enter the market quickly, and offer the best network to our customers with very little provisioning time' (Sullivan, 2002). However, what the practices adopted allowed WorldCom to do was 'capitalize "line costs" as "prepaid capacity"' (Zecany et al., 2004: 111), thus turning its costs into assets and producing the spectacular financial results which the stock market expected. The interesting point here is that these highly irregular practices, breaking with the most basic accounting principles, were widely adopted with only minor questioning in the corporation (Jeter, 2003). For example, some employees did feel uncomfortable with the new practices and one even said that he saw no logic behind it, but nobody did anything to stop it since that would involve disobeying an authorized accounting protocol (Beresford et al., 2003; Zecany et al., 2004).

As Simpson (2002) puts it in relation to corruption in General Electric, the intersection of authority and conformity is a powerful recipe for normalizing illegal and corrupt behaviour. Accordingly, we must be cognizant of the ways in which

... organizations can facilitate wrong doing even when officers follow standard organizational practice or, indeed, formalized procedures. In the first case, organizational culture intervenes to establish parameters of acceptable and

unacceptable conduct. While agents may understand that they are 'technically' violating the law, the culture of the organization nullifies the significance of the illegality. Geis's General Electric price-fixers, for instance, reflected that, although they knew price fixing was wrong, their acts did not – in their minds – constitute a criminal act. (Simpson, 2002: 54)

Of course this unquestioned acceptance of price-fixing at General Electric seems much less surprising in light of the Ash experiment. The most interesting facet of the experiment was not the people who conformed to the group (while secretly knowing that the group was wrong and they were right), but those who reported afterwards that they actually believed line A was the correct one. In other words, social pressure literally changed the way they viewed the world. This aspect of the conformity experience perhaps explains why the absolutely bizarre 'mark-to-market' accounting technique (posting forecasted and somewhat optimistic potential profits on the present balance sheet as an immediate credit) was seen to be rational by many involved.

In spite of what we tell ourselves every day, no matter how hard-wired we are to conform to our peers' expectations, there is more to the 'bad barrel' approach to corruption than conformity. After all, in the Ash experiment about only a third of the participants conformed to peer pressure, whereas in the corruption cases that we witnessed in the recent years, only one or two whistleblowers emerged out of a much larger population. Other factors must have been present.

AVAILABILITY OF RATIONALIZATIONS

In his bestseller *Guns, Germs, and Steel* (1997) Jared Diamond argues that one of the reasons why Europeans advanced technologically a lot more than other civilizations was the fact that they were divided into many kingdoms, were in constant conflict with each other, and could therefore see (and feel) each others' inventions. And even if they did not know how a particular invention functioned, just the knowledge that it was possible at all allowed imitators to pursue it since they were certain that it was possible, given that others had achieved it. The environment crafted a horizon of what was and was not possible. It is in a similar manner, we argue, that while most of us have the potential for rationalization and self-deception even if we are isolated (as we discussed in Chapter 3) it is our environment that provides the desired scripts, stories and cues for such rationalizations. We do not build justifications for our ethical conduct from scratch, but draw on available scripts which are tried and tested by others, and carry a degree of legitimacy (Gioia, 1992).

The fact that individuals tend to take clues on how to act from their environment and how other people in it act, has been shown repeatedly in numerous psychological experiments (Aronson, 2004). For example, in studying the bystander effect – where individuals in a group observing a person needing help remain passive and do not help – researchers found that individuals commonly fail to offer assistance because they take their hints from the others in the group (Darley and Latane, 1968; Latane and Nida, 1981). Bystanders develop an internal reasoning rationale something along the lines of: ‘If this was really an emergency somebody from all these people would have done something. Therefore I will stay put.’

Putting together the tendency of people to take hints from their environment and the amazing capacity of individuals for rationalization and self-deception, as we discussed in more detail in Chapter 3, the organizational environment only needs to provide them with a template for the rationale in order for it to be enacted. From a ‘bad barrel’ perspective, then, the environment might trigger the pre-existing predisposition of individuals to rationalize by providing them with justifications that allow them to ‘cover up’ their need to conform, even if this cover-up is aimed only at themselves.

In an extensive study on trust violators – individuals with no criminal background who violated a position of trust and absconded with funds entrusted to them – Cressey (1953) found that one of the preconditions was the provision by their environment of a rationalization that they could use to justify their corrupt activity. According to Cressey (1953: 121): ‘by using the rationalization that they are borrowing, trust violators are able to remain in full contact with the values and ideals of former and present associates who condemn crime’. In other words, trust violators did not come up with the rationalization themselves, but found it in their environment and used it. This environmental provision of the rationale that individuals can use to justify their acts is not independent from the language in which these rationales are embedded. According to Bandura (1990: 31):

Language shapes people’s thought patterns, on which they base many of their actions. Activities can take on a very different appearance depending on what they are called. Euphemistic language thus provides a convenient device for masking reprehensible activities or even conferring a respectable status upon them. Through convoluted verbiage, destructive conduct is made benign and those who engage in it are relieved of a sense of personal agency. (Bandura, 1990: 31)

In other words, through the invention of a neutral or an ambiguous word to name a reprehensible act, euphemistic language can be a significant facilitator for corruption as it allows the individuals involved to rationalize

away their corrupt actions: 'It is not that old corrupt activity we used to call X, it is this new activity we call Y.' Thus, 'murder' becomes 'collateral damage', 'kidnapping' becomes 'extraordinary rendition', and in the WorldCom case, 'higher costs' becomes 'capitalizing excess capacity'. Agency is obviously still a feature in rationalization – as we argued in Chapter 3 – but rationalization is made more likely in environments that supply the adequate language or 'scripts' (Gioia, 1992) for the expression of such agency.

ETHICAL DISTANCE

As I write, highly civilized human beings are flying overhead, trying to kill me. They do not feel any enmity against me as an individual, nor I against them. They are 'only doing their duty' . . . Most of them, I have no doubt, are kind-hearted law-abiding men who would never dream of committing murder in private life. On the other hand, if one of them succeeds in blowing me to pieces with a well-placed bomb, he will never sleep any the worse for it. He is serving his country, which has the power to absolve him from evil. (Orwell, 1982 [1941]: 7)

It is a well-established finding of social psychology that distance 'allows' individuals to perform acts that they would most of the time consider to be unethical or even criminal in proximity to other individuals. For example, one of the most controversial and disturbing findings of the Milgram (1974) experiments was that the subjects instructed to inflict the electric shocks to the supposedly 'learners' were more likely to follow the order and deliver the electric shock the more concealed the victim was. In other words, according to Milgram 'obedience was significantly reduced as the victim was rendered more immediate to the subject' (1974: 35–6). This disturbing finding has been reconfirmed repeatedly. For example, among the Gestapo officers in Auschwitz, the most undesirable job was the selection of who from the new arrivals was to be killed, because it was the job that required the greatest proximity to their victims. Bauman (1991) captured this best when he wrote:

Being inextricably tied to human proximity, morality seems to conform to the law of optical perspective. It looms large and thick close to the eye. With the growth of distance, responsibility for the other shrivels, moral dimensions of the object blur, till both reach the vanishing point and disappear from view. (Bauman, 1991: 192)

Therefore, since individuals find it easier to perform cruel or corrupt acts when their victims are far away, from a 'bad barrel' perspective individuals

might be made to perform unethical or corrupt acts if they are somehow shielded from the consequences of their actions.

As Bauman (1991) commented with relation to the vast bureaucratic structure – staffed by normal citizens – that supported and made the Holocaust possible: ‘once isolated from their distant consequences, most functionally specialized acts either pass moral test easily, or are morally indifferent’ (1991: 10). He argued that the Holocaust was possible to a large extent because it was ‘broken down’ into very specialized acts, which anyone could perform; most of which, taken in isolation, were morally neutral. And, from a ‘bad barrel’ perspective, this social production of distance that most bureaucratic organizations are uniquely equipped to achieve weakens or even annuls individual moral responsibility (Bauman, 1991: 199). In other words, bureaucratic organizations ‘break down’ morally reprehensible acts so that only a few individuals actually know what the end result is; all others are shielded from the unsavoury consequences of their actions. An example popular in the 1960s was the technician who made rivets – a seemingly innocuous role – but those rivets were passed through a chain that distanced the technician from the final outcome: the rivets were used to fasten metal panels which were used to manufacture missiles, that delivered the napalm that killed children and citizens in a faraway South-East Asian land.

In a recent article, we refer to this distance between an act and its moral consequences as ‘ethical distance’ (Zyglidopoulos and Fleming, 2008), and argue that it can function as an important catalyst for the progression of individuals from innocent bystanders to guilty perpetrators. Moreover, we identify two kinds of ethical distance that have played an important role in the recent business scandals: temporal distance and structural distance. Temporal ethical distance, we say, is characterized by ‘how far into the future the consequences of one’s acts are’ (2008: 269), whereas structural distance is characterized by ‘ways in which complex organizations remove individuals from the dubious end-result of their deeds’ (ibid), a construct based on and very similar to the notion of social distance that Bauman (1991) referred to.

It seems that both temporal and structural distances played a significant role in the recent scandals, as both made it easier for individuals to get involved in one way or another in the ongoing corrupt activities of the business organization. For example, in the Enron case, a few traders made extremely optimistic projections for prices up to 20 years into the future. These projections enabled them to benefit in the present through a bonus scheme that rewarded them now for company profits that were supposed to materialize 20 years hence (McLean and Elkind, 2003). According to Kramer and Messick (1996: 76): ‘the temporal frames

used to evaluate choice in organizational dilemmas are often relatively myopic. Because of discounting the shadow of the near future looms larger than that of the distant future.' Moreover, structural distance played a significant role in getting individuals caught up in and contributing towards corrupt organizational activities, for many reasons including the fact that it was much easier for them to rationalize the limited nature of contributions towards an act, the consequences of which were so far away from them. In other words, both temporal and structural distance facilitates rationalization and enables individuals to use the various rationales they pick from their organizational environment. For example in the WorldCom case most of the participants knew that the company was in trouble, but nevertheless considered their contribution to the whole affair as negligible.

According to Vaughn (1990), specialization and departmentalization make it easier for individuals to participate in dubious activities. And as we have argued (Zyglidopoulos and Fleming, 2008), following Bauman's (1991) conceptualization, it was the structural distance created through the specialization and departmentalization of activities in complex organizations like Enron and WorldCom that made it easier for individuals to get involved, which brings us to the next factor contributing to a 'bad barrel' perspective of corruption, complexity.

ORGANIZATIONAL COMPLEXITY

We understand organizational complexity as referring to the degrees of differentiation and specialization within an organization with respect to profession, task, information access, technology and so forth (Khandwalla, 1977; Perrow, 1984; Dooley and Van de Ven, 1999; Thompson, 1967). Organizational complexity does not contribute directly to the diminishing of personal responsibility that individuals seem to suffer in corrupt environments; but indirectly, through influencing the above three factors, organizational complexity amplifies their impact. In other words, organizational complexity encourages conformity, increases the impact and likelihood of rationalization, and creates ethical distance.

First, organizational complexity has an impact on the level of conformity that organizational members might feel obliged to show towards their group. Kelman (1961) identified three types of conformity: compliance, identification and internalization; with compliance referring to the display of conformity by an individual because he or she 'is motivated by a desire to gain reward or avoid punishment' (Aronson, 2004: 29), identification referring to the display of conformity because the individual

desires to be like the groups of people he or she is influenced by, and internalization – the strongest form of the three types of conformity – where people conform because they share the group's beliefs and want to comply. Now, while the first type of conformity is quite common in business organizations, and we have seen many examples of individuals who conformed with the corrupt status quo because they were afraid they would lose their jobs, would be disliked by their peers and so on, it is not influenced by organizational complexity. Organizational complexity has, though, a significant impact on the other two kinds of conformity.

According to Aronson (2004), group identification increases the more 'the members (individually or collectively) are comparable to the individual in some way' (2004: 21). And, since an important element of organizational complexity is specialization, which results in the creation of homogeneous groups of employees, it is reasonable to expect that organizational complexity would lead to increased conformity to the group. Of course, this conformity is not counterproductive in most cases, but when we are talking about a 'bad barrel' scenario, then conformity becomes destructive conformity (Warren, 2003). In a similar manner organizational complexity through specialization can lead to a groupthink phenomenon, where according to Janis (1972), 'groupthink stands for an excessive form of concurrence-seeking among members of high prestige, tightly knit policy-making groups' (Hart, 1991: 247). Or, in other words, in groupthink individuals tend to share the same values, forget all doubts and go off the cliff together. Of course, groupthink phenomena can occur in any organization, but in cases where the group we are talking about is particularly homogeneous, something that is facilitated by organizational complexity and specialization, the probabilities increase significantly.

Second, organizational complexity increases the credibility of the various rationalizations that might be circulating in any given organizational environment. In Chapter 2 we enumerated the six common rationalizations identified by Anand et al. (2004), including denial of responsibility, denial of injury and denial of victim. We suggest that some of these will certainly be more credible within a complex organizational environment. Starting with denial of responsibility, we can see that in a complex organizational environment shifting responsibility to someone else – superior or subordinate – is much easier, and therefore the credibility of such a rationalization is higher. This means a rationalization might more likely be used by individuals wishing to absolve themselves of any responsibility. Denial of injury and victim are also more credible in a complex organizational environment, as the path between action and consequence is not as clear and quite often extensive – ethical distance is greater.

Third, it seems that organizational complexity has a positive impact on ethical distance, which as we discussed earlier, reduces the personal responsibility that individuals feel and enables them to perform acts that they would otherwise have considered corrupt or even criminal. Elliot and Schroth (2002) refer to this phenomenon as the 'fog of complexity', which not only provides hiding places (Vaughn, 1990) that increase the structural distance between action and consequence, but also makes the actions of individuals ethically meaningless by breaking them down into simple and apparently unrelated activities. Enron provides a very good illustration of how complexity amplified corruption through increasing the ethical distance between action and consequence. The Byzantine off-balance-sheet system allowed Enron not only to avoid reporting its losses, by pushing the problem into the future, but it also baffled anybody who tried to read and understand Enron's financial statements (McLean and Elkind, 2003).

HOW DO BAD BARRELS WORK?

Having so far identified four factors that make up a 'bad barrel' perspective, can we develop a coherent picture in which they might interact with one another and transform an average individual into a corrupt Oedipus? One of the most important factors that drives a 'bad barrel' corporate environment is time. That is to say, many innocent and relatively ethical men and women might enter Enron or some other corrupt corporation, and over time find themselves becoming more and more implicated in illegal practices. How does this process work?

Smeulers (2002) identified a four-stage initiation programme that turned individuals into torturers in South America, and following his argument, we can say that a similar stage-by-stage scenario can be seen in the Enron case. First, according to Smeulers the recruits were immersed in the organization and its values. In a similar manner, we can see in the Enron case how individual traders and managers were all immersed into the ideology that Lay and Skilling proposed, and how they were brainwashed into believing that they were part of something new and exciting. In other words, in this phase the traders were provided with some very important rationalizations in the name of which they would lie and steal later on. This also follows the process of normalization in which corrupt activities are seen to be legitimate and common among a significant peer and authority group (Ashforth and Anand, 2003). The second phase in the Smeulers initiation programme comes when the individuals are placed in an environment of criminality for the first time, doing something not criminal in itself but contributing somehow to a criminal activity (such as feeding the prisoner).

In the Enron case, this phase came when a trader was placed with a team of traders who robbed the bank, but was not yet asked to participate in the robbery. In this phase, conformity would kick in and make them want to be like the few successful, corrupt ones, given the money they made, the prestige they received, that the new traders would identify with them, and that they would already have some powerful rationalizations in their arsenal to avoid seeing themselves as criminals.

The next phase Smeulers called 'crossing the line', and it involved the actual performance of a criminal act, often accompanied by an initial response of repulsion. In the Enron case, this phase would involve actual lying or stealing through deceptive projections, and while such an act might 'smell bad at first' (as one trader vividly put it), the new traders had a lot of reasons to avoid the smell: they were benefiting personally, they were imitating people they had been brainwashed into admiring, they could not see very clearly the consequences of their actions, they had some powerful rationalizations as to why what they did was not wrong, and had maybe come up with more new ones. So, moving into the final phase of Smeulers's programme, the individual torturers got used to what they were doing, focused on their job and did not ask any 'irrational' questions about morality and so on. Indeed, as Kelman and Hamilton (1989) put it, repetition and routinization were very important during this phase, because they minimized 'the occasions in which moral questions may arise' (1989: 128). Or, as an Enron trader said: 'You did it once, it smelled bad . . . You did it again, it didn't smell as bad' (McLean and Elkind, 2003: 128).

CONCLUSION

Can we conclude from the above discussion that the employees of corrupt organizations are malleable, agent-less individuals caught in the whims of fate, just like Oedipus? The answer is of course no, in spite of all the factors we mentioned above, which truly diminish individual agency in many instances. No matter how much the above factors contribute towards absolving the responsibility of the individual (or mitigate his or her agency), individuals involved in the recent business scandals could never reach the extreme case of Oedipus in which complete ignorance underlay the protagonist's actions. We suggest that agency must still figure as an important element of the corrupt act – in the Arendtian sense that no matter what the situation, one can always act otherwise. Thus, in the context of the preceding analysis that plausibly demonstrates how good people can commit bad deeds, the only reasonable conclusion can be that it is an interaction between 'bad apples' and 'bad barrels' that create the

conditions in which the recent scandals we have witnessed could unfold. We will discuss in more detail in Chapter 8 of this book how this interaction of the two perspectives allows us to get a better understanding of the escalation of the corruption. But before we proceed in this, we argue that the structural approach to corruption can yield insights from a broader point of view – that of the business environment creating pressures whereby organizations as a whole turn to corrupt practices.

In this chapter we have focused on how the organizational milieu might transform otherwise decent corporate citizens into corrupt actors. We now turn our attention to the way in which the business environment as a whole might transform decent organizations into corrupt institutions. Let us assume for argument's sake that the individuals involved in these recent scandals were not to blame and that they just found themselves caught up in the wrong barrel, the wrong organization at the wrong time. Then, by applying the 'bad apples–bad barrels' rationale at the organizational level of analysis, we can ask the same kind of questions about business organizations that we asked about individuals earlier on. Was it a few business organizations that went bad? Or was it that our economic system pushed these organizations into corruption? Indeed, this question is especially salient since most publicly traded business organizations face a tremendous amount of pressure to perform financially. We discuss this issue in the next chapter.

6. Environmental pressures towards corruption

When Socrates discusses the nature of justice in Plato's *Republic*, he often moves from the individual to the city-state and back, because he believes that the constitution of justice at the level of the city-state and the constitution of justice at the level of the individual soul are very much alike. In this chapter, in addressing the ways in which corruption might be born from forces 'outside' the quintessential bad-traited individual, we take a similar approach. With respect to corruption in most of its forms – including bribery, financial misrepresentation and the falsification of safety reports to name just a few – organizations become corrupt when they are framed by forces that are analogous to the ones operating at the organizational level of analysis. In this chapter we argue that in order to understand how and why corruption is manifested we need to broaden the view and identify the constitutive pressures that make a bad barrel – in particular we are concerned with the forces that operate at the level of the financial system in which a firm does its business.

We see this chapter as an extension of the 'structure' argument made in the previous chapter on the internal organizational form. In Chapter 5 we identified four factors which we said constitutes the 'bad barrel' approach to corruption, and argued that when these factors exist within an organizational structure they take advantage of certain human predispositions and push individuals towards corrupt activities. In this chapter, taking a similar approach but moving up one level of analysis, we shall argue that certain factors which exist within the environments of business organizations take advantage of certain predispositions that corporations have, to push them towards corrupt activities. In other words, we argue that the 'bad barrel' approach can give us some significant insights not only for individuals functioning within a given business organization, but also for a corporation's functioning within our financial system. In this sense, this chapter takes us far away from the individual- and agency-focused analysis that we developed in the first few chapters. The forces that we suggest are of most importance are: (1) the pressure for financial performance; (2) short-termism; (3) financial distance; and (4) the complexity of the financial system; factors which in some sense mirror the ones we

discussed in Chapter 5, which we said operate at the organizational level of analysis.

The emphasis in this chapter is on the Anglo-American business environment that we discussed in Chapter 1. It can be recalled here that this kind of capitalism must be distinguished from that operating in continental Europe (often referred to as the 'Rhenish' model of capitalism). We focus on this type of capitalism and corporate form since it has come in for the most criticism regarding the environmental pressures that it has created as a major temptation to engage in corrupt activities (Matten and Crane, 2007). Market capitalism rather than networks dominates this approach, and ownership is dispersed among a variety of shareholders, characterized by frequent changes in the ownership structure via mergers, acquisitions and hostile takeovers. What is most important for us in this type of capitalism is the pressure to log ever greater financial performances – this leads to a particular kind of governance structure almost entirely driven by the power of 'the number' as one commentator put it (Berenson, 2003). The manager's performance criteria are thus pegged to this singular drive. Ashforth et al. (2008) put this argument in a way that links the international features of an organization and the external pressure to perform financially:

Organizational cultures evolve norms that guide employee practice. If those norms and practices operate mainly to serve the competitive interests of a company in an unbridled drive for profits at any cost, they run the risk of shouldering aside other norms that might serve the interest of other stakeholders, including those of the larger society. (Ashforth et al., 2008: 673)

Before we explore the exact dimensions of these pressures, we must add a caveat that reflects the insights of chapters 2, 3 and 4 apropos agency. It is not the aim of this chapter to justify corruption by absolving responsibility. As the Arendtian discussion indicated in the first chapter, no matter how great the power of the situation and its temptations to engage in obviously illegal or ethically dubious behaviour, there is always choice – in other words, one could always act otherwise. Moreover, it must be pointed out that the 'environmental pressures made me do it' argument patently underlies some rationalizations of corrupt activity. In the case of Enron, for example, the criminal court hearings of some of the key perpetrators revealed an attempt to rationalize their activity: 'I did it because I had no choice and was simply attempting to save the firm.' We also saw this type of rationale in the confessions of Nick Leeson discussed earlier in the book. In this chapter, we aim to explore the pressures of the financial business environment from a more sociological perspective that hopefully avoids the emotive (and often far-fetched) justifications that are used to absolve

the responsibility of one's choices. The question underlying this chapter is this: what are the environmental forces that make the choice to engage in corrupt practices more likely if the internal structure of the firm is poised in a receptive manner?

PRESSURE FOR FINANCIAL PERFORMANCE

It was only in the post-Enron era, in which so many companies collapsed after having seriously misrepresented their financial situation, that the pressures to post ever greater returns became patently evident (Mills, 2002). For many publicly listed firms, the quarterly earning report became the sole focus of their operations – and given the power of shareholder capitalism in which managers' careers are dependent on such figures, it is easy to see why some organizations decided to cut corners and engage in criminal acts of fraud. In relation to Enron, the whole culture was permeated by this drive, making for a very fear-driven and overtly risk-taking business model:

. . . if you are promising Wall Street that your earnings will increase at a 15 percent annual clip, well, soon enough you're on a treadmill that becomes faster and steeper as the company gets bigger. (McLean and Elkind, 2003: 41)

The financial pressure to engage in acts of corruption can take a number of forms and is linked to the rise and fall of the economy. Take the automobile industry, for example. In the period 1965–72, the average return on equity of the 12 largest automobile manufacturers was about 10 per cent, whereas during the 1993–2003 period it fell to about 4.5 per cent and in 2005 the world's 34 largest car manufacturers earned on average a net margin of 2.1 per cent (Grant, 2008). Some of the reasons behind this decline in profitability are, according to Grant (2008), internationalization, market saturation and increased product development costs. Internationalization made it possible for most of the world's automobile manufacturers to compete in each other's countries, with the result that the number of competitors in most developed countries increased substantially. This increase in the number of competitors, coupled with the increasing maturity of the automobile markets in all developed countries, and the technological developments demanding higher and higher product development costs, have made the situation too competitive for any significant financial returns to be achieved by most automobile companies. Of course the developing countries do not show the same levels of maturity in their automobile markets, but the lack of substantial purchasing

power of the consumers in these countries, coupled with the fact that all automobile manufacturers are trying to enter these markets in one way or another, does not promise any substantial financial returns in the near future. It would be fair to say that while in developed markets overcapacity, market maturity and internationalization have made high profits and high growth rates a past dream, in developing ones the lack of significant purchasing power makes profits a dream. Such an environment provides the conditions in which it is easier to 'cook the books' and develop methods for posting profits in order to meet the demands of shareholders and the market. Moreover, it is clear from the Ford Pinto case (see Gioia, 1992) in which a dwindling market put immense pressure on the firm to maintain its profit margins, that financial pressure may see firms compromising consumer safety, often with disastrous results.

And of course, this situation is not limited to the automobile industry. A great number of industries are facing similar conditions, which have been intensified even more post 2000 by the China phenomenon. Engardio et al. (2004: 102), in their *Business Week* feature, describe this development quite accurately:

'The China price.' They are the three scariest words in US industry. In general, it means 30% to 50% less than what US companies can possibly make something for in the US. In the worst cases, it means below the cost of materials. Makers of apparel, footwear, electric appliances, and plastics products, which have been shutting US factories for decades, know well the futility of trying to match the China price. (Engardio et al., 2004)

However, this intensification of competition has taken place in an environment where the demands for financial returns have not reduced, but on the contrary have increased, given the ease with which capital can flow from industry to industry. Corporations are therefore caught in a situation where on the one hand the demands on them for profitability are the same, if not higher, and on the other the increased levels of competition at a global level limit their potential rates of return. One solution is innovation: new products have higher margins, higher growth rates, reduced competitive conditions, and China cannot produce them yet; another is cheating. Not surprisingly, many researchers have hypothesized and found evidence (Asch and Seneca, 1976; Baucus, 1994; Baucus and Near, 1991) that 'lower industry profitability is associated with greater corporate illegality' (McKendall and Wagner, 1997: 626).

In other words, many corporations operating under increasingly competitive conditions and finding it harder and harder to satisfy Wall Street's performance demands are given a motive to cheat. Of course, one could say that these corporations could or should have the maturity to say something

along the lines of: 'We are in a mature industry. This is the best we can do.' But such a position is fundamentally at odds with two very powerful predispositions of the corporation – profit and growth. Corporations are designed to be profit-making machines that work under competitive conditions and cannot easily come to terms with concepts like 'enough'. They are designed in such a way as to struggle and find ways to outperform each other, and some will be tempted to break the rules. Couple this demand with the Anglo-American governance structure of the firm, and it is hardly surprising that we have seen the emergence of so many corruption scandals over the last few years. In a corporate environment in which, to paraphrase Milton Friedman (1970), the only responsibility of the firm is to generate profits for its shareholders, then any means necessary will be considered, and the rules are likely to be broken.

Chief executive officers (CEOs) are addicted to growth for two reasons, one financial, and one psychological. According to the latest meta-analysis of pay studies, by Tosi et al. (2000), firm size appears to be the best predictor of CEO pay, accounting for about eight times more variance than corporate performance. Therefore, it makes perfect sense for a CEO to pursue, or show that his or her company pursues, growth strategies, even if such growth opportunities are limited. Moreover, CEOs are very driven individuals, often with very inflated egos, who see their job as an opportunity for empire building; William D. McGuire, CEO of Kaleida Health, commented about his peers, on the topic of preventing unnecessary corporate growth: 'an awful lot of the obstacle is CEO ego. We're kingdom builders as a group' (Poses, 2007). This is a good example of the ways in which certain character traits discussed in chapters 3 and 5, exploring agency and the pressures of the social system, may mix in a manner that results in actors engaging in corruption. This point is made in relation to Arthur Andersen's path into criminality by Ashforth et al. (2008). They argue that senior managers of the firm were translating the pressures of the environment into directives that led the firm to help Enron 'cook the books':

Management's message to employees might have been implicit, but it was also clear: do anything necessary to ensure clients' return of consulting business and retain revenue flow, even if it means padding prices or creating problems for those clients . . . The Andersen example is consistent with the widely and long-held notion that senior leaders are often responsible for corrupt actions by setting unrealistic financial goals and modelling . . . (Ashforth et al., 2008: 673)

For sure, it was Enron's top management obsession with growth and stock market performance that put the company in an almost impossible position (Clarke et al., 2003). Enron started out from a mature industry (utilities), but tried to recast itself as operating in a high-growth industry,

by saying that it was a new kind of company, while in reality it turned itself into a commodity trading company, and a well understood fact about commodity trading is that consistently high growth rates are not achievable:

This was Enron's dirty little secret: a company built around trading and deal making cannot possibly count on steadily increasing earnings . . . As one former Enron managing director says, 'A business that had stable and predictable earnings that's primarily engaged in the trading of commodities is a contradiction in terms.' (McLean and Elkind, 2003: 126)

In a sense Enron found itself in a situation not unlike the one described by Cressey (1953) in his study of trust violators – individuals with no criminal background who violated a position of trust and absconded with funds entrusted to them. Cressey (1953) found that one of the preconditions for trust violation was that individuals found themselves in an impossible situation, but felt, for whatever reason, that they could not share their predicament with anybody, not even their closest relations:

Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, [and] are aware that this problem can be secretly resolved by violation of the position of financial trust . . . (Cressey, 1953: 30)

Enron as a whole eventually became like the trust violator who, according to Cressey (1953: 42), 'could not bring himself to tell his wife that he had "foolishly" lost their life savings', and 'embezzlement provided a secret means for obtaining replacement for a portion of the lost money'. Enron's management could not admit to Wall Street that they were in the commodity trading business because such a revelation would immediately have a negative impact on the company's stock price, and even more so could not admit that while trying to present a facade of constant growth they were in reality losing, not making, money. Given this situation, by trying to deal with their predicament in isolation, they were able to rationalize away all kinds of corrupt activities. Moreover, Enron went even further. They asked Wall Street analysts what their expectations were, and then fulfilled them in any possible way. As McLean and Elkind (2003) report, Kinder (President and Chief Operating Officer, COO before Skilling) 'would openly ask the stock analysts: "What earnings do you need to keep our stock price up?" And the number he arrived at was the number Wall Street was looking for, regardless of whether internally it made any sense' (McLean and Elkind, 2003: 127).

Of course, we are not arguing that Enron's placing itself in an impossible situation is an excuse for what its senior management did. On the contrary

we find fault with Enron both for placing itself in an impossible situation and for trying to get out of it the wrong way. But it is from such extreme cases that we can see some trends and possible relationships which are not noticeable under normal conditions (Starbuck, 2001). In other words, we are arguing that Enron as an extreme case illustrates one possible way in which, to a greater or lesser extent, a corporation, given its predispositions for profit and growth, might react faced with impossible financial demands from its investors.

THE DANGERS OF SHORT-TERMISM

Managers can look good on the bottom line but at the same time may be destroying the company by failing to invest in the future. (Akio Morita, Founder of Sony 1986: 171)

According to Thompson (1985): ‘it is typical for firms to try to pursue several goals simultaneously – a feature that can pose a host of strategic trade-offs and options’ (1985: 314); the most important strategic trade-off, of course, being the one between long-term and short-term profits. Stewart nicely captures the kind of mentality that is myopic in its short-term horizon:

Some years ago I was waiting for an appointment with a Fortune 500 CEO when he emerged from his office with three other people. He said good-bye to them, then greeted me. He said, ‘I have to rearrange my mind. Those were stock analysts, and their idea of a long-term view is six months’ . . . (Stewart, 2007: 12)

While in some cases a short-or long-term perspective takes precedence – for example in declining industries firms often focus on the short term through a harvesting strategy (Porter, 1980), or in emerging industries firms tend to focus on the long term, ignoring short-term performance – in most cases firms try to find a healthy or at least a viable balance between the two. This balance can be disturbed through pressures for short-term performance that public companies often face from the stock market, which can lead to reduced investment in long-term performing assets such as research and development (R&D), innovation or marketing (Bascaran et al., 2006; Demirag, 1995; Marston and Craven, 1998). And, ‘under pressure to hit immediate performance targets, many managers inflate earnings, often by cutting expenditures’ (Mizik and Jacobson, 2007: 22). However, such a reduction of R&D and/or marketing expenditure, Mizik and Jacobson (2007) found, might have a positive effect on short-term performance but causes the market value of such firms to drop by more than 20 per cent after four years.

In some exceptional cases, this stock market push for short-term financial performance often makes firms not only trade in their long-term prospects for short-term gains, but also engage in corrupt activities to cover up or inflate their earnings, as in the cases of Enron and WorldCom. In a sense cover-up and corruption is the end game in situations where costs cannot be adequately cut and/or future income cannot be cashed in now, even at a significant cost. Enron, in attempting to inflate short-term income to meet stock market expectations, started out by trading off long-term profitability for short-term gains. For example, in negotiating deals Enron managers capitulated ‘on key negotiating points, which, over the long term, would likely cost the company millions’, but helped them meet the next quarter’s targets (McLean and Elkind, 2003: 127). This, however, was not enough. Soon there were no more points to capitulate, no more future earnings to be exchanged for current ones, no matter how bad the exchange rate was. Therefore, Enron managers moved to the next step, which was the ‘creation’ of such earnings out of thin air, or in other words, the creation of new ‘off-balance-sheet’ entities where losses were somehow ‘lost’, along with inflation beyond the level of the believable of future earnings, which through the (totally inappropriate for this type of business) mark-to-market accounting method were easily made into current earnings. An important difference of mark-to-market accounting from conventional accounting is the following. While in conventional accounting ‘you book the revenues and profits that flow from the contract as they come through the door’, in mark-to-market accounting ‘you can book the entire estimated value for all ten years on the day you sign the contract. Changes in that value show up as additional income – or losses – in subsequent periods’ (McLean and Elkind, 2003: 39). What better example of short-termism can we have than posting a flimsily projected profit (sometimes years into the future) on the current balance sheet?

This violation of investors’ trust is, of course, not excusable. But the point we are trying to make here is that it should be seen as the extreme case in a continuum where executives adjust their firms’ operations to meet short-term financial demands, often imposed on them in a rather artificial manner.

FINANCIAL DISTANCE

Get the analysts off the backs of the corporations. Companies can’t be managed from a securities analyst’s office. (Mintzberg, 2007: 25)

Enron’s high credit ratings were not only confirmed four days before the firm placed itself under the protection of the courts, but also 10 out

of 15 analysts ‘recommended Enron’s shares as a “good” or “excellent” buy on November 8, the same day the energy trader announced it had overstated its earnings by US\$600 million since 1997’ (Bérubé, 2002: 7). This, of course one could argue, was an anomaly, and the extent to which financial analysts were deceived in their role as information intermediaries between investors and managers was unprecedented (Schipper, 1991). Moreover, it is well known that Enron hoodwinked many analysts in a very sophisticated manner, with various types of hype and ruses along the way. However, one could also argue that Enron was the extreme case along a continuum of misinformation resulting from the fact that analysts often do not understand the underlying forces and nature of the businesses they are concerned with, and try to make sense of a very diverse reality through generic quantitative tools and quarterly financial reporting requirements. The myopic view of the firm provided by analysts dovetails with the problems raised in the previous section regarding short-termism. As Mintzberg (2007) says: ‘who ever came up with the absurd notion that the fortunes of a great enterprise can be discerned from one three-month period to the next?’ (Mintzberg, 2007: 25).

In other words, the financial reporting requirements that Wall Street imposes in all public business organizations are too standard, too broad and too distant to capture the underlying diversity and complexity of different business models. Therefore, analysts see the business world through a lens of quantitative techniques that keeps them at a distance and allows them really to see only some aspects of it. According to Kaufman (2005), the perception of analysts suffers from some biases that cannot be overcome by relying solely on – no matter how elaborate – quantitative techniques. This reliance on certain kinds of data, and the lack of a fundamental knowledge of the industry they are covering – how many financial analysts covering the pharmaceutical industry have ever worked in it? – keeps the understanding of any industry by analysts limited, and often allows for corrupt activities to pass unnoticed until it is too late. Indeed, Cotter and Young (2007) found that financial analysts are particularly fooled by fictitious frauds, like the ‘creation’ of fictitious revenues, fictitious assets and/or the reduction of liabilities and expenses.

Another way of making this point is by saying that analysts can reach a reasonable level of forecasting capability which works pretty well under normal conditions, but do not acquire any kind of foresight (Slaughter, 1998; Whitehead, 1938) into a given industry. The difference between foresight and forecasting can be illustrated through the following example:

A person engaged in forecasting simply extends the line put together by past measurements into the future and argues that the sales of product x will

continue to increase (or decrease) by so much for the next year(s). Whereas, on the other hand, if someone faced with the same data can conclude that after a certain point in time the sales will drop, this person bases his or her predictions on foresight. The difference between forecasting and foresight lies in an actual understanding of the past and present in relation to the future. In the case of forecasting, the past through some techniques of proven usefulness indicates the future. (Zyglidopoulos and Schreven, 2008)

This point captures the difference between what an analyst, outsider to the industry, and an industry manager, operating inside a given industry, can aspire to. The first can achieve a very good level of forecasting capability ‘biased by the weight of history’ (Kaufman, 2005: 19), whereas the second can achieve a level of understanding that can lead them to foresight. Of course, a forecasting capability is not something undesirable, and according to Toulmin (1961), in many sciences forecasting often predated scientific understanding:

The Babylonians acquired great forecasting-power, but they conspicuously lacked understanding. To discover that events of a certain kind are predictable – even to develop effective techniques for forecasting them – is evidently quite different from having an adequate theory about them, through which they can be understood. (Toulmin, 1961: 30)

However, a limitation of forecasting becomes apparent when the underlying conditions change, but either through chance or fraud, as was the case in the recent Enron-like wave of scandals, the surface conditions do not change. In other words, it is much easier for an analyst to be fooled by fictitious financial reports than an industry manager, who understands the dynamics and possibilities of their particular industry. It is the rare financial analyst who can overcome this problem, who like Kyle Rudden noted in 1999 that: ‘a plant Enron built had not become operational until 1999, but Enron had booked the income it expected to generate from it two years earlier’ (McLean and Elkind, 2003: 230).

COMPLEXITY OF FINANCIAL SYSTEM

In the previous chapter, dealing with the impact of organizational factors on individual corruption, we identified complexity as an amplification mechanism that makes stronger the impact of the other factors on corruption. A similar situation can be expected at the current level of analysis, that of the financial and business system that heightens the complex nature of business structures and transactions. In other words, the more complex

the financial system within which a business organization operates, the more possibilities there will be for business firms to try and show a high short-term financial performance through creative accounting, and the more possibilities there will be to fool the financial analysts following the industry. According to McLean and Elkind (2003):

Since 1997 . . . Enron's balance-sheet assets had doubled. All this resulted in a business of mind-boggling complexity . . . Enron had generated 3000 separate corporate entities, more than 800 of them in offshore jurisdictions like the Cayman Islands. (2003: 310)

Increases in organizational complexity are a feature of the modern firm, given the growth in size and protocols of shareholder capitalism and financial markets. Take for example the 2008 sub-prime mortgage crisis that developed in the money markets. The absorption of bad debts and predatory lending contracts into the mainstream debt market was a relatively complex accounting phenomenon, meaning that most analysts could not foresee the collapse of the debt market when it hit the scene in the US and UK. Financial markets increase in complexity as they develop new methods of profit-making – a process that tends to reduce transparency at the same time. Organizational business models are becoming more complex with the concentration of capital as well. Commentators have pointed out that key features of the global market are both the centralizing of ownership and the distribution or diffusion of structure, sometimes involving extremely Byzantine networks of contractors and subcontractors (Dicken, 2004). This leaves open the possibility that what some have called a 'fog of complexity' (Elliot and Schroth, 2002) descends upon the organization – providing ample opportunities to engage in corruption, given the lack of transparency.

This issue resonates with an earlier point made about financial distance. With the increased complexity of accounting systems and procedures, the knowledge systems and language developed by analysts and managers becomes impenetrably prolix. It becomes very difficult for the 'average person' (such as a consumer, worker, citizen, and so on) to engage in any discussion about the corporation and its political effects. This is because many of the crucial discussions and debates on the social and/or environmental consequences of corporate activities cannot adequately take place in the lay domain, given the technical language in which they are embedded (also see Deetz, 1992). Participation and transparency are largely reserved for the relevant experts, using a specialized language, in which the lay public cannot take part, in a similar way that in the Middle Ages Latin prevented the uneducated masses from meaningfully participating

in any theological debate. And quite often, because of the indeterminate outcome of such debates among experts, especially in new areas of scientific inquiry, it becomes less and less clear to the lay public what exactly the conclusion of a particular debate is. We must view these developments in the context of a fundamental axiom: corrupt practices are more likely in environments of lowered transparency and accountability. It is interesting to note in this regard the importance of a complex discourse in the Enron case. Skilling was questioned on a number of occasions by the business press regarding the extraordinary profits. He was able to throw them off the trail quite easily, given the very difficult and complex systems of financial reporting that were being used. He ran into trouble with Bethany McLean who in 2001 investigated Enron's books – she was in fact an expert and for the first time Skilling had trouble justifying the overpriced stock he had helped manufacture. As she famously put it in her *Fortune* article:

But for all the attention that's lavished on Enron, the company remains largely impenetrable to outsiders, as even some of its admirers are quick to admit. Start with a pretty straightforward question: How exactly does Enron make its money? Details are hard to come by because Enron keeps many of the specifics confidential for what it terms 'competitive reasons.' And the numbers that Enron does present are often extremely complicated. Even quantitatively minded Wall Streeters who scrutinize the company for a living think so. 'If you figure it out, let me know,' laughs credit analyst Todd Shipman at S&P. 'Do you have a year?' asks Ralph Pellicchia, Fitch's credit analyst, in response to the same question. (McLean, 2001: 123)

Related to this point is the way in which the complexities of such accounting systems are mirrored in the structural complexities of large multinational firms, and their technologies that facilitate action at a distance (Caincross, 1997; Lash and Urry, 1994). This is particularly supported by the structures of the multinational corporation (MNC) whereby ethical wrongdoing is outsourced or embedded in opaque commodity chains. The use of complex networks can provide opportunities for corporations to exploit the 'invisible' locations that pervade the global system. In the last two decades it has become easier for corporations to relocate or outsource the embarrassing features of their operations to other countries and locations, invisible to their important constituents, a development that largely negates the accountability benefits that might be associated with the increased visibility of high-profile parts of the corporation (Dicken, 2003). Sometimes the opaqueness of these complex chains is so extensive that not even the corporation itself is fully knowledgeable of the ethical standing of its commodity chain, as the recent example of Gap's ignorance concerning child labour employed by its Indian subcontractor demonstrates (McDougall, 2007).

CONCLUSIONS

In the previous chapter we identified four organizational factors that influence – or make more likely – the occurrence of individual corruption; these factors were pressure for group conformity, availability of a rationale in the individual’s environment, ethical distance and organizational complexity (see Figure 5.1). In this chapter, we have added four factors that operate at the level of the financial system. These too increase the likelihood of organizational corrupt behaviour, and therefore of individual corrupt behaviour as well. These factors, which are in a sense analogous to the factors operating at the organizational level, are the pressure for financial conformity, short-termism, financial distance and financial system complexity. We can depict the relationship as shown in Figure 6.1.

Can we conclude from the above, then, that business organizations are not really responsible, but that analysts and investors often pressure them into impossible performance requirements, not really understanding the nature of their business? In the same manner as we addressed a similar question in Chapter 5, the answer is of course no. Business organizations and the managers that run them are, and should be, held responsible for their actions and decisions. But understanding the multilevel environmental pressures exerted on individual and organizational corruption, which is more clearly visible if we assume a ‘bad barrel’ perspective, can allow us to think about prevention methods (we will look more closely at these in

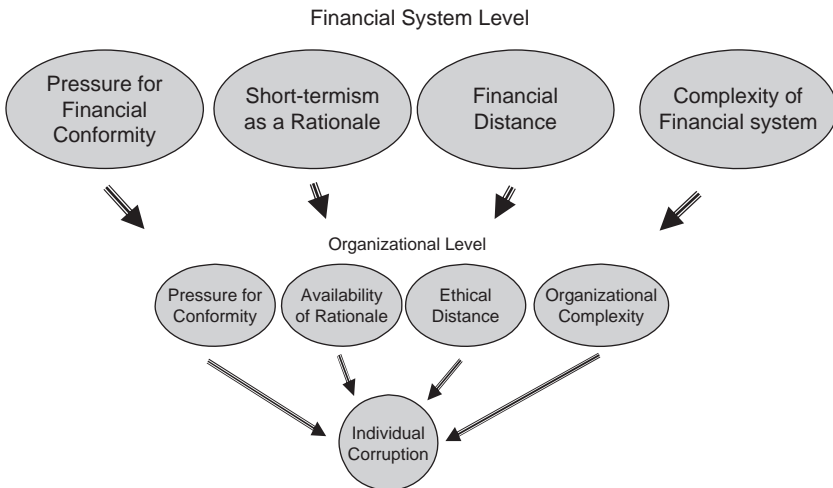


Figure 6.1 Financial system and organization-level factors influencing individual corruption

Chapter 9). In a sense it is much easier to reduce the pressures from the above environmental factors through regulation, at either the organizational or the financial system level, than it is to change people and their ethical attributes in organizations. Of course, this does not mean that ethical codes or training in ethics do not help. We are just saying – a point that we will discuss in more depth later on in this book – that statistically speaking, for every so many individuals or business organizations which face the above environmental factors, a few will respond through corruption. Therefore, one way to reduce the occurrence of corruption would be to reduce the impact of the above factors, which operate at the organizational and financial system levels, and seem to mirror one another.

7. Structure and the 2002 accounting scandals

Under the entry ‘accounting scandals’ for 2002, Wikipedia (http://en.wikipedia.org/w/index.php?title=Accounting_scandals&oldid=218850208) refers to 29 such scandals including the most famous (or, more accurately, infamous) ones of Enron and Worldcom. In this chapter, we are going to briefly review two of the many corruption scandals that shook the world at the start of the millennium, Adelphia Communications and Arthur Andersen. We build upon the previous chapter by illustrating the ways in which certain structural factors inside and outside the firm can make corruption more likely. This will hopefully give empirical depth to the concepts we have developed in the last two chapters, focusing on the environmental pressures inside and around corrupt firms. This will also provide a germane platform for the next chapter where we discuss the processes underlying the escalation of corruption in corporate settings. Let us start with the ‘Greek tragedy’ of Adelphia Communications, as an article in *Cable World* refers to it (Scanlon, 2002).

ADELPHIA COMMUNICATIONS CORPORATION

‘Adelphia’ in Greek usually means brothers, and Greece used to be full of relatively cheap restaurants called tavernas named the ‘four brothers’, or the ‘three brothers’, or whatever number of brothers (*adelphia*) there were. Of course, many times only one of the brothers was involved in the restaurant business, while the others pursued different career paths. But the name was there to show to all that this was a family business, no matter what the rest of the family was doing. This family-centred approach to business was most of the time the result of the fact that the brothers who owned the restaurant had just migrated to that area from a village, where family was of paramount social and economic importance. And, given that the brothers had just migrated to that area (usually around Athens) and did not know or trust other people to go into partnership with, or even to hire them for responsible jobs, they stuck to their own.

Adelphia Communications Corporation was the name that John Rigas chose for his company, which eventually became the sixth-largest cable television provider in the US, and it 'might as well have been called John Rigas & Sons' (Leonard, 2002: 136). Family was as important for this company as it was for all the family-owned tavernas that surrounded Athens after the Second World War. But, let us first have a brief look at how Adelphia Communications came to be 'the sixth largest cable television provider in the US' (ibid), and how it collapsed after the disclosure that the Rigas family had taken a \$2.3 billion off-balance-sheet loan from the company that they used to buy company stock.

John Rigas, born 14 November 1924 in Wellsville, New York, was the son of a Greek immigrant, who after serving in France during the Second World War, instead of following his father's hot dog restaurant business, studied management engineering at Rensselaer Polytechnic Institute. In 1951, after borrowing money from his father and some other Greek businessmen, he bought the Coudersport movie theatre. However, in spite of the fact that John Rigas decided to stay in Coudersport, Pennsylvania, 'the one-stoplight town in the Allegheny Mountains' (Leonard, 2002: 137) this did not mean that he was not ambitious. On the contrary, as many who knew him since his early years testify, John Rigas was very ambitious and very driven, an outlier, in a town which 'had missed nearly every economic boom in rural Pennsylvania . . . [and] . . . By the 1950s the joke was that the town hadn't felt the Great Depression because it hadn't known prosperity' (Leonard, 2002: 137). That is perhaps why Rigas never felt that he fitted in with the people of Coudersport, as he once confided to a friend: 'I've never been accepted in this town. I couldn't even get elected to the school board' (Leonard, 2002). However, Rigas persevered in courting the townspeople and he and his wife even joined the more popular Episcopal church instead of attending services within his own Greek Orthodox tradition (Leonard, 2002).

Rigas's perseverance expanded into business, where he partnered with his brother Gus to buy Coudersport's TV cable franchise, which he named Adelphia Communications. Through heavy borrowing he pursued a steep growth trajectory, which led Adelphia to become one of the largest cable providers in the US, with over 5.6 million customers located in over 30 states. Moreover, Adelphia Communications eventually launched a high-speed cable Internet service and a long-distance phone service. John Rigas's three sons, Michael, Tim and James, joined the family business after having graduated from top US universities like Harvard and Stanford, thus ensuring the family control of the corporation (http://en.wikipedia.org/wiki/John_Rigas). Even when the company went public in 1986, the offer was structured in such a way that family control persisted:

... the Rigases structured Adelphia so that there were no checks and balances at the top. Adelphia issued class A shares with one vote each to the public, but the Rigases retained all the class B stock with ten votes per share. Therefore they got to pick the board of directors. John, the three boys, and Ellen's husband, Peter Venetis, held five of the nine board seats. They filled the other four with John's friends and business associates. Who else would want to travel to Coudersport for meetings anyway? (Leonard, 2002: 140)

Rigas and his family used their position of wealth and power to contribute towards the well-being of their town of Coudersport. They involved themselves in all kinds of activities benefiting the town, hired a lot of the townspeople on good salaries, and threw fancy parties with orchestras playing, among other acts of generosity. John Rigas, who was considered to be the town's biggest benefactor, also became the majority owner of the Buffalo Sabres (http://en.wikipedia.org/wiki/John_Rigas).

But all was not what it seemed, and in a fashion resembling the unfolding of a Greek tragedy, cracks in the edifice that Rigas had constructed began to appear. The first sign was the 'outlandish amounts of debt' that Rigas had burdened the company with. As Leonard states:

In 1996, Adelphia's debt was 11 times its market capitalization, an off-the-chart number. (By contrast, Comcast's ratio was 1.28; Cox Communication's was 0.45.) Bond rating agencies constantly subjected Adelphia to credit reviews. (Leonard, 2002: 141)

The second was the fact that the Rigas family kept buying company stock without an apparent source of funds. Eventually in March 2002, Oren Cohen, a bond analyst working for Merrill Lynch, noticed in a footnote on the last page of the company's quarterly earnings that the firm had made a \$2.3 billion off-balance-sheet loan to the Rigas family. Events unfolded fast afterwards. The company's stock lost 35 per cent of its value in three days, and continued to lose value as the company announced that it would be restating its earnings for 1999, 2000 and 2001. John Rigas and his sons resigned and gave up control of the company in May 2002 and independent directors took over. It was eventually discovered that not only had the Rigas family been borrowing money from the company that it mostly used to buy company shares, but that it was involved in a number of other irregularities as well. For example, it was found that the daughter of John Rigas, who had not joined the family business, was living with her husband in a rent-free Manhattan apartment owned by Adelphia Communications. Forensic accountants also discovered that the family had not paid for a \$167 million bond purchase and had often used company money to pay for personal expenses. Soon the company stock was worth pennies, was

delisted from NASDAQ and Chapter 11 bankruptcy followed (Leonard, 2002).

John Rigas, two of his sons and two other executives were indicted for fraud and participation in fraud. They were ‘accused of looting the corporation by concealing \$2.3 billion in liabilities from corporate investors and of using corporation funds as their personal funds’; it was said that the family used the firm as a cash machine. In 2004 John Rigas and one of his sons were convicted of the charges and sentenced to 15 and 20 years in jail respectively, sentences that were upheld in 2007 by the Second Circuit Court of Appeals and in 2008 by the Supreme Court (http://en.wikipedia.org/wiki/John_Rigas). However, in spite of all this, John Rigas refused to admit his guilt, negotiate a plea bargain with the government in exchange for a lighter sentence, or even testify on his own behalf in court. Why? He said in an interview he gave with PBS (Public Broadcasting Service) in 2007 that he was standing by his principles, and asserted that there was no fraud committed by anyone. The sight of an 82-year-old man with cancer in remission about to report to jail for a 15-year sentence stressing his innocence, because of his family’s legacy, and failing to come to terms with the charges he had been convicted of, is not the picture of a corrupt businessman one might imagine. Instead, he reminds one more of an Ancient Greek tragic hero, whose fall is the unavoidable result of fate, or structural factors, as we might say in today’s less dramatic terms.

STRUCTURAL FACTORS AND THE FALL OF ADELPHIA

Of course structural factors were not solely responsible for the unfolding of Adelfia, agency and choice had a lot to do with it. Rigas and his sons could be seen in some sense to be similar to the trust violator described by Cressey (1953), who having ‘borrowed’ thousands of dollars from the bank he was working for, was keeping track of exactly how much he had ‘borrowed’ on the back of the envelope where he kept the title papers of an apartment he owned which he was planning to sell in order to return the money to the bank. So when he was caught, in his mind it was not fraud, just bad timing. But blaming John Rigas and his family for what happened does not teach us much; it is far more interesting and instructive to examine, in an admittedly one-sided way, the structural forces that facilitated the unfolding of the Adelfia scandal, because many of the factors we discussed in the previous chapters play a pivotal role in the case.

Ethical Distance

As John Rigas said in his last interview on PBS: ‘when I am dealing with high finance people in the city is one thing, when I go and have a cup of coffee downtown, [in Coudersport] . . . it brings me back to reality’ <http://www.truevo.com/Charlie-Rose-John-Rigas/id/191297892>. In a sense this is part of the argument of the prosecution. Rigas identified with his family and Coudersport but did not, and some might say could not, see the rights of his company’s anonymous and distant shareholders. In a sense it was ethical distance that facilitated the unfolding of Adelphia; the consequences of his actions were not visible to him or his immediate advisors. This blindness was facilitated by his own sense of propriety over the firm, his inability to understand the interests of shareholders, and a kind of self-imposed ‘dirty realism’ in which immediate everyday social interactions dictated moral consciousness rather than the abstract rules of shareholder capitalism. His personal touch apropos business transactions precluded any consideration for those far removed from the prosaic world of the corporation – creating a gulf in which shareholders were just ciphers on a glossy report. This is one of the overwhelming implications of the Anglo-American model of corporate governance in the pre-Enron era. Financial reporting was dictated by the senior managers of the firm, allowing for a variety of abuses to creep in when things began to go wrong. Moreover, such ethical distance from the consequences of the fraud provided fertile ground for rationalization.

Available Rationalizations

Beneath a picture of John Rigas as a child and his family in a report by Heimel (1998) it says ‘the Rigas parents instilled a strong sense of family that was not lost upon their four children’. This was the rationale that the prosecution argued convincingly was the main buffer and justification behind the Adelphia story. The prosecution argued that the Rigas family not only considered the firm as their own cash machine, but were also so eager to keep control of ‘their’ company that they borrowed money from their own firm to buy it back. As we saw with Leeson in Chapter 4, as soon as one buys into this rationale then all these financial abuses, confusing the company money with the family money and so on, make sense. In a way, these rationalizations became institutionalized and embedded in the social fabric of senior management, providing an easy escape from any feelings of guilt that may arise.

Another rationalization was provided by James Rigas, the only one of the three sons of Rigas not accused or convicted for any crime. He argues

on a website he established in 2007 that, in contrast to taking advantage of the company, the family took a lot of risks on behalf of the business. We can also recall how Leeson justified his practices by telling himself that he was breaking the law in order to save the firm rather than undermine it. Of course, we are not arguing for or against the Rigas family here; what matters is that both sides of the argument show that the Rigases did consider the firm as their own domain. And this rationale could provide a basis for rationalizations facilitating the Rigas family to cross the line of acceptable practices. Timothy Rigas, one of the Rigas brothers who was convicted along with his father, said through a video-link from the prison in North Carolina where he is serving his 20-year sentence: 'I never once went to work thinking I was doing something improper' (Reuters, 2008).

Organizational Complexity

Running a multi-billion-dollar cable company is a complicated business. Therefore the Rigas family depended on two very prestigious and respectable firms, the Buchanan Ingersoll law firm and the Deloitte & Touche auditing company, for advice. And it must be said that both firms had found nothing wrong with the accounting practices at Adelphia prior to the revelation of the off-balance-sheet loan to the family. So, beyond the Rigases' fault, if you like, there were a lot of other institutions involved in the accounting practices of Adelphia, who 'changed their tune' only in a post-Enron environment when the government started taking aggressive action against companies who had violated their investors' trust. This is what John Rigas accused his advisors of during an interview with Charlie Rose of PBS in 2007. As James Rigas (2007) said in the website he set up to defend his father and brother:

. . . neither the more than 100 Deloitte accountants nor the more than 15 Buchanan lawyers who worked on the Adelphia account over nearly a 20-year period, spending countless hours each year at the company, ever thought that anything was improper about the transactions at Adelphia. (<http://www.john-jrigas.com/JamesRigasStatement.html>)

Of course, one might easily discount this statement given that the person who made it is not only related to the family, but also involved in the case. But, having said that, we must also mention that Deloitte & Touche did agree to pay \$50 million 'to settle charges stemming from its fiscal 2000 audit of Adelphia Communications Corp' (www.cfo.com/article.cfm/3908471). As the US Securities and Exchange Commission (SEC) announced on 26 April 2005:

The Securities and Exchange Commission today announced that Deloitte & Touche LLP has agreed to pay \$50 million to settle charges stemming from its audit of Adelphia Communications Corporation's fiscal year 2000 financial statements. The Commission issued an Order that finds that Deloitte engaged in improper professional conduct and caused Adelphia's violations of the record-keeping provisions of the securities laws because it failed to detect a massive fraud perpetrated by Adelphia and certain members of the Rigas family. In addition, the Commission filed a federal district court action alleging that Deloitte failed to implement audit procedures designed to detect the illegal acts at Adelphia. The \$50 million payment will be deposited into a fund established to compensate victims. (SEC, 2005)

What some have called the 'fog of complexity' was a key factor operating here, and this was the excuse that the auditors used to rationalize their own behaviour in not digging deeper when auditing the firm. Adelphia had been able to use the complex nature of its corporate structure and accounting practices to create a cover for its illegal practices. In the post-scandal period, however, it was argued that such complexity was not an excuse, even if seasoned auditors could not detect the fraud among the 'smoke and mirrors' of the company's business. For the prosecutors the firm's auditors were somewhat to blame, since they 'rationalized' their involvement away, given the complexity of the situation and the battle taking place between auditing firms for large corporate clients at the time. Of course, one could be more generous towards the auditing company and say that given the complexity of the situation they did not see the wrongdoing until it was too late. Either way, we are not trying to redirect blame here, just say that no matter what happened, organizational complexity must have played a facilitating role in the unfolding of corruption at Adelphia.

It goes without saying that these firm-level structural factors were exacerbated in the pre-Enron business environment that demanded ever-increasing profits for shareholders. However, this was not highlighted by the key people in the fraud since it would directly contradict their own rationalization of feeling that the company was 'theirs'. In order to emphasize the importance of the business environment, as its pressures intersect with the culture of the organization, we now move to another 2002 accounting scandal in order to isolate some of the structural features of the corrupt corporation, that of Arthur Andersen.

ARTHUR ANDERSEN

On 1 December 1913, in Chicago, Illinois, Arthur Edward Andersen, a 28-year-old second-generation Norwegian immigrant and Clarence

DeLany, both from Price Waterhouse, founded the auditing firm Andersen, DeLany & Co., which soon changed its name to Arthur Andersen & Co. in 1918. Arthur Andersen's motto was 'Think straight, talk straight', which he said was his mother's legacy to him. Following this motto, he was not only a stickler for honesty, but also continuously pushed for higher standards within the accounting industry, and was a firm supporter of continuous education, upon which he thought the accounting profession should be based. His position was that accountants were responsible not to their clients but to the investors, and Arthur Andersen made its name by refusing to sign off accounts it believed to be flawed, even at the expense of losing the client (http://en.wikipedia.org/w/index.php?title=Arthur_Andersen&oldid=219973076).

There is an incident early on in the life of the company that helped it significantly make its name as a professional firm of high integrity, an incident that was retained and maybe even exaggerated within the company's lore, but unfortunately forgotten within the company's practice after the mid-1990s. In auditing the books of a large railway company, one of the largest clients that Arthur Andersen had landed up to that point in its early life, Andersen noticed some irregularities in the firm's reporting of its maintenance charges, and brought this to the attention of the company's President. As he received no reply, he threatened not to sign off the company's accounts if the matter was not addressed. This led to an angry visit by the long-time President of the railway company, who threatened the 28-year-old Andersen to change his report or lose the account. Andersen refused to do so, saying that he was not willing to change his report 'for all the money in America' (http://en.wikipedia.org/wiki/Arthur_Andersen). And, indeed, Arthur Andersen lost the account, but won a significant moral (and public relations, one could argue) victory when the railway company went bankrupt (Toffler and Reingold, 2003:12).

Andersen continued his efforts for the standardization and professionalization of the accounting industry till his death in 1947. As a professor of accounting at Northwest University he was one of the first to design new challenging accounting courses and as a chairman of the board of certified accountant examiners of Illinois, he had a tremendous impact on the evolution of the practices of the accounting profession. Andersen's successor, Leonard Spacek, continued the same path of emphasizing integrity and professional quality to the firm's clients, and often the firm made headlines by refusing to serve clients it believed were not following proper accounting procedures (http://en.wikipedia.org/wiki/Arthur_Andersen). Given that the company grew significantly over the years, by 1963 it had 55 offices in 27 countries (Toffler and Reingold, 2003: 18), Spacek made a special

effort to standardize the services that the firm's different offices provided to customers around the world. The idea was that no matter where in the world a client was, they were entitled to the same professional service from Arthur Andersen. To achieve this he continued the founder's commitment to training, and one might say indoctrination in the 'Arthur Andersen way'. In 1970, the firm bought a small women's college in St Charles Illinois and turned it into a training centre for the company's young recruits. It was there that these young men and women, who had been already hand-picked to fit with the Arthur Andersen way, were further moulded into what some have referred to in an unflattering way as Androids. By 2001 the St Charles training centre had almost 500 permanent members of staff and was delivering about 400 courses, courses which in addition to giving the young recruits the accounting tools they needed also bombarded them 'with the message that they are members of an elite corps because of their affiliation with Arthur Andersen' (*Financial World*, 1994: 36). Of course, many senior partners of Arthur Andersen understood that they were creating a very domineering culture, one that not only 'told' its employees what to do, but also how to dress, where to go for lunch, and even how much to give to charity. However, this was seen as an unavoidable side-effect of the need for standardization of the services the firm provided to its customers (Toffler and Reingold, 2003: 32–6).

The firm continued its spectacular growth for most of the twentieth century and although it had dabbled in consulting since its birth, consulting did not really take off till the 1970s, when computers started becoming popular. In the 1980s, however, the consulting side of the business experienced significantly higher growth rates and margins than the accounting side, something which led to a great deal of strife between the two divisions. In 1989, a truce was reached where a task force designed a compromise through splitting the firm into two business units with what was seen as transfer payments from consulting to accounting (*The Economist*, 1991: 66). But the 1989 truce was an unstable one and the two firms spent a great part of the 1990s in legal dispute. As the profits of Andersen Consulting experienced enormous growth, the consultants began to resent the transfer payments they had to make to the accountants. Finally, in August 2000 the International Chamber of Commerce decided to allow Andersen Consulting its independence, provided it paid \$1.2 billion and changed its name. The new firm was renamed Accenture on 1 January 2001. This was a significant blow to Arthur Andersen as the firm was expecting a payoff over \$4 billion, a blow that made the firm's chief executive officer (CEO) Jim Wadia resign the next day (en.wikipedia.org/w/index.php?title=Arthur_Andersen).

But consulting was so much more profitable than auditing that Arthur

Andersen, along with most other big accounting firms, could not stay out of the business and expanded its own in-house technology and business consulting role, which it had started in the mid-1990s to complement the services of Andersen Consulting by focusing on smaller clients. Then the pressure to keep auditing clients and also supply them with much more lucrative consulting services led to many problems, the last of which was Enron. Between the years 1997 and 2000 Arthur Andersen paid more than \$500 million to settle claims by investors in companies in which it failed to detect fraud, Enron excluded (Toffler and Reingold, 2003: 156–8). As the Rep. Bernie Sanders of Vermont said during the House of Representatives Financial Services Committee hearing:

It appears very clear that Arthur Andersen failed in their audit of WorldCom, you failed in the audit of Enron, you failed in the audit of Sunbeam, you failed in the audit of Waste Management, you failed in the audit of McKesson, you failed in the audit of Baptist Foundation of Arizona. What was Arthur Andersen doing? (quoted in Toffler and Reingold, 2003: 157–8)

In a sense the Enron scandal can be seen as the ‘natural’ culmination of a trend which was very unnatural for an auditing firm founded on the principles of integrity and professionalism. However, most of the other Arthur Andersen failures had gone relatively unnoticed and it was Enron that dealt the final death-blow to the firm. Given the importance of public trust for the mere existence of an auditing firm, events unfolded quickly once the Enron scandal erupted.

On 9 January 2002, a few months after the US financial watchdog had announced its investigation into Enron, the US Justice Department opened a criminal investigation into Arthur Andersen, at which point many clients and partners left the company. The very next day Arthur Andersen admitted that its staff had shredded thousands of documents related to the Enron case, and soon afterwards, the firm fired David Duncan, the chief partner in the Enron audit. And in a rather ironic turn of events Enron fired Arthur Andersen ‘for destroying documents wanted by government investigators’. Finally, in March 2002, the US Justice Department charged the firm with deliberately destroying evidence relating to an ongoing investigation. The same month, the firm’s Chief Executive Joseph Berardino resigned and the exodus of clients and partners intensified. And, in April 2002, the firm laid off 7000 employees, one-quarter of its US workforce. The trial and conviction of the firm lasted about a month, starting in May and ending on 15 June 2002, when a jury found Arthur Andersen guilty of obstructing justice (BBC News (2002a)). This was the end for Arthur Andersen; the firm agreed to cease auditing public companies on 31 August 2002. The verdict

has been referred to as ‘the death knell for the 89-year-old company, once one of the world’s top five accountants’ (BBC News (2002b)).

Of course structural factors are not solely to blame for the fall of Arthur Andersen. There were a lot of very intelligent individuals involved, who chose to act the way they acted (or ‘not act otherwise’ to paraphrase Arendt from Chapter 2), thus destroying a once proud professional firm. But for our purposes here it is helpful to use some of the structural factors that we discussed in the previous two chapters, and to identify their impact in the unfolding of Arthur Andersen. Given space limitations, we will focus on only a few: namely ethical distance, rationalization and the pressures for financial performance derived from the business environment.

Ethical Distance

Public corporations are responsible to their investors and in a sense are being paid by them to act in their interest, but auditing firms are paid by corporations to act in the interest of the investors, with whom the auditing firms have practically no contact. This rather strange arrangement worked while the firm was being led by strong responsible leaders like Arthur Andersen himself, and Leonard Spacek, his successor. But in the 1990s when the firm was left without strong leadership, in the midst of the changes that were happening in the industry, the disproportionate profitability and growth of consulting versus auditing, and the ‘civil war’ that this caused, this distance started influencing auditing decisions. The clients were therefore much closer to the auditors than the investors were, often the auditors had a personal relationship with them, and if they did not blow it they could even sell them additional (often redundant) very profitable consulting services. Whereas the investors were some unknown, removed entity, like the statistics one hears on the radio about some faraway land that means nothing because faces cannot be associated with them. This situation was made worse by the relative commodification of the auditing services and the increasing dependence on selling consulting services in order to increase profitability. Therefore, most members of Arthur Andersen lived constantly with the fear that what they might say or do would upset their clients. In other words, the ethical distance between the auditors and the investors influenced their behaviour. The firm’s staff started acting in exactly the opposite way to their founder, who made a name for the firm by actually losing clients, if he thought that the interests of the investors were jeopardized. As Toffler and Reingold state:

Tradition dictated that we serve the clients well but also that we stand up to the client when it does something wrong. Yet in the new world, clients had become

too valuable to defy. The distortion of the Tradition now meant you could best serve the client – and therefore, keep the client – by keeping it happy. (Toffler and Reingold 2003: 62)

Of course, the fact that they were acting in exactly the opposite way from their founder was not lost on most ‘Andersen Androids’ (as they have been referred to – not very affectionately one must admit – in the press), and there were important rationalizations available in the firm to justify their activities to themselves and others more easily.

Available Rationalizations

First, the culture of Arthur Andersen itself provided the perfect cover for the ‘I was just obeying orders’ rationalization. As we mentioned earlier, in order to achieve standardization of the auditing service that the firm provided to its customers worldwide, a hierarchical culture of following orders from the partners and fitting in had been developed. And, while this was a good thing when it was used to keep up the ethical and professional standards that Arthur Andersen originally held to, things changed when all the firm aspired to in the 1990s was making money. As Toffler and Reingold put it:

It was a culture in which everyone followed the rules of the leader. When the rules and leaders stood for decency and integrity, the lockstep culture was the key to competence and respectability. But when the game and the leaders changed direction, the culture of conformity led to disaster. (Toffler and Reingold 2003: 34)

But in addition to this ‘following orders’ rationalization that enabled many Arthur Andersen employees to participate in corrupt activities without questioning what they had been asked to do, there were also the environmental turbulence factors, which led to other kinds of rationalizations. In the boom times of the 1990s, with a lot of changes taking place in the economy, the degree of uncertainty was quite high, even though the growth rates compensated most participants for this. But it also enabled many Arthur Andersen auditors to get uncomfortably close to their clients’ internal auditors (exacerbating the ethical distance from the owners of the said companies). As Toffler and Reingold put it:

It wasn’t unheard of for the Andersen staffers doing external audit and those doing internal audit to sit in the same room together at the client . . . The idea seemed to be that in the rapidly changing highly complex world that all companies were facing, *risk* was the enemy. What better way to manage your risk than

to make sure that your internal and external auditors saw life from the same perspective? (Toffler and Reingold, 2003: 143)

Arthur Andersen even had offices inside the Enron skyscraper. As a result, the rationalizations of Enron soon became the rationalizations of Arthur Andersen, since both came to see the business 'from the same perspective'. But such rationalizations were not self-sustained. They were covering a deep, structural pressure for financial performance at two levels, the firm level and the level of the individual within the firm.

Pressure for Financial Performance

It seems that the efforts of Arthur Andersen and his successor to establish accounting standards in the industry had been quite successful, because by the 1980s auditing practices had made big inroads towards standardization. But unfortunately, with standardization comes commoditization and lack of differentiation in much else except price. So the major accounting firms started feeling left out of the 1990s gold rush, and they were not very happy about it. This was especially so because Andersen Consulting was a lot more profitable than the auditing side of the firm. They became increasingly unhappy about subsidizing the auditors. An overwhelming obsession for money developed at the firm, especially after the subsidization from Andersen Consulting ended following the 2000 arbitration, which permanently split the two companies. This pressure for financial performance trickled down within the firm and was intensified for a number of reasons, so that each individual partner felt an even greater pressure for their unit to perform. When these pressures interconnect with the ethical distance and available rationalizations mentioned above, corruption (or collusion with corrupt actors) is more likely to be a preferred option in order to post higher profits and retain clients.

According to Toffler and Reingold (2003), among the reasons why the firm's partners felt this intense pressure to perform were the following. First, the loss of Andersen Consulting cost the remaining auditing partners a lot of money in lost income. Second, it seems that the partner to non-partner ratio was much higher than it had been earlier in the firm's life. In other words, there were too many partners and not enough income to satisfy all of them. Third, an outdated reward system, which might have been suitable for auditing projects but was definitely unsuitable for consulting projects, did not allow for effective collaboration between different offices of the firm, thus intensifying the fight over who would get credit for a given client. Within all this infighting, the principles of auditing were unsurprisingly misplaced.

In the end, these intense pressures for financial performance, which can be seen as pressures for conformity, within the booming environment of the 1990s, pushed both the firm and the individuals within it to fight tooth and nail to keep their customers so that they could push onto them more lucrative consulting services. But this push for performance at any cost was exactly what auditing firms were supposed to be guarding against. The Romans used to say that an important issue for the state was the ‘Who will guard the guardians?’ question. It is a very important issue for the economy as well, and in this case nobody seemed to be guarding the guardians, with the result that when they had integrity the system worked, but when they lost it, the system failed.

CONCLUSION

After examining the cases of Adelphia and Arthur Andersen, which made the headlines in 2002, we may say that although agency and individual responsibility are vitally important in these companies, extra-individual or structural forces also played a role. Of course not all firms experiencing these pressures will become corrupt. The likelihood is simply increased (quite dramatically in some cases). This idea can be highlighted through the analogy of cigarette smoking and health. Do all cigarette smokers run into health problems? Obviously not; one can even mention individuals who have been smoking since childhood and remain healthy in their seventies, or even worse, some individuals who have developed health problems similar to those of smokers, even though they had never smoked in their lives. However, the fact that some individuals have strong constitutions does not mean that cigarette smoking does not cause health problems; on average, it does. In a similar way, few individuals in organizations will engage in corrupt acts, no matter what the circumstances around them are, while others will not engage in corrupt acts, again no matter what the circumstances around them are. But for the vast majority of individuals, as with the vast majority of smokers, it is safe to say that if structural factors keep pushing towards corruption as a way out, sooner or later something will give, and corruption will occur. And, as we shall see in the next chapter, structural and agency factors interacting with one another can lead to an escalation of corruption that can destroy, and has destroyed, what used to be healthy and prosperous business organizations.

8. The escalation of corruption in organizations

One of the most striking aspects of corruption in contemporary organizations is the way in which initially minor acts of fraud or malfeasance can escalate and take on a 'life of their own'. The insider accounts of deceptive accounting practices in Enron (McLean and Elkind, 2003), and Nick Leeson's (1996) confessions about his illegal trading, both reveal a system of corruption that quickly snowballed beyond the individual agents themselves. Such escalation is perhaps most commonly identified where deception and lying are involved. In her erudite analysis of the phenomenological experience of lying, social theorist Bok (1999) vividly puts it as: 'it is easy, a wit observed, to tell a lie, but hard to tell only one. The first lie "must be thatched with another or it will rain through"' (Bok, 1999: 25). As many of the recent cases of corporate malfeasance indicate, lying in corrupt situations often begets further deception and thus accumulates. The same escalation process might occur in many other situations of corruption, including bribery, falsification of safety reports, and so on.

How do we explain such escalation? In this chapter we address the problem of escalation by building on the various components of our argument so far. In the previous chapters, we addressed organizational corruption from two points of view. Chapters 2, 3 and 4 analysed organizational corruption from the agent's (or 'bad apple') perspective. Here we demonstrated how individual choice, personality attributes, values and beliefs, as well as propensity for rationalization and self-deception, can contribute to corruption. Whereas Chapters 5, 6 and 7 examined organizational corruption from a structural (or 'bad barrel') perspective. They identified how environmental systemic pressures at the levels of the organization and the financial system can facilitate corruption (see Figure 8.1). In this chapter, we will combine the components of both agency and structure by examining the interactions between them. Drawing on the previously discussed material, we are going to argue that it is the mutually reinforcing interactions between these 'bad apples' and 'bad barrels' that underscore the escalation that has frequently been witnessed in corporations. In particular, we will show how these interactions contribute to the escalation of corruption in two ways: first, by having a positive influence on

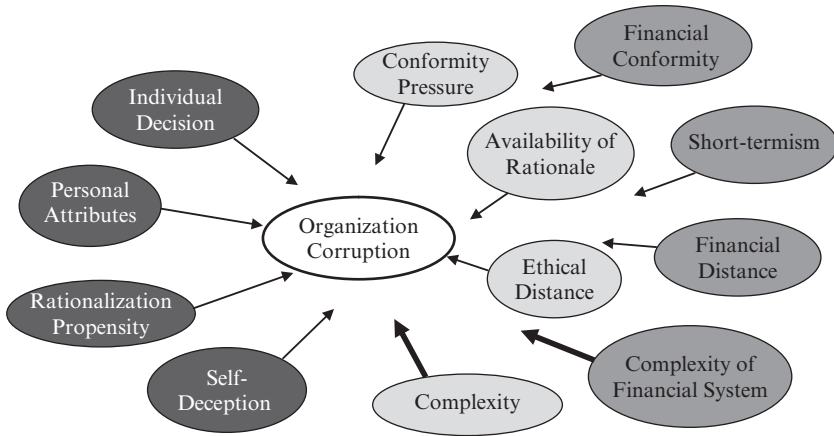


Figure 8.1 Agency and structure

the escalation of the different aspects (that we soon discuss) of corruption; and second, by having a dampening or negative influence on the various moderators, factors which exist in most corporations and would under normal conditions have impeded the escalation of corruption.

But first, what do we mean by ‘escalation’? According to Wikipedia, ‘escalation is the phenomenon of something getting more intense step by step’ (<http://wikipedia.org/wiki/Escalation>), and as examples the Wikipedia entry refers to the escalation of a quarrel and the ‘military presence and nuclear armament during the Cold War’. In the context of corrupt organizations, we use the term ‘escalation’ in a similar manner to refer to the step-by-step increase of corrupt activities within a given business organization. More specifically, we suggest that the escalation of corruption consists of an increase in the ease of engaging in corrupt practice, the severity of its consequences and the pervasiveness of the illegality. Moreover, we use the term ‘escalation’ to refer to the dramatic, exponential increase of corruption within organizations. In many cases, such as Nick Leeson’s bankrupting of Barings Bank, the escalation of the illegal trading (and resulting debt) was not steady and linear, but involved sharp and punctuated jumps. So, given that corruption is a multidimensional phenomenon, with at least three aspects (ease, severity and pervasiveness), we identify the escalation of corruption along each of these dimensions.

In the next section, we discuss how the possible interactions between agency and structural variables can contribute to the escalation of the ease, severity and pervasiveness of corruption, both at the individual and the collective level.

AGENCY, STRUCTURE AND ESCALATION

Ease

By ease of corruption, we mean the likelihood that a corrupt act will take place, either for the first time or as a consequence of prior corrupt acts (Fleming and Zyglidopoulos, 2007). As a first-time act, such as Nick Leeson's hiding of his initial loss in the infamous error account, let us start by addressing the impact that a strong pressure for financial performance on an organization might have. It is reasonable to expect that if such a pressure for financial performance – which we refer to in Chapter 6 as the pressure for financial conformity – is coupled with a lack of means through which such a performance can be achieved, the chances of individuals within a particular organization attempting to realize such results through corrupt acts will be greater. This general conclusion was also made by Berenson (2003) in his excellent book, *The Number*. Here he argues that the drive for quarterly reports – especially in the context of Anglo-American capitalism that we discussed in Chapter 1 – obviously increases the likelihood of either: (1) entering into the realm of illegality to increase profits, such as insider trading; or (2) misrepresenting the profits (and losses) in the firm. From an agent's perspective, the fear of failure to meet increasingly unrealistic shareholder targets is enough to initiate the corruption.

This does not mean, however, that heightened financial pressure for performance will always lead to a significantly increased likelihood of first-time instigators of corrupt acts. But if we add to this picture the existence of various rationalizations discussed in Chapter 3 that enable actors to justify and excuse their activities within a particular organizational environment – organizational complexity that increases the chances of evasion, and an individual propensity for rationalization and self-deception – then we can expect that the likelihood of first-time instigation of corrupt acts will certainly increase. In other words, we would expect that the probability of individuals responding to environmental pressures for performance with a corrupt act would increase the more that these structural and agency factors coexist and interact with one another. But how exactly does this lead to escalation?

The answer to this question is twofold. First, the more first-time corrupt acts take place within a given organization, the greater the chance that corruption will become an organization-level phenomenon, spread through the remainder of the organization via social conformity pressures. This occurred in Enron, as more and more of the basic operating principles of the firm were immersed in the corrupt acts initiated in other parts of the organization. And, second, the situation is similar to starting many small

fires in a forest: the more fires, the greater the chances that one will end up burning down the forest.

Underlying these two reasons why an increased ease of first-time corruption can lead to the escalation of corruption within the corporation is a phenomenon called ‘the escalation of commitment’. This mechanism was identified by Staw (1981). He argued that:

There are many instances in which individuals can become locked into a costly course of action. Because it is often possible for persons who have suffered a setback to recoup their losses through an even greater commitment of resources to the same course of action, a cycle of escalating commitment can be produced. (Staw, 1981: 577)

In identifying the ways in which individuals and/or groups seemed to become committed to a course of action that escalates, Staw (1981) argued that actors are often unwilling to suffer losses from their past behaviour, which he calls sunk costs. Moreover, individuals are also not willing to admit that they have made a mistake, and thus invest further in a mistaken course of action in a futile effort to recoup their initial investment and justify their original actions. Staw mentions some vivid examples of some surprisingly serious mistakes made by ostensibly rational decision-makers, including the US involvement in the Vietnam War. In the case of corruption, and particularly the ease with which a first-time act is committed, the performance of the first corrupt act can be construed as a sort of a ‘loss’ (perhaps to one’s integrity, we might say) that an individual has already suffered. This is very similar to what Staw refers to as a monetary or other initial loss. Therefore, when it is relatively easy for individuals within a corporate environment to perform a corrupt act for the first time, the probability that they will get ensnared into an escalating commitment process will increase. This is especially so if they do not want to come clean because they have passed the point of no return and the cost of confession is considered too high – or they do not want to admit they were wrong in the first place – something which the existence of environmental rationalizations facilitates.

In many cases, the initial act of corruption is followed by similar or other forms of wrongdoing. Sometimes these are continuations of the corruption, or deeds designed to cover up the previous ones. We suggest that subsequent acts of corruption are easier to commit the second time around, for a number of reasons. First, if one was not caught the first time around, and was therefore in a sense rewarded for one’s actions, then the subsequent wrongdoing seems more rational. Second, one almost certainly has to cover up for what one did, and as Tom Petri nicely put it: ‘as so often happens with Washington scandals, it isn’t the original scandal that gets people in the most trouble – it’s the attempted cover-up’ (<http://>

thinkexist.com/quotes/tom_petri). Moreover, the fact that a corrupt act has been performed and one has got away with it adds to the probability that a subsequent one will follow, especially when more of the structural and agency factors exist and interact with one another. For example, once an individual within a complex organization deals with performance requirements through corruption and does not see the consequences of their acts because of ethical distance – the distance between the act and its negative consequences – they might invest more in rationalization and self-deception (and this can further legitimize the rationales that already circulate within the organization). Such a situation will invariably increase the probability of this same individual, or another one, continuing on the path. In other words, things not only become easier after the first act of illegality, but also become reasonable when more of the structural and agency factors identified above interact with one another.

We can refer again to the Enron case as an illustrative example. Once the financial performance targets were met through deception, it was easier the second time around because of the presence of many of the above factors within Enron at the time. Among others, Enron was in a mature industry, which prevented it from reaching its financial targets. But still it endured external and internal pressures for financial performance; there were a few individuals who found it easy to rationalize corrupt activities; and the complexity of the business allowed the prevalence of some rationalizations while preventing detection. According to Ashforth and Anand (2003: 24): ‘what might have originated as a cynical rationalization may, through repeated use, become an article of faith’. The result is an environment that makes it much easier to misrepresent the financial condition of the firm. As an ex-Enron executive said: ‘You did it once, it smelled bad . . . You did it again, it didn’t smell as bad’ (McLean and Elkind, 2003: 128).

Severity

By severity of corruption, we refer to the impact that a particular corrupt act can have on the business organization and its stakeholders (Fleming and Zyglidopoulos, 2007). In other words, fraudulent reporting of the firm’s profit position by \$100 000 is more severe than doing so by \$10 000. Or lying about the pollution implications of your manufacturing facility is more severe when a whole state is contaminated than when a household is. In other words, ‘size matters’. A useful rule of thumb to understand severity is the concomitant severity of sentencing that such an act would have if brought before a criminal court (or the amount of damages that would be allocated to the plaintiff if the case was brought before a civil court).

Why might corruption escalate in severity? As discussed earlier in relation

to incentives, it is unlikely that the underlying situation will be addressed by the misrepresentation or price-rigging, especially if the problem motivating the corruption – such as Nick Leeson’s at Barings Bank – requires open and frank discussion among all stakeholders. Darley (1992) has demonstrated how the cover-up of evidence pointing to past harms will often perpetuate the practices that caused the harms in the first place.

In the case of financial misrepresentation, for example, we can see how different agency and structure elements can coalesce to increase the probability that it will continue and increase in severity, particularly because organizational complexity makes it possible for this misrepresentation to remain hidden in further reports. If the underlying situation deteriorates, as occurred in Enron, WorldCom and Lucent, more serious forms of corruption will be required to foil detection by interested parties. Therefore, just like an untreated disease, the situation worsens over time, requiring not only more, but also more severe malfeasance. In the Enron case, because the misalignment between its strategy and its environment was increasing, the gap between expectation and actual performance only grew. As McLean and Elkind (2003) put it regarding the increasing severity of fraudulent behaviour:

. . . if you are promising Wall Street that your earnings will increase at a 15 percent annual clip, well, soon enough you’re on a treadmill that becomes faster and steeper as the company gets bigger. (McLean and Elkind, 2003: 41)

Moreover, the individuals involved for whatever reasons – including rationalizations, interest, self-deception or peer pressure – might not want to come clean, given the sunk costs mentioned above and the punitive repercussions that will result from the confession. The fear of detection has less weight than the certainty of retribution following a confession. In cases such as those identified in Enron and WorldCom, it is quite possible that the amount of money misrepresented initially keeps increasing in value. As Messick and Bazerman (1996) point out, the problem is that:

One risk often overlooked when practicing deceit is the continual need to maintain deception. Not only are original facts hidden, but the fact of hiding must also be hidden. (Messick and Bazerman, 1996: 21)

Pervasiveness

By pervasiveness, we mean the number of organizational members involved in corruption (Fleming and Zyglidopoulos, 2007), be it the same or different forms of corruption. Pervasiveness can be seen as the spreading of a virus across the body of an organization. As we have argued elsewhere,

in most cases individuals alone cannot reach severe forms of corruption. Given the often limited span of control that exists within most business firms, it is reasonable to expect that the more severe forms of corruption would involve more individuals, with the Nick Leeson Barings case being a rather rare exception to such a rule (Fleming and Zyglidopoulos, 2007). In other words, for pervasiveness to increase, the enrolment of individuals into corrupt acts is necessary and must therefore be possible.

How are more and more people enrolled in corrupt acts? Individuals might not be enlisted to do anything corrupt at first, but with time they drift along a 'continuum of destructiveness' until they are too involved to go back (Darley, 1992). This is what Cialdini (1996) calls the 'foot in the door' principle, whereby a minor initial commitment positively primes the actor for a more significant related request. As the illegality gets increasingly serious and becomes part of unofficial operating procedure, it moves from a case of destructive deviance, where one person lies in contrast to the norm of honesty, to destructive conformity where bribery and malfeasance are the organizational norm (Warren, 2003).

We propose that the interaction between certain agency and structural factors makes such recruitment easier, and thus significantly contributes to the escalation of corruption in organizations. Take, for example, the personal attributes of conformity expressed within an organizational environment pressured to perform by any means. The interaction between agency and structure will result in increased levels of recruitment to corrupt activities, once such activities are established as 'the norm'. External and organizational pressures for performance might also provide incentives for corruption to those who are more difficult to recruit without specific benefits. In such a scenario, the presence and availability of plausible rationalization scripts – such as, 'Everyone seems to be doing it, so I might as well too in order to avoid trouble' – will make it more likely that they will begin to participate. And, finally, ethical distance could insulate individuals from a direct awareness of the consequences of their actions, making rationalization and thus recruitment easier. We may conclude, therefore, that the more these elements of agency and structure interact with each other, the greater the ease with which individual organizational members are recruited to corrupt activities, with the result that overall organizational corruption escalates.

AGENCY, STRUCTURE AND MODERATION

After having read the previous section one might reasonably ask: 'Why is it then that only a few organizations become corrupt?' One answer to this

question, implied but not explicitly discussed in the previous section, is that not all of the agency and structural factors interact that often. But in the few cases that the majority of the above factors have interacted with each other, business organizations have invariably become corrupt. However, there is another and better answer: in any given corporation there are a number of moderating circumstances, which under normal conditions prevent corrupt activities from going too far or even beginning in the first place. In other words, to use the previous analogy of forest fires, these moderators can be seen as firefighters, putting out fires before they get out of control. Driving these moderating circumstances are two factors: organizational control systems and ethical codes. In this section, we discuss not only how these moderators prevent corruption from escalating in most business firms, but also how the interaction of agency and structural factors that contribute to organizational corruption can neutralize such moderating factors. Let us start, then, by discussing the moderating circumstances that usually – and one would hope more often than not – prevent corruption from escalating.

The moderating factors that would under normal conditions prevent individuals from starting or continuing corrupt activities are: detection (where the corruption required is simply too serious and obvious); lack of incentives (where the temptation to act in a corrupt manner is not present); implausible rationalizations (where the justifications seem implausible to the actors involved); and recruitment difficulties (in cases where the act of corruption requires strict secrecy) (Fleming and Zyglidopoulos, 2007). Since what is meant by each of these is self-evident, we will proceed to address how the interaction of agency and structure can neutralize their efficacy.

Let us take the hypothetical case of a salesperson who decides to falsify their sales for a given year to reach a given sales target and receive a bonus. Maybe they would falsify the last quarter's sales figures, get the bonus, and then during the first quarter of the next calendar year falsify order cancellations before the fictitious orders are delivered and they get discovered. How would the interaction of agency and structure discussed above neutralize the moderating factors that would otherwise have reduced the likelihood of the fraud taking place? First, if the pressures for unreasonable levels of financial performance are not present, pushing the organization to place unreasonable expectations on its sales force, there are no reasons to assume that our salesperson above will fail to achieve their targets and therefore fail to get their bonus. In other words, it is likely that the incentives to cheat will not be present. However, if this pressure is present, then other factors come into play. Take rationalization, for example. If justifications like 'The order was cancelled in the new year and nobody got hurt in the

end', or 'The organization owes me anyway because I practically built this place', are entertained and are common organizational currency, then not only will the decision to cheat become easier, but detection might become harder, as other organizational members might be reluctant to see the act as corrupt or harmful. Moreover, recruitment will be easier in such a case since one is not asked to participate in a novel form of activity but in something that is, informally at least, endorsed by one's friends and colleagues. A culture or subculture of fraud might develop, and thus the corruption is for all intents and purposes 'normalized'.

However, if the interaction between the components of agency and structure manages to neutralize some of the above moderators, two things should be kept in mind. First, that either one of the above factors is usually not enough to negate the moderators that exist in most business firms. And, second, what one moderator does not mitigate, another one usually will. The escalation of corruption stops sooner rather than later. And if a specific moderator is neutralized, then it might not necessarily have a long-term impact on the organization, an impact necessary if corruption is to escalate. Since these moderating circumstances do not exist in a vacuum and are influenced by the organization's control systems and ethical codes, it is the long-term neutralization or destruction of these control systems and ethical codes that allow the interaction of structural and agency elements to contribute to the escalation of corruption. The failure of ordinary moderators to neutralize or counter the escalation of corruption (that results from the interaction dynamic between structure and agency outlined above) is underscored by the failure of more general organizational features – those of organizational controls and ethical codes of conduct.

Organizational Control Systems

According to Rosanas and Velilla (2005), the purpose of organizational control systems is the alignment between 'the interests of the individuals with the interests of the organization' (2005: 85). Of course, we would expect these systems of control (that is, internal and external auditing, management accounting) to exist not only for financial performance, but also for ethical conduct (Fleming and Zyglidopoulos, 2008). Such controls are framed by the definition of corruption we introduced in Chapter 1 – the violation of social norms and rules. But, 'given the emphasis that many corporations place on achieving exceptional financial results . . . it is not unrealistic to posit that such controls for deception may be neglected in many firms' (Fleming and Zyglidopoulos, 2008). Especially if many of the agency and structure elements discussed above interact with each other to create a self-reinforcing system.

For example, extreme financial pressure or production targets might generate the motivation to 'look away' from how performance is achieved, given the difficulty and necessity of achieving it. This happened in the Ford Pinto case (see Gioia, 1992) where the production targets and quotas short-circuited ethical concerns in light of a dwindling market share. Moreover, 'looking away' is easier when relatively plausible rationalizations are available, and the complexity of the firm and the financial system surrounding it create a kind of fog that hides specific transgressions from sustained examination.

Enron stands as a classic case, as all the elements of control were present, but even its external auditors, Arthur Andersen, and the financial analysts monitoring the company were not willing to apply the existing control systems to reveal what would have been obvious to an impartial observer. In other words, the instruments designed to detect and stop the corruption at Enron were not absent, as many observers have suggested, but present (Cruver, 2002). The problem was that actors driven by the above-discussed agency and structural factors refused to use them. As an old friend of one of the authors once said: 'A working compass is useless if you refuse to take a reading.' We will return to the issue of controls in the concluding chapter.

Business Codes

According to Kaptein and Schwartz (2008): 'a business code is a distinct and formal document containing a set of prescriptions developed by and for a company to guide present and future behaviour on multiple issues of at least its managers and employees toward one another, the company, external stakeholders and/or society in general' (2008: 113). Often business codes deal with ethical issues and are therefore referred to by some as organizational codes of ethics (Adam and Rachman-Moore, 2004; Cressey and Moore, 1983; Weaver, 1993). Waddock et al. (2002) state that companies are increasingly urged by stakeholders and the state to adopt such business codes, but their effectiveness remains largely inconclusive. Kaptein and Schwartz report that 79 empirical studies found mixed results on the issue, as: '35% of the studies have found that codes are effective, 16% have found that the relationship is weak, 33% have found that there is no significant relationship, and 14% have presented mixed results. Only one study has found that business codes could be counterproductive' (Kaptein and Schwartz, 2008: 113).

But as Fleming and Zyglidopoulos (2007) have argued elsewhere, business codes might still act as an important counterbalancing mechanism to organizational control systems irrevocably skewed towards mere financial

performance. However, having only a business code is insufficient, since the interaction between agency and structure can neutralize it in a similar manner to the moderating circumstances discussed above. For example, if there is a consistent incentive pressure favouring corrupt activities, the organizational control mechanisms would tend to focus disproportionately on financial performance (ends not means). And if rationalizations are readily available and ethical distance makes the consequences of one's actions seem remote, it is quite possible that business codes will become useless, empty pronouncements that are not really integrated within everyday business behaviour. Adam and Rachman-Moore (2004) have argued that the effectiveness of such codes depends to a great extent on their implementation and integration within the business organization's operational norms. Accordingly, in order further to integrate business codes within everyday business activities, Kaptein (2002) suggests that:

Large organisations are especially advised to consider the possibility of an Ethics Helpdesk in which all employees and managers can report all suspected cases of unethical conduct, critical comments, dilemmas and advice for which there is insufficient room within the organizational hierarchy. (2002: 17)

The problem of implementation and timing is obviously salient here. If the organization is tending towards corrupt practices, then the code of business ethics will be neutralized – with the components of agency and structure interacting, escalation will then ensue. If the business code is present from the start, then it might undermine the interaction dynamic between agency and structure and impede escalation. It is as if a major 'starting point' – perhaps at the founding of the firm or in reassessment after a crisis or scandal – is required for the code of ethics to be introduced in a meaningful way.

IS THERE A CORRUPTION THRESHOLD?

Having argued that it is the interaction between certain components of agency and structure that can fuel the escalation of organizational corruption, we must now turn to the consequences of such escalation. There are two issues that we want to discuss here, that are very important for social, business and humanitarian reasons. First, there seems to be some sort of threshold, which Pinto et al. (2008) term the 'corruption threshold' or 'the point at which corruption has become so widespread that it characterizes the organization as a whole' (Pinto et al., 2008: 688). After corruption has escalated beyond this point, it becomes an organization-level phenomenon,

and the business organization itself 'jumps' into a different state of being that is frequently unmanageable and unsustainable over the long term. Second, the damage that corrupt organizations can do to society is proportionate to the 'good' that non-corrupt ones can do. Organizations, among other things, are quite sophisticated tools that we have invented to achieve goals that individually we cannot achieve (Perrow, 1986). When an organization gets corrupted and moves away from society's norms, the possible damage is so much the greater. In other words, corrupt individuals can do only so much harm, but corrupt organizations can do a lot more, as a number of disastrous examples from business and political history have shown us. Let us discuss the first consequence of escalation, the passing of the threshold of corruption; we shall then briefly discuss the second consequence in the concluding section of this chapter.

According to Miller and Friesen (1984), the various elements of business organizations 'have a natural tendency to coalesce into quantum states or "configurations" which reflect integral interdependencies among' them (1984: 23). Miller and Friesen (1984) argued and found evidence that these configurations tend to be orchestrated around a central theme, which defines the configuration and makes its various elements fit with one another. And in accordance with the 'punctuated equilibrium model' of organizational transformation (Gersick, 1991; Tushman and Romanelli, 1985), Miller and Friesen (1984) also found that firms tend to remain within a given configuration for relatively long periods of time, and sometimes in relatively short periods of time they transform themselves into another configuration, where the different elements of the organization reconfigure around a new central theme.

In a similar manner, what could happen when many of the above-discussed structural and agency factors interact with one another, and corruption escalates or snowballs out of control, is that the firm crosses a kind of threshold, which we refer to as the 'corruption threshold'. This is where the organization becomes a different kind of operation and enters into a different configuration (see Figure 8.2).

Here the organization passes some sort of a 'tipping point' (Gladwell, 2002; Shapiro, 2003), after which corruption becomes the norm. After crossing the corruption threshold, a business firm becomes qualitatively different from its previous state. Before the threshold, corruption is an individual phenomenon, no matter how widespread, whereas after the threshold it becomes an organization-level phenomenon. As the firm crosses its corruption threshold the central theme of its configuration is corruption, and it is corruption that brings together the various organizational elements and practices. It does not matter if most of the individuals in the organization are still honest people who are just doing their jobs, for at the

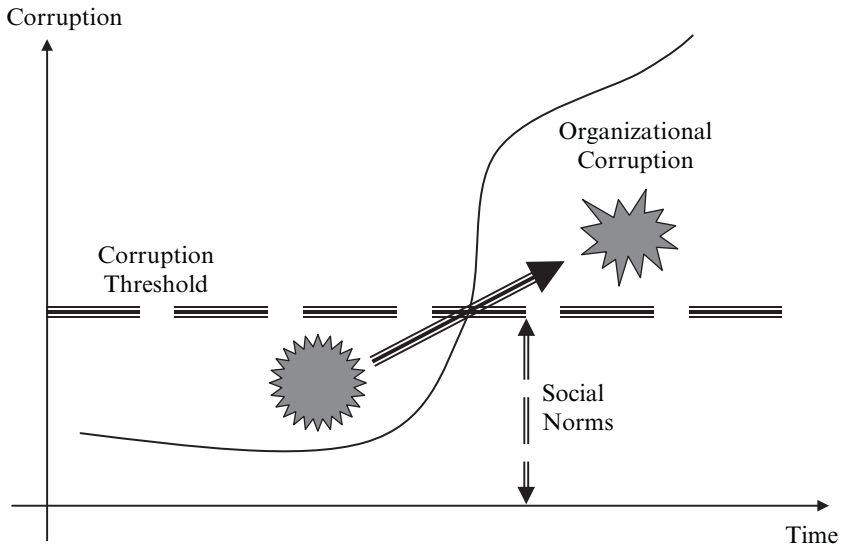


Figure 8.2 Corruption threshold

end of the day they contribute to the overall corrupt theme of the firm. As McLean and Elkind (2003) report with reference to the Enron case, this became apparent to the US government in its efforts to prosecute Enron, so that in the end:

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

According to Brief et al. (2001) and Baucus (1994) organization-level corruption (or 'institutionalized illegality' as they refer to the phenomenon) is qualitatively different from corruption in general because it acquires a systemic, taken-for-granted status. In other words, corruption is no longer the exception but becomes the norm. Drawing on the sociological literature on deviance, Warren (2003) argued that there are two kinds of deviance within a business organization: constructive and destructive. And accordingly there are two kinds of conformity: destructive and constructive. Warren (2003) characterized a particular behaviour as deviant or conformist based on whether it complied with organizational norms; and constructive or destructive based on whether it complied with some extra-organizational hypernorm (Donaldson and Dunfee, 1994, 1999). These

are global norms that encompass basic human principles such as nourishment, justice, physical safety and freedom. According to Warren (2003), hypernorms can be very useful in identifying 'destructive behaviour', and we could add corruption, because:

In essence, these metanorms provide a global standard for evaluating behaviour that extends beyond organizational and country-specific boundaries. The appeal of using hypernorms as a standard for judging workplace deviance lies in their inclusiveness and ease of empirical application. (Warren, 2003: 628)

Therefore, following Warren's (2003) terminology, corruption becomes an organization-level phenomenon when corrupt activities cease to be destructive deviance but instead become destructive conformity. Most conform to the organization's norms, which are a major violation of broader hypernorms that have destructive outcomes. The usefulness of the notion of hypernorms depends on how we can figure them out. Plato said something very similar when he argued that our everyday behaviour should be guided by the Forms, of justice, courage, beauty and so on, which he saw as existing in an ideal realm independent of everyday reality, a realm which very few could access, only after decades of intense philosophical inquiry. In this case, Donaldson and Dunfee (1994, 1999) propose an easier and more empirically driven approach in determining these meta standards, which can be used to determine whether a particular act is corrupt or not (in the broad sense of the term discussed in Chapter 1, as not necessarily illegal). Donaldson and Dunfee (1994, 1999) propose that researchers should look for such standards within global organizations such as the United Nations, the International Chamber of Commerce and the International Labour Organization. This offers a more practical approach, especially in cases where different cultural norms around the world confuse the matter. Of course, the application of hypernorms is not a perfect solution to the problem, as many of the norms espoused by the global organizations Donaldson and Dunfee propose are the result of power. Nevertheless, the application of hypernorms in determining whether an organization is corrupt as a whole – if, in other words, it has crossed its corruption threshold – is a step in the right direction.

As discussed above, Miller and Friesen (1984) propose that corporations tend to coalesce around a particular theme that determines and unites their type of configuration. It seems here, however, that as soon as a business organization crosses some point that one can label the 'corruption threshold', the corruption becomes an organization-level phenomenon because many of the behaviours that would otherwise have been constructively deviant, to use Warren's (2003) terminology, are 'pushed' into the realm

of compliance. Ironically, an individual might be labelled deviant in such an environment precisely for not being corrupt. In other words, when organizational corruption becomes the background against which all actions and behaviours exist, these actions and behaviours are forced into compliance with organizational corruption, which in turn makes the pressure for compliance greater, creating thus another positive feedback loop between the part and the whole. The parts and their interactions drive the whole gradually, until after a certain point the whole pulls the parts along in a momentum that speeds up the process and often leads to the destruction of the firm.

In such cases, including Enron, Tyco and Lucent, corrupt businesses not only tend to socialize honest individuals through peer pressure, inculcation and normalization (Brief et al., 2001), but also tend to hire the wrong kind of people (who are the 'right' kind from the corrupt organizational perspective). According to Cialdini et al. (2004), 'unethical corporations do not merely select and retain dishonest employees; they create them too' (2004: 70).

CONCLUSION

In this chapter, we have argued that the interactions between the various structural and agency factors, identified and discussed earlier in the book, contribute to the escalation of corruption in two ways. First, these interactions contribute in a positive way by increasing the ease, severity and pervasiveness of corruption; and second, they contribute in a negative way by neutralizing the moderating circumstances and underlying control systems and ethical codes that prevent corruption from escalating under most circumstances. In addition, we discussed one of the major implications of the escalation process: if corruption escalates without control, it appears to cross a kind of 'corruption threshold', after which corruption becomes an organization-level phenomenon, pulling together all the other elements into a new kind of configuration. This new configuration is most often very unstable, leading to the spectacular demise of firms that we have witnessed so often over the last few years. In a sense, crossing the corruption threshold can be seen as an emergent process of interactions similar to those major catastrophes that result from groupthink. The Challenger story provides us with such an example. According to Vaughn (1996):

Pre-rational forces . . . shape worldview, normalizing signals of potential danger, resulting in mistakes with harmful human consequences. The Challenger launch is a story of how people who worked together developed patterns that blinded

them to the consequences of their actions. It is not only about the development of norms but about the incremental expansion of normative boundaries: how small changes – new behaviours that were slight deviations from the normal course of events – gradually became the norm providing a basis for accepting additional deviance. (Vaughn, 1996: 409)

The Challenger catastrophe is a good example with which to close the chapter because it reveals in a dramatic way another consequence of the escalation of corruption. This refers to the damage that society can suffer as a result. The main reason for the creation of any kind of organization, business organizations included, is that individuals alone cannot achieve certain goals. By pooling their resources together in a complementary way, goals otherwise beyond reach are achievable. This makes the business corporation, among others, a very powerful tool through which groups of individuals achieve certain goals to a greater extent than each one of them would have managed to achieve on their own. These tools become poignantly destructive when an organization gets corrupted and turns against society. In a similar way that an individual thief can do only so much harm, compared to an organized criminal organization (we think of the mountains of garbage rotting in the streets of Naples resulting from organized criminal activities, see Saviano, 2008), a corrupt individual within or without a business organization can do only so much harm compared to what a corrupt organization can do. So while it is important to control corruption within business organizations, it is even more important to check its escalation. In the concluding chapter, we shall present some recommendations on how to do so, from the perspectives of the individual finding himself or herself in a corrupt setting, and from the perspective of the firm that might have issues with individual corruption and wants to prevent it from escalating into an organizational phenomenon.

9. Conclusion: Individuals, organizations and the political economy of the firm

This book has developed the concepts of agency, structure and escalation to chart corporate corruption in the post-Enron business world. We have demonstrated that corporate corruption is *prima facie* an enigmatic and rather mysterious thing. Once we move beyond simplistic explanations that posit base motives (such as greed and power), it becomes trickier to explain why ‘breaking the rules’ holds such sway over certain individuals and organizations. In order to understand why otherwise ethical citizens may find themselves engaging in some very dubious behaviour, we must turn to more sophisticated conceptual tools. Having applied the ideas of social psychology, moral philosophy and business ethics, we are able to shed some light on some of the less obvious factors that may be involved. In doing this, we hope that the preceding ideas provide a better appreciation of corruption in organizations and its causes.

Towards this end, we have also aimed to give a wider and more comprehensive view of corruption, one that moves beyond the conventional definition of individuals using their official position for personal gain. While this feature of corruption is important, in the post-Enron era we have to grasp how corporations as a whole may become corrupt. Rather than an individual simply pilfering an organization by receiving a kickback, for example, they might also engage in corruption on behalf of the firm. In milieu that have passed the ‘tipping point’ of organizational illegality, individuals participating in an act of corruption would not be defined as deviant but more as undertaking an act of conformity. Similarly, our understanding of corporate corruption must be supple enough to account for strange incidents that surround the likes of Nick Leeson. His corruption was not for personal gain (although vicariously it was, since he was trying to impress his bosses with huge profits), but eventually designed to save the firm from a major problem that he himself had caused.

Three key concepts have been highlighted that we argue are crucial for charting corporate corruption and dispelling the mystery around its various manifestations. The first was agency. Here, we began by unpacking

the 'folk' explanation of corporate illegality, which simply posits that some people are just 'bad'. This is ultimately a problematic approach to unethical behaviour since it gives too much moralizing power to those in charge of sorting out 'bad' individuals from 'good' ones. However, there is a kernel of utility in a more sophisticated version of agency that underlines this perspective, since it highlights the importance of choice and intent. In other words, in all the cases we have observed in the corporate world, there was always the option to act otherwise, to paraphrase Arendt once more. This must remain a powerful analytical tool for weighing the act of illegality. And it also checks some rather clumsy justifications of corrupt actors who claim that they had no choice in the matter. The main message in chapters 2, 3 and 4 – of which Nick Leeson's behaviour is a defining exemplar – was responsibility for various choices.

We then muddied the waters somewhat by introducing into the frame the notions of rationalization and self-deception. While agency remains the dominant backdrop to these terms – we choose to rationalize, we choose to self-deceive – these ideas do take us one step away from the archetypical 'bad individual'. This is necessary simply because in many cases of corporate corruption that we have observed, individuals actually justified to themselves and others the moral correctness of behaviour that an outside observer would find patently wrong.

The concept of structure takes us one more step away from the 'bad individual' – the rational, wilful and choosing individual – and evokes the insights of organization theory and social psychology regarding the power of the social environment to make us do things we would not otherwise have done. A favourite pastime of social psychologists is to relay the innumerable experiments that demonstrate how we all act very differently as soon as we become a member of a group. We often conform to the pressures of the group, take riskier decisions and are obedient to various forms of authority, especially when the group solidifies into a rational-legal bureaucracy. And what is the case for individual people is the same for individual organizations in a business environment that pressures the firm to meet increasingly unrealistic financial targets. In the era of 'shareholder capitalism' in which quarterly reports are the only measure of success, then it is no wonder that some would be 'tempted' to cheat, break the rules and engage in all sorts of illegal behaviour to gain that extra profit point for investors. This is especially the case in Anglo-American variants of the firm. A consequence of the 'growth by any means' mentality is that corporate governance structures become a precarious and rather solitary dance between principals (investors) and agents (senior managers). All other stakeholders – workers, the environment, government, consumers and so forth – are left at the wayside. As many corporate social responsibility

crusaders now argue, this myopic focus is ultimately self-destructive since these other 'minor' stakeholders are as crucial to the maintenance of the capitalist firm as investors and owners.

Something that has really inspired the writing of this book is the lack of scholarly discussion around the way in which corruption can rapidly escalate. We have all heard in the popular media and the business press the terms 'snowballed out of control' and the 'slippery slope' which individuals find themselves on. This was especially so when describing Enron and WorldCom's swift descent into illegality. For sure, the escalation of Nick Leeson's illegal trading activities provides an individual-based microcosm of such a descent. Who can forget the way in which his minor loss of a few thousand dollars suddenly ballooned into a multi-million dollar hole in the Barings balance sheet that he then needed to cover up? Chapter 8 aimed to place this escalation process on a solid conceptual ground. We have argued that when elements of agency and structure combine, this is more likely to result in escalation, especially if key moderators that might have curbed illegal practices are short-circuited.

In this concluding chapter of the book we turn to implications, and in particular what our analysis of corruption might mean for those endeavouring to prevent or treat it. We hope that the preceding charting of corporate corruption has at least demystified aspects of the phenomenon, and thus enabled a more accurate diagnosis of illegal activities and why they might transpire. We now want to suggest some concrete interventions for those interested or empowered to deal with the problem of corruption. As with most interventions, the complexities and specificity of 'real-life' situations often confound the abstract recommendations usually proffered in books like this. So we have tried to be circumspect about universal schemes and do not claim that they will be applicable (or successful) in every case. Organizations are complex things, and people are frequently not amenable to the generic 'one size fits all' theories of practical advice bandied about in business schools.

Given these caveats, we now outline various types of interventions that might be useful for dealing with corruption. We focus on three levels: namely, the individual, organization and business environment levels. Each dimension has a specific set of issues that any intervention aiming to address corporate corruption must be sensitized to. Some of these measures were mentioned in the previous chapter as the absent moderators that may exacerbate the escalation process. Here we now focus on their implementation and usefulness in the context of complex corporate forms. Moreover, it is important from the outset to gauge whether the intervention is preventative or a treatment of pre-existing acts of corruption. For once a firm has begun to travel down the slippery slope of illegality, we must

significantly change our mindset about how to deal with it. As Simpson (2002) argues, individuals already engaged in criminal behaviour view the world in a particular light, one that is less afraid of punitive measures or threats of sanction ‘because to do so would reduce a criminal’s confidence that the illegal act could be completely successful’ (Simpson, 2002: 29). The upshot is that interventions aimed at prevention and treatment will be dissimilar, since the stakes are different and the mentality of the corrupt actor is of a qualitatively different form. In this final chapter, then, we are more interested in preventative methods since once corruption has become embedded in a firm, it is of more interest to law enforcement authorities than the frameworks offered by business ethics scholars.

INDIVIDUAL-LEVEL INTERVENTIONS

There are a number of important measures that an organization as a whole, a department or subgroup within an organization can take in order to decrease the likelihood that individuals will engage in forms of corruption. The first is the most salient – organizational controls. Most definitions of control focus on the instruments and technologies that can be deployed to constrain individual behaviour, directing their energies in a manner that achieves organizational goals. Controls pertaining to corruption are related to this general definition, but entail a different aim in relation to ethical behaviour among individuals. As Lange (2008) puts it: ‘corruption control emphasizes the minimization of an undesirable state (intentional maleficence), while organizational control in general emphasizes the maximization of a desirable state (cooperation and efficiency)’ (Lange, 2008: 713). Clearly this definition of control applies to the firm before it has been engulfed by corruption as a whole, and the act of wrongdoing is still considered as ‘deviance’ by the organizational environment.

Lange’s (2008) typological description of the various controls that can be deployed to minimize the chance that individuals will commit illegal activities is useful. He argues that corruption controls can take different forms depending on the type of behaviour that might be targeted. Moreover, this typological description provides an underlying frame for pointing to some antecedents of corruption if these controls are absent. He argues:

Each of the many different approaches to corruption control serves one of four dominant functions: (1) autonomy reduction, in which the organization circumscribes the member’s freedom to perform certain actions; (2) consequence systems, in which formal organizational reward and punishment systems influence the member’s behaviours; (3) environmental sanctioning, in which the organization interprets and transmits to the member external pressures for legal/

regulatory compliance and social conformity; and (4) intrinsically orientated controls, in which the organization fosters and facilitates the member's own inclination to reject corrupt behaviour. (Lange, 2008: 713–14)

Lange (2008) goes on to suggest that these control functions might take various forms. The limitation of autonomy tends to imply coercion and bureaucracy in which roles are very well defined and monitored in a manner that expects certain behaviours and detects unwanted ones (Lange, 2008). We can recall how Nick Leeson, for example, managed to get away with so many of his illegal trades because he was largely left to his own devices. When the bureaucratic reporting mechanisms did eventually bear scrutiny on his trading, he tried to doctor the required reports, but finally he could not hide the losses any more. Management accounting structures are another obvious form of bureaucratic control – and it is the tragedy of the Leeson case that just before he joined the firm Barings decided not to implement a sophisticated accounting monitoring system because it was deemed too costly. The use of consequence systems implies controls involving punishments and incentive alignments in which the expectation of sanction following wrongdoing is clear and certain (Lange, 2008). If one contemplates the fabrication of a healthy balance sheet for auditors, there must be a well-articulated structure that results in the actor expecting certain repercussions (being dismissed, and so on). Environmental sanctioning points to social, legal and regulatory forms of governance that again must be clearly understood by organizational actors (Lange, 2008). This entails the communication of laws pertaining to health and safety, fraud and bribery, and the fact that the organization expects all to observe these rules. And intrinsically orientated controls are indicative of self-controls and social sanctioning in which the peer group environment is structured in a manner to disincentivize corrupt activities (rather than support them as we demonstrated in Chapter 5) (Lange, 2008).

We suggest that the most pertinent control out of the four above is the bureaucratic form, since it relates to important themes that we have raised earlier regarding complexity and transparency, especially with respect to the escalation of corruption. It can be recalled that complexity can combine with other agency and structural factors to increase the likelihood that an actor might engage in corruption. It can hide the corruption – as in the case of Enron – and also provide a powerful rationalization script as in the case of the bankers Jackall (1988) studied who were ethically distanced from the consequences of their actions ('I cannot see any harm being done to anyone').

While bureaucracy is often the source of complexity, its ideal aim is to simplify and clarify the organizational form (Weber, 1948). Straightforward bureaucratic controls can facilitate transparency in a manner preventing

organizational complexity from being used to hide or rationalize forms of corruption. For example, in the case of Enron, the business would not have descended so far into illegality if its organizational accounting systems had been kept as simple as possible. With less sinister motives, often individuals within organizations complicate things beyond what is required by the task at hand because they are rather insecure about their position and want to safeguard it by making themselves indispensable. This can be dealt with in a few ways. For example, all individuals could be obliged to explain in simple terms what they are doing and why they are doing it to somebody outside their field. Such a measure would not only simplify processes that might otherwise become complex beyond reason, but also facilitate inter-organizational communication and make the various organizational parts more visible to each other. It would also prevent the creation of specialized cultures, which become isolated from the rest of the organization and could therefore over time develop their own norms and cultural standards that 'make sense' within their group.

Transparency, in the sense of all organizational parts being visible and comprehensible to each other and to the outside world, we expect would have a great impact on the prevention of corruption, for a number of reasons. Transparency would tend to prevent the creation of some of the rationalizations that can be used to justify corrupt activities. For example, often individuals in large business organizations rationalize based on the idea that: 'My contribution is such a small part of the whole that what I do does not really matter.' Organizational transparency can reorient the actor's view of their position by reducing the ethical distance between their actions and the consequences. In other words, quite often individuals are willing to go with the above rationale when they cannot really see very clearly their role in the overall organizational result. They are less willing to go with such a rationale if their contribution to the end result is very clear, no matter how small. Also, quite often the overall result is not visible to individual organizational members, but becomes clearer and more visible when they can see how the other parts of the organization complement what they or their part of the organization does.

These controls are important once the individual enters the firm and is then subjected to the everyday 'temptations' of the corporate world. The control mechanisms indicated above may reduce autonomy and complexity, as well as simplify the organizational structure for actors. Some have argued, however, that controls should also be aimed at how an organization determines who exactly might be asked to join in the first place. 'Section' controls are a subset of bureaucratic controls and relate to the ways in which an organization might filter out individuals prone to certain types of illegal activity. This is a difficult issue, however, since metrics to test an individual's

proclivity for transgression and unethical activity are notoriously inaccurate (Matten and Crane, 2007). This is exacerbated by the individual characteristics actually celebrated in the corporate world – competitiveness, individualism and financial ruthlessness, to name just a few. Depending on your perspective, these might all be seen as indicators of a willingness to engage in corporate wrongdoing as much as to make large profits for the organization. This is why some have argued that it is also important to place an anti-corruption emphasis on the firm as a whole rather than simply control for individual behaviour. In other words, organizations should not simply expect bad things from actors and hope that the control measures will inhibit their expression. Firms ought also to become sites of ethical conduct in order to promote the ‘good’ features of individuals.

ORGANIZATION-LEVEL INTERVENTIONS

Interventions at the organizational level are based not so much on the prevention of potentially ‘dangerous’ activities in the firm, but instead emphasize the normative elements that reward and engender ethical conduct. Having said that, this intervention takes its cue from the last of the controls we mentioned above: that of instigating mechanisms within the organizational collective that make corruption less likely to take hold of the group. The point is to generate a social milieu in which corruption would be perceived as a form of unacceptable deviance – and to instigate systems and norms that reinforce that assumption throughout the firm.

The most common way in which corporations endeavour to establish holistic processes designed to thwart firm-level corruption is through the implementation of codes of ethics. These are voluntary statements that express a commitment by the organization to certain ethical standards of conduct. They are usually communicated from the top of the firm and are designed to establish parameters for acceptable (and unacceptable) behaviour. These codes of ethics may be articulated at various levels, including the profession and the industry in which the firm is operating (Matten and Crane, 2007). For example, Siemens UK has this code of ethics relating to compliance:

We conduct our business responsibly and in compliance with the laws and regulations of all the countries where we do business. Siemens does not tolerate illegal and unethical behavior. We have established binding company guidelines that require all our employees worldwide to behave ethically and in conformity with the law. These guidelines are the basis of our work and the relationships of our employees with one another as well as with our customers and partners. (www.siemens.co.uk/ accessed 10 July 2008)

Codes of ethical conduct like this one have become widespread practice in many corporations. Critical commentators are perhaps correct in arguing that many of these programmes are designed to quell the fears of regulators and consumers more than reinforce ethical practices in the firm. In much the same way that Corporate Social Responsibility (CSR) has become something of a public relations (PR) exercise among large corporations like Shell, British American Tobacco and others, codes of conduct might be considered as a way of ideologically distracting attention away from a firm's core practices (the same has been said about social accounting exercises, social auditing and corporate citizenship programmes). There are two ways in which we can take the idea of codes of ethical conduct forward in a progressive manner. First, we mentioned codes of conduct in the previous chapter, regarding absent moderators in the escalation of corruption. Their presence is important in this context, since any indication of a moral or ethical compass for those individuals who might have reservations about engaging in illegal practices is better than none at all. In this sense, even a superficial indication of ethical rules can have an effect on these actors, and in this sense codes of ethical conduct simply echo the expectations of society inside the firm. Such codes can be seen as the conscience of society entering the corporation, and as such may activate various types of ethical reasoning often diminished in the hurly-burly world of business. Second, codes of ethical conduct can be used to hold organizations to account for their actions. While this is especially so after the incident of corruption has been detected, it may also take on a preventive tone. The pressure for managers to follow some kind of ethical reasoning will be stronger if they are likely to be perceived as hypocrites in light of the codes of ethics that they have endorsed themselves.

The importance of ethical codes of conduct resonates with other methods in which an organization can hope to generate processes that enhance the 'good' dispositions of its members and reduce the likelihood of corruption. The development of what is often referred to as an 'ethical culture' may strengthen the moral reasoning of individuals who face various types of dilemmas and temptations (Trevino et al., 1999). In building a culture that overtly valorizes honesty, transparency and ethical reasoning, the organization can almost do without the coercive restraints on individual behaviour mentioned earlier. The norms, values and attitudes of the collective can be aligned with the broader codes of society, so that the thought of engaging in corrupt practice might not even appear on the radar. The assumption here, of course, is that the norms and values of society are uniform and morally correct, which might not always be the case.

An example of the way in which an ethical culture might mitigate the proclivity towards corruption in certain individuals pertains to rationalization. Managers must not only demonstrate how specific rationalizations

'do not make sense', but also create such an organizational environment in which such rationalizations 'cannot make sense'. In a cultural milieu in which the pressures for financial performance are strong, for example, this becomes a serious battle for the minds of employees and has to be fought in different ways for each rationale. For example, rationalizations can be removed from the economy of organizational sense-making by instigating more ethically acceptable scripts regarding the consequences and repercussions of organizational actions.

As Matten and Crane (2007) indicate, however, the problem with the idea of an 'ethical culture' is mostly in its implementation. Should it be established formally (training, codes of conduct, the use of business ethics consultants, and so on) or informally with the help of leadership and more soft forms of ethical direction? A formalized programme is one that involves compliance orientation (implementing or threatening the use of punitive measures), values orientation (having employees identify with certain expectations), external orientation (in which the needs of other stakeholders is salient in the business rationale) and protection orientation (whereby employees look to protect the organization from various types of incrimination and risk) (Matten and Crane, 2007). A formalized ethical culture will therefore utilize more coercive measures to gain the required culture change. In relation to the example of rationalization discussed above, the justification that 'everybody does it' could be fought either through the exemplary punishment culture and/or through a redesign of organizational control and reward systems so that the particular corrupt activity cannot go unnoticed. Informal approaches to an 'ethical culture' are much more 'soft' in their implementation and often involve the use of leadership to inculcate the desired values. The limitation of the formal approach is that it is an imposition on organizational members and suffers all the problems of any culture change programme, which are notoriously unpredictable and difficult to achieve. The limitation of the informal approach is that the message might be too weak and simply does not 'sink in'. Perhaps a moderate use of both approaches is the most realistic way in which an ethical culture can be achieved.

An ethical organizational culture designed to prevent or curb the temptations to participate in practices of corruption must empower employees, managers and other stakeholders to voice their concerns regarding the organization's conduct. Many companies now have anonymous communication lines through which members can let senior management know about any illegality in the firm. The endorsement of 'whistle-blowing' practices has been employed in some organizations; again perhaps more as a PR exercise than as a substantive attempt to create a transparent space. Corporations are very antithetical towards bad press and the idea of employees 'going

public' and damaging the reputation of the firm is a threat they take very seriously. Jeffrey Wigand is perhaps the most well known 'whistle-blower', who provided evidence that top management of a tobacco company always knew that smoking was addictive and damaging to consumers' health (a fact denied until very recently on the basis that there was not enough scientific evidence). A civil servant whistle-blower similarly revealed the dubious way in which Halliburton unfairly received many contracts following the invasion of Iraq. Thus, internal whistle-blowing programmes in this sense might be a strategy of dealing with corruption 'in-house' rather than letting it reach the newspapers. Whistle-blowing is problematic on other levels. The lack of protection against retaliation by companies and government departments is a major disincentive for whistle-blowing activities. In the US, the Bush administration repeatedly thwarted attempts to pass the Whistle Blower Protection Act 2007 for civil servants on the basis that it would jeopardize national security. While some protection is afforded under forms of legislation (environmental damage, health and safety), the law remains fragmented and unreliable. UK whistle-blowers are protected from victimization by the Public Interest Disclosure Act 1998. Internal whistle-blowing may also be a mechanism to instigate various forms of punishment among disputing factions in the organization. Behrens and Machado (2008) studied how a US multinational set up hotlines in its Brazilian subsidiary to allow the anonymous reporting of criminal activity. In a classic example of unintended consequences, employees simply used the hotline to denunciate tyrannical bosses and line managers, utilizing the technology as a form of revenge.

BUSINESS ENVIRONMENT-LEVEL INTERVENTIONS

The final intervention pertains more to a dialogue that we feel ought to take place in the broader political economy of the firm and business environment. This concerns the way in which the economy in Western countries (which is increasingly encompassing the global system) has created a corporate form more or less prone to the types of corruption that we have been discussing in this book. The first issue relates to the rampant shareholder or investor capitalism that is currently reshaping the way organizations conduct their business vis-à-vis other stakeholders in the firm's sphere of influence. As Useem (1996) points out in his wide appraisal of shifts in the corporate form, a power struggle has been waged over how the organization is run in Anglo-American economies. Whereas 20 years ago a cadre of dark-suited senior executives in plush corporate offices ruled the large firm, it is now the imperatives set by shareholder boards and investors that dominate their business logic. We discussed in the Introduction and

Chapter 6 the kind of economic pressures that are now placed on firms regarding shorter return cycles and quarterly profit reports. The result is a myopic short-termism that subordinates almost all other considerations, including those of important stakeholders that might create more accountability around the way a firm conducts its business. It is no wonder that this cut-throat business environment has the added corollary of supporting a corporate culture startling in its ruthless, individualistic, self-serving nature, attributes that make actors more susceptible to breaking the rules in order to post favourable financial results.

This business environment has led to a very socially isolated theory of the firm. It is now considered as a utility-maximizing entity that serves only the profit logic dictated by invisible shareholders and investors. Making matters worse is the way in which the corporation in the UK and the US, for example, is legally distinct from the individuals who manage and own it (Dine, 2005). It is easy to see how a culture of negligence and corporate wrongdoing can develop in light of invisible investors and low personal culpability. A major intervention in this area would be the implementation of some kind of critical stakeholder management approach. A stakeholder theory of the firm is one that positions business practice within a network of stakeholders who have an interest in the organization's activities and can influence the organization in various ways (Freeman, 1984). Stakeholders might be consumers, the government, workers and so forth. This perspective is usually evoked as an instrument to achieve corporate social responsibility. The problem is that most of the time firms simply use this perspective to manage risky or troublesome stakeholders so that it can get on with the job of making profits (Jones and Fleming, 2003). A critical approach to stakeholder management is one that aims to take seriously the democratic notions of dialogue, cooperation and consultation among stakeholders.

This is relevant for addressing corporate corruption for two reasons. First, it rethinks the nature of the corporation in a manner that diffuses the frenetic singular concern with profits currently characterizing the Anglo-American model. While all capitalist organizations are ultimately there to make money, this can be done in a variety of ways, some of which are less ruthless than others. The second reason why some kind of critical stakeholder approach might be useful for addressing corruption relates to transparency. If other interests had been meaningfully involved in the activities of Enron or Siemens, then a degree of accountability and transparency would have been more likely. The organizations would simply have become more open. Of course, corruption can occur in network capitalism as well – look at Italy for pretty obvious examples. But if stakeholders with different political interests relating to the conduct of the organization all have some knowledge and practical input pertaining to its business activities, the

likelihood of corrupt or illegal activity will be lessened. We could perhaps term this the ‘democratic solution’ to corporate corruption.

We also need to think about the regulatory and compliance agencies in the business environment, that in the post-Enron world of business are more powerful than ever. How do their activities impact upon a firm’s likelihood of committing acts of corruption? This is where the story gets very interesting. From a broad perspective it does seem that ‘crime pays’. As Simpson (2002) points out in relation to the antitrust fines imposed on Archer Daniels Midland in 1996: ‘the fine of US\$100 million, while the largest criminal antitrust fine ever, barely makes a dent in ADM’s US\$13.3 billion in sales during 1996. ADM’s stock rebounded one day after the deal was announced, closing at a fifty-two-week high’ (Simpson, 2002: 110). In this sense, larger firms are not overly worried by the kinds of fines imposed on them when engaging in acts of legal violation and corruption.

But the story is more complicated than simply increasing the fines. Simpson’s (2002) analysis goes on to discuss what might deter corporations from engaging in acts of fraud, antitrust violations and so forth. Compliance is not about punishment, but finding ways to persuade adherence to the rules in a business community. One of the more interesting findings on this topic is that the expectation of punishment has little deterrence power in the mindsets of managers. Simpson points out that the recidivism among organizations that have been fined for price-fixing and other forms of corruption is high. Indeed, an organization is more likely to engage in corporate crime if it has previously been investigated by a regulatory body than a firm which has not. In this sense, then, punishment and financial sanctions are of little deterrence. She writes:

Neither sanction certainty nor severity appears to affect compliance decisions . . . the fear of formal punishment does not drive executive decisions to offend or not to offend. Rather, consequences related to detection – perhaps costs to reputation, embarrassment, guilt and other informal costs – may affect managerial choices. (Simpson, 2002: 93)

This point regarding deterrence brings us back to the introductory chapter regarding the prominence of anti-corporate sentiment in popular consciousness. A free media is very important in any democratic society. While the term ‘freedom’ ought to be qualified when it comes to the media (given ownership structures, and so on), its ability to report and announce the misdemeanours of firms will play an important regulatory role in preventing corruption, given the statement by Simpson above. This is especially so in an era where companies invest large amounts of resources to nurture a gleaming and attractive reputation. Perhaps this is why corporate crime receives so much attention in today’s media. One is reminded of the

sensational images of the police raid on Deutsche Post Chief Executive Officer (CEO) Klaus Zumwinkel (for tax evasion). The overkill of both the police operation and the reportage, including images of the embarrassed and rather dishevelled former CEO being dragged out of his house, sent a strong message to the business world. Perhaps such embarrassment offers more deterrence than financial punishment.

CONCLUSION

We have almost reached the end of our exercise in charting corporate corruption, and we hope that now the enigma and mystery that surrounds its manifestation, maintenance and escalation has been dispelled. We want to end on two points relating to the broader question of how we can make sense of corporate corruption at the present juncture in the global economic system.

The first issue relates to how we ought historically to position corporate corruption as we have seen it unfold in large firms like Enron, WorldCom and many others. Such a positioning is certainly imbued with political import. Is it true that human organizations have always involved elements of corruption, and that what we see today is no different? Or as Pinto et al. (2008) put it: 'corruption is a persistent feature of human societies, with the earliest references dating back to the fourth century BC' (Pinto et al., 2008: 685). The problem with this statement is that it does tend to normalize it across time and space, lifting out the variants that we see today from its specific historical context. We suggest that the types of corporate corruption seemingly endemic in the corporate infrastructure in Western economies is symptomatic of a certain mode of economic activity. The financial scandals of recent years are completely indicative of the kind of unbridled Anglo-American capitalism that has hegenomized the global economy. Following the sweeping away of the social compacts that characterized the 1970s, a new kind of economic institution emerged in which 'greed is good' (to quote Gordon Gekko's immortal celebration of capitalism in the film *Wall Street*¹) and 'the market is god' (see Frank, 2000). In the context of this 'extreme capitalism', as Frank (2000) calls it, it is very difficult to tell whether corporate corruption is breaking the 'rules of the game', or simply the purist expression of those rules. If corruption is as widespread and thoroughly imbued in the corporate institutional system as many commentators believe, then perhaps corruption is not an aberration in which capitalism fails, but simply the ideal expression of this form of capitalism. If this is the case, then the scholarly analytical frameworks that dominate the study of corruption must be fundamentally rethought.

The second concluding point builds upon the first. So many studies of

corruption take on a thoroughly moralizing tone – something we have endeavoured to avoid in this book. As we mentioned in the Introduction as well, the very term ‘corruption’ is redolent of religious-ethico meanings that point to a fall from grace. This moralizing is problematic for at least two reasons. First, and echoing the first concluding point, the treatment of corruption as a ‘moral’ aberration almost automatically legitimates the corporate system as the sound default option. By morally rebuking a few corporate ‘bad apples’, we implicitly assume that the system in its ideal form is pure and clean. However, a brief survey of the injuries caused by global capitalism and the startling pervasiveness of corruption in the economic system confounds this assumption. The second problem relates to the power achieved when an individual or institution points the finger at corrupt actors, companies and nation states. This issue brings us back to the problem we raised in the Introduction in that the term ‘corruption’ is often used as a weapon by superpowers to maintain their control over less powerful nations. This is illustrated in the constant denigration of Russia as a corrupt nation by the US government, which shores up a certain geopolitical strategy and also implies that the US is free from corruption or corporate illegality. And within Russia itself, the mind boggles at how basic human rights have been suspended in the name of persecuting corrupt individuals. None of this is to condone blatant acts of corruption in any country. It is just to remind the reader that corruption must be positioned in a broader political economy if we are to gain a sophisticated understanding of its meaning and significance in contemporary business discourse.

The aim of this book has been to gain a better understanding of corporate corruption and its causes by charting the way in which agency, structure and escalation figure into its manifestation. Corruption is a major problem, given the damage that it can do to the lives of those it affects. We hope the book has indicated how it involves a set of choices and rationalizations that could have been otherwise. Moreover, we trust we have given some indication of how very ordinary people can find themselves participating in acts of criminality that they would never commit outside the structural pressures of the organization and its environment. The processes of escalation have been elucidated as well. And finally, the book has placed corruption within the political economy of capitalism, the forces of which are very overt, and the human consequences still far from known.

NOTE

1. Gordon Gekko is a character portrayed by Michael Douglas in the 1987 film *Wall Street* directed by Oliver Stone.

References

- Adam, A.M. and D. Rachman-Moore (2004), 'The methods used to implement an ethical code of conduct and employee attitudes', *Journal of Business Ethics*, **54** (3), 225–44.
- Adorno, T.W., E. Frenkel-Brunswick, D.J. Levinson, and R.N. Sanford (1950), *The Authoritarian Personality*, New York: Harper and Row.
- Allen-Mills, T. (2008), 'Vultures expose corruption: hedge funds lift the lid on African deception', *Sunday Times*, 15 June, pp. 1, 10.
- Anand, V., B.E. Ashforth and M. Joshi (2004), 'Business as usual: the acceptance and perpetuation of corruption in organizations', *Academy of Management Executive*, **18** (2), 39–53.
- Arbinger Institute (2002), *Leadership and Rationalization*, Berrett-Koehler.
- Arendt, H. (1963), *Eichmann in Jerusalem: A Report on the Banality of Evil*, London: Penguin.
- Arendt, H. (2005), *Responsibility and Judgement*, New York: Random House.
- Aronson, E. (1992), 'The return of the repressed: dissonance theory makes a comeback', *Psychological Inquiry*, **3** (4), 303–11.
- Aronson, E. (2004), *The Social Animal*, New York: Worth Publishers.
- Aronson, E. and J.M. Carlsmith (1962), 'Performance expectancy as a determinant of actual performance', *Journal of Abnormal and Social Psychology*, **65**, 178–82.
- Asch, P. and J. Seneca (1976), 'Is collusion profitable?' *Review of Economics and Statistics*, **58**, 1–12.
- Ash, S. (1951), 'Effects of group pressure upon the modification and distortion of judgment' in M.H. Guetzkow (ed.), *Groups, Leaderships and Men*, Pittsburgh: Carnegie Press, pp. 117–90.
- Ash, S. (1956), 'Studies of independence and conformity: a minority of one against a unanimous majority', *Psychological Monographs*, **70** (9, Whole No. 416).
- Ashforth, B.E. and V. Anand (2003), 'The normalization of corruption in organizations', *Research in Organizational Behavior*, **25**, 1–52.
- Ashforth, B.E., D.A. Gioia, S.L. Robinson and L.K. Trevino (2008), 'Re-viewing organizational corruption', *Academy of Management Review*, **33** (3), 670–84.

- Audi, R. (1988), 'Self-deception, rationalizations and reasons for acting', in Brian McLaughlin and Amelie Rorty (eds), *Perspectives on Self-Deception*, Berkeley, CA: University of California Press, pp. 92–122.
- Bandura, A. (1990), 'Mechanisms of moral disengagement', in W. Reich (ed.), *Origins of Terrorism: Psychologies, Ideologies, Theologies, States of Mind*, Cambridge: Cambridge University Press, pp. 161–91.
- Bank of England (1995), 'Report on the Board of Banking Supervision inquiry into the circumstances of the collapse of Barings, 18 July 1995'.
- Baskaran, A., J. Pancholi and F. Ghaffari (2006), 'A period study of short-term performance pressures: case of the British biotechnology industry', *Business Review*, 5 (2), 327–32.
- Bass, D., K. Butterfield and B. Skaggs (1998), 'Relationships and unethical behaviour: a social network perspective', *Academy of Management Review*, 23 (1), 14–31.
- Baucus, M.S. (1994), 'Pressure, opportunity, and predisposition: a multivariate model of corporate illegality', *Journal of Management*, 20, 699–721.
- Baucus, M.S. and J.P. Near (1991), 'Can illegal corporate behavior be predicted? An event history analysis', *Academy of Management Journal*, 34, 9–36.
- Bauman, Z. (1991), *Modernity and the Holocaust*, London: Polity.
- Baumeister, R.F. (1999), *Evil: Inside Human Violence and Cruelty*, New York: Owl Books.
- BBC News (2002a), 'Andersen's fall from Grace', 17 June, <http://news.bbc.co.uk/1/hi/business/2049237.stm>.
- BBC News (2002b), 'Andersen guilty in Enron case', 15 June, <http://news.bbc.co.uk/1/hi/business/2047122.stm>.
- Behrens, A. and L. Machado (2008), 'The price of a head, or the cost of unrestrained denunciation at multinationals in developing countries', Paper presented at Latin American European Meeting on Organizational Studies, Rio de Janeiro, 15–18 April.
- Bennis, W. (2002), 'Leading edge: the culture of candor', CIO Insight, 18 August.
- Berenson, A. (2003), *The Number: How the Drive for Quarterly Earnings Corrupted Wall Street and Corporate America*, New York: Random House.
- Beresford, D., N. Katzenback and C. Rogers Jr. (2003), 'Report of investigation by the Special Investigative Committee of the Board of Directors of WorldCom Inc.', March 31, <http://news.findlaw.com/hdocs/docs.worldcom/bdspcomm60903rpt.pdf>.
- Bérubé, G. (2002), 'Trust is everything', *CA Magazine*, 135 (6), 7.
- Birsch, D. and J. Fielder (1994), *The Ford Pinto Case: A Study in Applied Ethics, Business, and Technology*, New York: Suny Press.

- Blair-Smith, E. (2004), 'Former Enron exec. admits lying about cash flow', *USA Today*, 10 May.
- Blasi, A. (1980), 'Bridging moral cognition and moral action: a critical review of the literature', *Psychological Bulletin*, **88**, 1–45.
- Bok, S. (1989), *Secrets: On the Ethics of Concealment and Revelation*, New York: Vintage Books.
- Bok, S. (1999), *Lying: Moral Choice in Public and Private Life*, 2nd edition, New York: Vintage Books.
- Braithwaite, J. (1984), *Corporate Crime in the Pharmaceutical Industry*, London: Routledge & Kegan Paul Books.
- Bratsis, P. (2003), 'The construction of corruption, or rules of separation and illusions of purity in bourgeois societies', *Social Text*, **21** (4), 9–33.
- Brief, A.P., R.T. Buttram and J.M. Dukerich (2001), 'Collective corruption in the corporate world: toward a process model', in M.E. Turner (ed.), *Groups at Work: Theory and Research*, Mahwah, NJ: Erlbaum, pp. 471–99.
- Caincross, F. (1997), *The Death of Distance*, Boston, MA: Harvard Business School Press.
- Calás, M.B. and L. Smircich (1999), 'Past postmodernism? Reflections and tentative directions', *Academy of Management Review*, **24** (4), 649–71.
- Carroll, J. (2002), 'The culture of lying', *Boston Globe*, 30 May.
- Cialdini, R.B. (1996), 'Social influence and the triple tumor structure of organizational dishonesty', in D.M. Messick and A.E. Tenbrunsel (eds), *Codes of Conduct*, New York: Russell Sage, pp. 44–58.
- Cialdini, R.B., P.K. Petrova and N.J. Goldstein (2004), 'The hidden costs of organizational dishonesty', *Sloan Management Review*, **45**, 67–73.
- Clarke, F., G. Dean and K. Oliver (2003), *Corporate Collapse: Accounting, Regulatory and Ethical Failure*, Cambridge: Cambridge University Press.
- Clarke, M. (ed.) (1983), *Corruption: Causes, Consequences, and Control*, New York: St Martins Press.
- Cook, D. (2005), 'Deloitte settles Adelphia case for \$50 million', *Today in Finance*, 27 April, <http://www.cfo.com/article.cfm/3908471>.
- Cotter, J. and S.M. Young (2007), 'Do analysts anticipate accounting fraud?' <http://ssrn.com/abstract=981484>.
- Cressey, D.R. (1953). *Other People's Money: A Study in the Social Psychology of Embezzlement*, New York: Free Press.
- Cressey, D. and C. Moore (1983), 'Managerial values and corporate codes of ethics', *California Management Review*, **25**, 53–77.
- Cruver, B. (2002), *Anatomy of Greed: The Unshredded Truth From an Enron Insider*, London: Hutchinson.

- Darley, J. and B. Latane (1968), 'Bystander intervention in emergencies: diffusion of responsibility', *Journal of Personality and Social Psychology*, **8**, 377–83.
- Darley, J.M. (1992), 'Social organization for the production of evil', *Psychological Inquiry*, **3** (2), 199–218.
- Deetz, S. (1992), *Democracy in an Age of Corporate Colonization*, New York: State University of New York Press.
- Demirag, I.S. (1995), 'Assessing short-term perceptions and evidence of group finance directors in UK companies', *British Accounting Review*, **27**, 247–81.
- Deutsch, M. and H.B. Gerard (1955), 'A study of normative and informational social influences upon individual judgment', *The Journal of Abnormal and Social Psychology*, **51** (3), November, 629–36.
- Diamond, J. (1997), *Guns, Germs and Steel: The Fates of Human Societies*, New York: Norton.
- Dicken, P. (2003), *Global Shift*, London: Paul Chapman.
- Dicken, P. (2004), 'Geographers and 'globalization': (yet) another missed boat?' *Transactions of the Institute of British Geographers*, NS29, 5–26.
- Dine, J. (2005), *Companies, International Trade and Human Rights*, Cambridge: Cambridge University Press.
- Dine, J. (2007), 'The capture of corruption: complexity and corporate culture', Unpublished Paper, Queen Mary College, University of London.
- Donaldson, T. and T. Dunfee (1994), 'Toward a unified conception of business ethics: integrative social contracts theory', *Academy of Management Review*, **19**, 252–84.
- Donaldson, T. and T. Dunfee (1999), *The Ties that Bind*, Boston, MA: Harvard University Press.
- Dooley, K. and A. Van de Ven (1999), 'Explaining complex organizational dynamics', *Organization Science*, **10** (3), 358–72.
- Douglas, M. (1996), *Purity and Danger*, London: Routledge.
- The Economist* (1991), 'Civil war at Arthur Andersen', *The Economist*, **320** (7720), 66; Retrieved 11 July 2008 from ABI/INFORM Global database (Document ID: 360015).
- Elliot, A.L. and R.J. Schroth (2002), *How Companies Lie: Why Enron is Just the Tip of the Iceberg*, London: Nicholas Brealey Publishing.
- Engardio, P. and D. Roberts, with B. Bremner in Beijing and bureau reports (2004), 'The China Price', *Business Week*, **3911**, 6 December, p. 102.
- Farrell, G. and D. Jones (2005), 'Ignorance isn't bliss for execs. on trial', in *USA Today*, <http://www.usatoday.com/money/companies/management/2005-03-16-ceos>, accessed 21 November 2007.

- Festinger, L. (1957), *A Theory of Cognitive Dissonance*, Evanston, IL: Row, Peterson.
- Financial World* (1994), 'Arthur Andersen: the secret of St Charles', 27 September, pp. 36–7.
- Fleming, P. and A. Spicer (2007), *Contesting the Corporation: Power, Resistance and Struggle in Organizations*, Cambridge: Cambridge University Press.
- Fleming, P. and C.S. Zyglidopoulos (2008), 'The escalation of deception in organizations', *Journal of Business Ethics*, **81** (4), 837–50.
- Ford, R. and W. Richardson (1994), 'Ethical decision-making: a review of the empirical literature', *Journal of Business Ethics*, **13**: 205–21.
- Foucault, M. (1977), *Discipline and Punish: Birth of the Prison*, London: Penguin.
- Freeman, Edward R. (1984), *Strategic Management: A Stakeholder Approach*, Boston, MA: Pitman/Ballinger.
- Freud, A. (1937), *The Ego and the Mechanisms of Defence*, London: Hogarth Press.
- Friedman, M. (1970), 'The social responsibility of business is to increase its profits', *New Yorker Magazine*, September, 122–6.
- Friedrich, C. (1989), 'Corruption concepts in historical perspective', in Arnold Heidenheimer, Michael Johnson and Victor LeVine (eds), *Political Corruption: A Handbook*, New Brunswick, NJ: Transaction.
- Fromm, E. (1942), *The Fear of Freedom*, London: Routledge.
- Fukuyama, F. (1995), *Trust: The Social Virtues and the Creation of Prosperity*, New York: Free Press.
- Gapper, J. and N. Denton (1996), *All That Glitters: The Fall of Barings*, London: Penguin Books.
- Gersick, C.J.G. (1991), 'Revolutionary change theories: a multilevel exploration of the punctuated equilibrium paradigm', *Academy of Management Review*, **16** (1), 10–36.
- Gioia, D.A. (1992), 'Pinto fires and personal ethics: a script analysis of missed opportunities', *Journal of Business Ethics*, **11**, 379–89.
- Gladwell, M. (2002), *The Tipping Point: How Little Things can Make a Big Difference*, London: Abacus.
- Granovetter, M. (1985), 'Economic action and social structure: a theory of embeddedness', *American Journal of Sociology*, **91**, 481–510.
- Grant, R.M. (2008), *Cases to Accompany Contemporary Strategy Analysis*, Oxford: Blackwell Publishing.
- Grunfeld, F. and A. Smeulers (1999), 'The role of the perpetrator and the bystander in human rights violations', Unpublished manuscript.
- Haddad, C. (2002), 'How Ebberts kept the board in his pocket', *Business Week*, 14 October, pp. 138–40.

- Haines, R. and L. Leonard (2007), 'Individual characteristics and ethical decision-making in an IT context', *Industrial Management and Data Systems*, **7** (1), 5–20.
- Haller, D. and C. Shore (eds) (2005), *Corruption*, London: Pluto Press.
- Hart, P. (1991), 'Irving L. Janis' Victims of Groupthink', *Political Psychology*, **12** (2), June, 247–78.
- Hawkins, D.I. and A.B. Cocanougher (1972), 'Student evaluations of the ethics of marketing practices: the role of marketing education', *Journal of Marketing*, **36**, 61–4.
- Heffernan, W.C. and Kleinig, J. (eds) (2004), *Private and Public Corruption*, Lanham, MD: Rowman and Littlefield.
- Heilbroner, R. (1986), *The Nature and Logic of Capitalism*, New York: W.W. Norton and Co.
- Heimel, P. (1998), 'John Rigas small town boy – wouldn't have it any other way', http://www.livingprimetime.com/AllCovers/July1998/workjul1998/john_rigas.htm, accessed 8 July 2008.
- Hirschman, A. (1970), *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations and States*, Cambridge, MA: Harvard University Press.
- Jackall, R. (1988), *Moral Mazes: The World of Corporate Managers*, Oxford University Press: New York.
- Janis, I.L. (1972), *Victims of Groupthink*, Boston, MA: Houghton Mifflin.
- Jeter, L.W. (2003), *Disconnected: Deceit and Betrayal at WorldCom*, New York: Wiley.
- Jones, M. and P. Fleming (2003), 'Unpacking complexity through critical stakeholder analysis: the case of globalization', *Business and Society*, **42** (4), 430–55.
- Kaptein, M. (2002), 'Guidelines for the development of an ethics safety net', *Journal of Business Ethics*, **41**, 217–34.
- Kaptein, M. and M.S. Schwartz (2008), 'The effectiveness of business codes: a critical examination of existing studies and the development of an integrated research model' *Journal of Business Ethics*, **77**, 111–27.
- Kaufman, H. (2005), 'Biases and lessons', *Financial Analysts Journal*, **61** (6), 18–21.
- Keane, C. (1993), 'The impact of financial performance on frequency of corporate crime: a latent variable test of strain theory', *Canadian Journal of Criminology*, **35**, 293–308.
- Kelman, H. (1961), 'Processes of opinion change', *Public Opinion Quarterly*, **25**, 57–78.
- Kelman, H.C. and V.L. Hamilton (1989), *Crimes of Obedience*, New Haven, CT: Yale University Press.

- Khandwalla, P. (1977), *The Design of Organizations*, New York: Harcourt Brace Jovanovich.
- Kohlberg, L. and E. Turiel (1973), *Moralization: The Cognitive Developmental Approach*, New York: Holt, Rinehart & Wilson.
- Kramer, R.M. and D.M. Messick (1996), 'Ethical cognition and the framing of organizational dilemmas: decision makers as intuitive lawyers', in D.M. Messick and A.E. Tenbrunsel (eds) *Codes of Conduct*, New York: Russell Sage Foundation, pp. 59–85.
- Lange, D. (2008), 'A multidimensional conceptualization of organizational corruption control', *Academy of Management Review*, **33** (3), 710–29.
- Lash, S. and J. Urry (1994), *Economies of Signs of Space*, London: Sage.
- Latane, B. and S. Nida (1981), 'Ten years of research on group size and helping', *Psychological Bulletin*, **89**, 308–24.
- Leeson, N. (1996), *Rogue Trader: How I Brought Down Barings Bank and Shook the Financial World* (with Edward Whitley), Boston, MA: Little, Brown & Company.
- Leonard, D. (2002), 'The Adelphia story', *Fortune*, **146** (3), 136–44.
- Lewis, M. (1990), *Liar's Poker: Rising through the Wreckage of Wall Street*, New York: Penguin.
- Lifton, R.J. (1986), *The Nazi Doctors: Medical Killing and the Psychology of Genocide*, New York: Basic.
- Marston, C.L. and B.M. Craven (1998), 'A survey of corporate perceptions of short-termism among analysts and fund managers', *The Times European Journal of Finance*, **4**, 233–56.
- Martin, M. (ed.) (1985), *Rationalization and Self-understanding: New Essays in Philosophy and Psychology*, Lawrence, KS: University Press of Kansas.
- Matten, A. and D. Crane (2007), *Business Ethics*, Oxford: Oxford University Press.
- McDougall, D. (2007), 'Child sweatshop shame threatens Gap's ethical image', *The Observer*, 28 October, <http://www.guardian.co.uk/business/2007/nov/04/3>.
- McKendall, M.A. and J.A. Wagner III (1997), 'Motive, opportunity, choice, and corporate illegality', *Organization Science*, **8** (6), 624–47.
- McLaughlin, B. (1988), 'Exploring the possibility of rationalization in belief', in Brain McLaughlin and Amelie Rorty (eds), *Perspectives on Rationalization*, Berkeley, CA: University of California Press.
- McLean, B. (2001), 'Is Enron overpriced?' *Fortune*, **143** (5), 122–6.
- McLean, B. and P. Elkind (2003), *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron*, New York: Penguin Books.

- Messick, D.M. and M.H. Bazerman (1996), 'Ethical leadership and the psychology of decision making', *Sloan Management Review*, **37** (2), 9–22.
- Milgram, S. (1974), *Obedience and Authority*, New York: Harper Perennial.
- Miller, D. and P. Friesen (1984), *Organizations: A Quantum View*, Englewood Cliffs, NJ: Prentice-Hall.
- Miller, D.T. and M. Ross (1975), 'Self-serving biases in the attribution of causality: fact or fiction?' *Psychological Bulletin*, **82**, 213–25.
- Mills, D.Q. (2002), *Buy, Lie and Sell High: How Investors Lost out on Enron and the Internet Bubble*, Upper Saddle River, NJ: Prentice Hall.
- Mintzberg, H. (2007), 'Productivity is killing American enterprise', *Harvard Business Review*, July–August, 25.
- Mizik, N. and R. Jacobson (2007), 'The cost of myopic management', *Harvard Business Review*, **85** (7–8), 22–4.
- Morita, A. (1986), *Made in Japan*, New York: E.P. Dutton.
- Norris, F. (1996), 'Upper-class twits made me do it: review of *Rogue Trader*', *New York Times*, 31 March.
- Nye, J. (1989), 'Corruption and political development: a cost–benefit analysis', in Arnold Heidenheimer, Michael Johnson and Victor LeVine, *Political Corruption: A Handbook*, New Brunswick, NJ: Transaction.
- Orwell, G. (1982), *The Lion and the Unicorn*, Penguin: London; first published 1941.
- Parker, M. (2002), *Against Management*, Oxford: Polity Press.
- Partnoy, F. (2003), *Infectious Greed: How Deceit and Risk Corrupted the Financial Markets*, London: Profile Books.
- Peck, M.S. (1998), *The People of the Lie* (2nd edn), New York: Touchstone.
- Perrow, C. (1984), *Normal Accidents*, New York: Normal Books.
- Perrow, C. (1986), *Complex Organizations: A Critical Essay*, New York: Random House.
- Phillips, K. (2004), *American Dynasty: Aristocracy, Fortune and the Politics of Deceit in House of Bush*, New York: Viking.
- Pinto, J., C.R. Leana and F.K. Pil (2008), 'Corrupt organizations or organizations of corrupt individuals? Two types of organization-level corruption', *Academy of Management Review*, **33** (3), 685–709.
- Porter, M. (1980), *Competitive Strategy*, New York: New House.
- Poses, R.M. (2007), 'More questions about industry influence on the Reagan Udall Foundation', 31 December, <http://hcrenewal.blogspot.com/2005/04/former-fletcher-allen-health-care-ceo.html>.
- Rawnsley, J. (1996), *Going for Broke: Nick Leeson and the Collapse of Barings Bank*, London: HarperCollins.

- Reuters (2008), 'Rigas inmates make video plea for a prison break', 23 May, http://www.nypost.com/seven/05232008/business/rigas_inmates_make_video_plea_for_a_pris_112151.htm.
- Rigas, J. (2008), 'James Rigas statement', <http://www.johnjrigas.com/JamesRigasStatement.html>.
- Rosanas, J.M. and M. Velilla (2005), 'The ethics of management control systems: developing technical and moral values', *Journal of Business Ethics*, **57** (1), 83–96.
- Rose, C. (2007), 'A conversation with John Rigas', <http://www.charlierose.com/view/interview/8639>.
- Saviano, R. (2008), *Gomorra: Italy's Other Mafia*, New York: Picador.
- Scanlon, M. (2002), 'Greek Tragedy', *Cable World*, 6 May, http://findarticles.com/p/articles/mi_m0DIZ/is_2002_May_6/ai_88683497.
- Schipper, K. (1991), 'Analysts' Forecasts', *Accounting Horizons*, **5** (4), 105–20.
- SEC (2005), Press release, 2005-65, Washington, DC, 26 April, <http://www.sec.gov/news/press/2005-65.htm>.
- Shapiro, A. (2003), *Creating Contagious Commitment: Applying the Tipping Point to Organizational Change*, London: Lightning Source.
- Siemens.co.uk/en/about_us/index/corporate_responsibility.htm, accessed 17 March 2008.
- Simmel, G. (1906), 'The sociology of secrecy and of secret societies', *American Journal of Sociology*, **11**: 441–98.
- Simpson, S. (2002), *Corporate Crime, Law and Social Control*, Cambridge: Cambridge University Press.
- Skilling, J. (2007), Prepared Witness Testimony (The House Committee on Energy and Commerce), <http://energycommerce.house.gov/reparchives/107/hearings/02072002Hearing485/Skilling797.htm>, accessed 9 October.
- Slaughter, R.A. (1998), 'Futures studies as an intellectual and applied discipline', *American Behavioural Scientist*, **42** (3), 372–85.
- Smeulers, A. (2002), 'What transforms ordinary people into gross human rights' violators?' Paper presented at the European Consortium for Political Research (ECPR), Turin, Italy, 22–27 March.
- Snow, C.P. (1961), *Science and Government: The Godkin Lectures, 1960*, Cambridge, MA: Harvard University Press.
- Starbuck, B. (2001), 'Learning from extreme cases', slide show, <http://www.stern.nyu.edu/~wstarbuc/extreweb/sld001.htm>.
- Staub, E. (1989), *The Roots of Evil: The Origins of Genocide and Other Group Violence*, New York: Cambridge University Press.

- Staw, B. (1981), 'The escalation of commitment to a course of action', *Academy of Management Review*, **6** (4), 577–87.
- Stewart, T.A. (2007), 'What the long term takes', *Harvard Business Review*, **85** (7/8), 12.
- Sullivan, S. (2002), Untitled WorldCom 'White paper' internal memorandum, 24 June, <http://news.findlaw.com/hdocs/worldcom/sullivan0306012badmin.pdf>.
- Sutherland, E.H. (1949), *White-Collar Crime*, New York: Holt, Reinhart and Winston, Inc.
- Swartz, M. and S. Watkins (2003), *Power Failure: The Inside Story of the Collapse of Enron*, New York: Doubleday.
- Tenbrunsel, A.E. and D.M. Messick (2004), 'Ethical fading: the role of self-deception in unethical behaviour', *Social Justice Research*, **17** (2), 223–36.
- Thompson, A.A., Jr. (1985), *Economics of the Firm*, Englewood Cliffs, NJ: Prentice-Hall.
- Thompson, J.D. (1967), *Organizations in Action: Social Science Bases of Administrative Theory*, New York: McGraw-Hill.
- Toffler, B.L., and J. Reingold (2003), *Final Accounting: Ambition, Greed, and the Fall of Arthur Andersen*, New York: Currency Doubleday.
- Tosi, H.L., S. Werner, J.P. Katz and L.R. Gomez-Mejia (2000), 'How much does performance matter? A meta-analysis of CEO pay studies', *Journal of Management*, **26**, 301–39.
- Toulmin, S. (1961), *Forecasting and Understanding*, New York: Harper Press.
- Trevino, L.K. (1986), 'Ethical decision-making in organizations: a person-situation interactionist model', *Academy of Management Review*, **11**, 601–17.
- Trevino, L.K. and S.A. Youngblood (1990), 'Bad apples in bad barrels: a causal analysis of ethical decision making behavior', *Journal of Applied Psychology*, **75**, 378–85.
- Trevino, L.K., G.R. Weaver, D.G. Gibson and B.L. Toffler (1999), 'Managing ethics and legal compliance: what works and what hurts', *California Management Review*, **41** (2), 131–51.
- Tushman, M.L. and E. Romanelli (1985), 'Organizational evolution: a metamorphosis model of convergence and reorientation', in L.L. Cummings and B.M. Staw (eds), *Research in Organizational Behaviour*, **7**, Greenwich, CT: JAI Press, pp. 171–222.
- Useem, M. (1996), *Investor Capitalism: How Money Managers are Changing the Face of Corporate America*, New York: Basic Books.

- Vaughn, D. (1990), 'Autonomy, interdependence and social control: NASA and the Space Shuttle Challenger', *Administrative Science Quarterly*, **25**, 225–58.
- Vaughn, D. (1996), *The Challenger Launch Decision: Risky Technology, Culture and Deviance at NASA*, Chicago, IL: University of Chicago.
- Waddock, S., C. Bodwell and S. Graves (2002), 'Responsibility: the new business imperative', *Academy of Management Executive*, **16**, 132–47.
- Warren, D.E. (2003), 'Constructive and destructive deviance in organizations', *Academy of Management Review*, **28**, 622–32.
- Weaver, G.R. (1993), 'Corporate Codes of ethics: purpose, process and content issues', *Business and Society*, **32** (1), 44–67.
- Weber, M. (1948), *From Max Weber: Essays in Sociology*, trans. H. Gerth and C.W. Mills (eds), New York: Oxford University Press.
- Whitehead, A.N. (1938), *Modes of Thought*, New York: Free Press.
- Williams, O.F. (1998), 'Other peoples money: a study in self deception', in O.F. Williams (ed.), *The Moral Imagination: How Literature and Film can Stimulate Ethical Reflection in the Business World*, Notre Dame, IN: University of Notre Dame Press, pp. 71–84.
- Williams, R. (ed.) (2000), *Explaining Corruption*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
- Wolosin, R., S. Sherman and A. Cann (1975), 'Predictions of own and other's conformity', *Journal of Personality*, **43**, 357–78.
- Zekany, K.E., L. Braun and Z.T. Warder (2004), 'Behind closed doors at WorldCom: 2001', *Issues in Accounting Education*, **19** (1), February, 101–17.
- Zimbardo, P. (2007), *The Lucifer Effect: How Good People Turn Evil*, London: Random House.
- Žižek, S. (2006), *The Parallax View*, Cambridge, MA: MIT Press.
- Zyglidopoulos, C.S. and P. Fleming (2008), 'Ethical distance in corrupt firms: how do innocent bystanders become guilty perpetrators?' *Journal of Business Ethics*, **78**, (1–2), 265–74.
- Zyglidopoulos, C.S. and S.W.J.C. Schreven (2008), 'Strategic foresight and the role of organizational memory within a punctuated equilibrium framework', in Laura A. Costanzo and R. Bradley MacKay (eds), *The Handbook of Research on Strategy and Foresight*, Edward Elgar Publishing.

Index

- Abu Ghraib prison, abuse at 26
Accenture 106–7, 110
 see also Arthur Andersen
accountability 135
accountants *see* Arthur Andersen;
 auditing/auditors
Adam, A. M. 122
Adelphia Communications
 Corporation 98–104, 111
 business environment/practices 100,
 103–4
 debts 100
 failure of 100–101, 111;
 environmental (structural)
 factors in 101–4
 financial misrepresentation 99, 100,
 101, 102, 103
 John Rigas and 99–100
agent/agency concept *see* bad apple
 concept
ambition 27–8
Anand, V. 5, 7, 35, 36, 41, 42, 43, 44,
 45–6, 62, 63, 80, 116
Arthur Andersen & Co. 104–11
 business environment/practices 106,
 107, 110–11
 as a consultancy 106–7, 108, 111
 Enron and 88, 107, 110, 121
 failure of 107–8; environmental
 (structural) factors in 108–11
 profit-making 110–11
 reputation 105, 106, 108
 Leonard Spacek at 105–6
 training programme 105, 106, 109
Andersen, Edward Arthur 104–5, 108
Andersen Consulting *see* Accenture
Archer Daniels Midland (ADM) 139
Arendt, Hannah 3, 24–6, 27, 30, 31, 33,
 59, 62, 82, 85, 108, 129
 on the banality of evil 15, 19, 22–3,
 39–40
 Eichmann in Jerusalem ... 22, 39–40,
 70
 Responsibility and Judgement 23
Aronson, E. 39
 The Social Animal 73, 80
Ash, Solomon 72–3, 74, 75
Ashforth, B. E. 3, 4, 10, 44, 85, 88, 116
auditing/auditors 52, 53, 57, 60, 65,
 103–4, 120, 132
 Arthur Andersen 104–11
 training/standards 105, 109, 110
authority/authority figures 73–4
automobile industry 86–7
 see also Ford ...
autonomy, limitation of 131, 132
bad apple concept (agents/agency) 2, 3,
 4, 5, 6, 11, 15, 17–33, 34–51, 41–2,
 68–9, 70–71, 82–3, 108, 111, 112,
 128–34, 141
ambition 27–8
continuum of destructiveness 118
criticism of 19, 32–3, 33, 62
decision-making *see* decision-
 making
definition 14, 15
escalation of commitment 115
gratuitousness 26, 27
intent 26, 27, 36, 47, 129
Nick Leeson as 3, 7, 15, 51, 52–67,
 112, 113, 117, 118, 128, 130,
 132
personal attributes and 17–18, 19,
 21, 22, 26–7, 29–30, 34–5, 51,
 134
point of no return 115
psychology of 3, 15, 18–19, 20–21,
 22–3, 27, 28–9, 31–2, 124–5,
 128, 129
rationalization process *see*
 rationalization process

- self-deception *see* self-deception/
delusion
- bad barrel concept *see* social
environment (structure)
- Baker, James 60
- Bandura, A. 76
- Bank of England 58
Report on the Board of Banking
Supervision inquiry into ... the
collapse of Barings Bank 52
- banking sector 30, 36, 49, 54, 58
see also Barings ...
- Baring, Peter 54, 64
- Barings Bank, collapse of 27, 52–67
Bank of England Report on 52
Barings Citibank account 56, 57, 61
Nick Leeson and 3, 7, 15, 51, 52–67,
112, 113, 117, 118, 128, 130,
132
reasons for 52, 54–8; management
errors 55, 56, 58–9, 60, 66, 132
- Barings Securities (Singapore) Ltd 52,
54–5, 58
auditing of 57, 60, 65
business environment/practices
59–60, 64–5, 132
- Bass, D. 18, 31, 70
- Baucus, M. S. 124
- Bauman, Z: *Modernity and the
Holocaust* 77, 78, 79
- Bazerman, M. H. 117
- Behrens, A. 137
- Bennis, W. 47
- Berardino, Joseph 107
- Berenson, A: *The Number* ... 114
- Bérubé, G. 92
- Bok, S.
Lying ... 112
Secrets ... 47
- bonus payments 7–8, 12–13, 78–9, 110,
119
to Nick Leeson 58, 61, 62
- Bowser, Gordon 57
- Braithwaite, J: *Corporate Crime* ... 6
- Bratsis, P. 4, 5, 8–9, 10
- Brecht, Bertold 8
- bribery 5, 84
outsourcing of 9–10, 32
by Siemans 7, 9, 19, 28–9
- Brief, A. P. 32, 124
- British American Tobacco (BAT)
135
- Buchanan Ingersoll law firm 103
- business environment/practices 15, 42,
44, 79, 81–2, 83, 84–97, 104,
126–7
at Adelpia Communications 100,
103–4
at Arthur Andersen 106, 107, 110–11
at Barings Bank 55, 56, 58–9, 60,
66, 132
at Barings Securities (Singapore) Ltd
59–60, 64–5, 132
- Chief Executives (CEOs) 48, 88, 106,
107, 140
as complex 71, 79–81, 96, 103–4,
114
corruption prevention/control and
130–31, 132–3, 137–40
corruption threshold 122–6
as corruption-prone 137–41
at Enron 24–5, 26, 32, 34, 78–9, 81,
82, 86, 88–9, 91, 92, 94, 95
financial distance 84, 91–3
financial misrepresentation *see*
financial misrepresentation
financial systems 84, 93–5, 96; *see
also* financial performance
global variations in 8–11
good practice 59
language, use of 42, 44, 76–7, 94–5
performance criteria 85
short-termism 84, 90–91, 94, 96
at WorldCom 91
- business ethics 34, 35, 97, 128, 134–7
codes of 119, 120, 121–2, 134–5
corporate social responsibility (CSR)
135
see also ethical issues
- business failure(s) 46, 126
Adelpia Communications 100–104,
111
Arthur Anderson 107–11
see also Barings Bank, collapse of;
Enron
- business models 94
Anglo-American 12–13, 14, 85, 102,
114, 129, 137, 138, 140
Rhenish (Continental) 12, 14, 85
- Business Week* 87

- businesses *see* corporations
 bystander effect 76
- Calás, M. B. 47
- capitalism 141
 types of 12–13; *see also* market capitalism
- Carlsmith, J. M. 39
- Challenger spacecraft 126–7
- Charles, Rose 103
- Cheyney, Vice-President Dick 4
- Chief Executive Officers (CEOs) 48, 88, 106, 107, 140
- child labour 95
- China 8, 9, 87
- choice 22, 23, 24–5, 26–7, 30, 33, 36, 44, 49–60, 85, 129
 by Nick Leeson 61–2, 85
see also decision-making; rationalization process
- Cialdini, R. B. 118, 126
- Citibank, Barings Bank account with 56, 57, 61
- class issues 58, 63, 64
- coercion/threats 30
- cognitive dissonance theory 37, 39
see also rationalization process
- Cohen, Oren 100
- compliance 79, 125–6, 134, 139
see also conformity
- concentration camps 40, 71, 77
see also Nazi regime
- conflicts of interest 4
- conformity 71–5, 82, 96, 109–10, 111, 114, 118
 group pressure 72–5, 80, 96, 129;
 peer pressure 15, 74, 126, 132
 obedience 26, 71–2, 77
 types of 79–80, 124–5
see also social environment concept; compliance
- consultancies 106–7, 108, 110, 111
- control *see* locus of control
- Control Risks 9
- corporate corruption 1–16, 69–70, 128–41
 anti-corruption concept 10–11, 97
 business environment as prone to 137–41
 causes of 2, 4, 19, 89, 118, 137–41
 charting/mapping of 3–4, 13–16, 140–41
 cover-ups 115–16, 117, 130
 definition 4–6, 125
 ease of engaging in 113, 114–16, 126
 effects of 113, 116–17, 122–7
 environment conducive to *see*
 social environment (structure);
 business environment/practices
 escalation of *see* escalation process
 globalization and 8–11, 137–41
 individuals responsible for *see* bad
 apple concept (agents/agency)
 perception of, as non-Western
 10–11, 95
 as pervasive 113, 117–18, 126
 prevention/control 16, 113, 117,
 118–22, 130–35, 137–40
 public/private divide 6, 8–9
 reactions to 25–6
 recidivism 139
 time frame of 81–2
 types of 2, 5, 6–7, 12, 84, 140
see also individual cases
- corporate crime 6–7
- corporate development/growth 1, 88, 123
- corporate social responsibility (CSR) 135
see also business ethics
- corporations
 globalization of 8–11, 86, 94, 95, 137–41
 media representation of 1, 139
 mistrust of 1–2
 nature/structure of 1, 11–13, 138;
see also business environment/
 practices
 theory of the firm 138
see also business ...
- corruption 10
 corporate *see* corporate corruption
 definition 10
- corruption threshold 122–6, 128
- Cotter, J. 92
- Crane, D. *see* Matten, A. and D. Crane
- Cressey, D. R. *Other People's Money* ... 76, 89, 101
- cultural issues 8–11, 18, 54
 societal norms 7–11, 123–6

- Darley, J. M. 26, 27, 41, 117, 118
 debt market 94
 debt repayment 11–12, 49
 deception *see* lying; self-deception/
 delusion
 decision-making 20, 23, 27–30, 32,
 44–5, 51, 115
 by Nick Leeson 61–2
 see also choice
 defective/unsafe products 7
 Challenger spacecraft 126–7
 Ford Pinto 7, 19, 20–21, 27, 36,
 44–5, 87, 121
 DeLany, Clarence 105
 Deloitte & Touche 57, 103–4
 denial 42–3, 80
 see also rationalization process
 Denton, N. *see* Gapper, J. and N.
 Denton
 detection *see* prevention/control
 Deutsche Post 140
 deviance 124–5
 see also conformity
 Diamond, Jared: *Guns, Germs and
 Steel* 75
 Dine, J. 10–11, 13
 Donaldson, T. 125
 Donaldson, T. and T. Dunfree: *The
 Ties that Bind* 125
 Douglas, Mary: *Purity and Danger* 10
 Duncan, David 103
 Dunfee, T. 125
- Ebbers, Bernie 36, 48, 74
 economic system 11, 12, 19, 34
 education levels 29–30
 ego strength 28–9, 38, 68
 Eichmann, Adolf 15, 19, 22–3, 25, 26,
 39–40, 49, 70–71
 Elkind, P. *see* McLean, B. and P.
 Elkind
 Elliot, A. L. and R. J. Schroth: *How
 Companies Lie ...* 94
 Elliott Associates 11
 Engardio, Peter 87
 Enron 1, 2, 3, 11, 13, 19, 27, 34, 36, 41,
 46, 62, 69, 85, 98, 126, 130, 138
 Arthur Andersen and 88, 107, 110,
 121
 bonus payments at 78–9
 business environment/practices 24–5,
 26, 32, 34, 78–9, 81, 82, 86,
 88–9, 91, 92, 94, 95, 121
 credit ratings 91–2
 financial misrepresentation by 7, 17,
 34, 46, 48, 81, 82, 83, 89, 91,
 92–3, 95, 107, 114, 116, 117, 133
 Kinder at 89
 Kenneth (Ken) Lay at 11, 13, 34,
 36, 81
 price-fixing by 23–4, 25, 43
 rationalization/self-deception at 47,
 48, 89
 Jeff Skilling at 23, 28, 34, 43, 46, 47,
 48, 81, 85
 US government and 11, 13, 124
 Enron: *The Smartest Men in the Room*
 (documentary) 24
 environmental damage 7, 116, 137
 escalation of commitment 115
 escalation process 1–2, 3, 4, 14–15, 16,
 83, 112–27, 128, 130, 141
 causes 113, 114–18, 126–7
 corruption threshold 122–6, 128
 definition 113
 prevention/control of 117, 118–22
 probability of 115–16
 ethical culture(s) 135–6
 see also business ethics
 ethical development 28
 ethical distance 71, 77–9, 81, 96, 116,
 118, 132
 at Adelphia Communications 102
 at Arthur Andersen 108–10
 structural/temporal 78–9
 ethical issues 3, 7–8, 9, 11, 17–18, 20,
 33, 141
 business ethics 34, 35, 97, 119, 121–
 2, 128, 134–7
 choice *see* choice
 in decision-making 27–30, 32
 individual responsibility 18, 21, 22–3
 principles 28
 in rationalization process 39–40, 45,
 49, 50
 evil 15, 19, 21, 22–3, 25–6, 27, 31, 32,
 39–40, 69
 definition 25–6
 exiting/exit strategies 30
 extreme rendition process 9

- Fastow, Andrew (Andy) 4, 17, 23, 26, 32, 34, 46
- Festinger, L: *A Theory of Cognitive Dissonance* 37, 39
- field dependency 28, 29
- financial analysis/analysts 84, 91–3, 94–5, 96, 100
- financial misrepresentation 2, 3, 5, 84, 86, 116
- by Adelphia Communications 99, 100, 101, 102, 103
- by Enron 7, 17, 34, 46, 48, 81, 82, 83, 89, 91, 92–3, 95, 107, 114, 116, 117, 133
- by WorldCom 74, 117
- financial performance 84, 86–90, 96, 110–11, 114, 121–2
- profit-making *see* profit-making
- short-termism in 84, 90–91, 94, 138
- financial systems, complexity of 84, 93–5, 96
- Financial World* 106
- Fleming, P. 78, 79, 120, 121–2
- Ford, R. 29
- Ford Motor Company 20, 24, 29
- ‘Fatalities associated with crash-induced fuel leakage and fire’ 20
- rationalization process at 37, 42, 44–5
- Ford Pinto, as defective 7, 19, 20–21, 27, 36, 37, 44–5, 87, 121
- forensic accounting 100–101
- forgery 57, 62
- Fortune* 95
- Foucault, Michel 17–18
- Frank, 140
- fraud *see* financial misrepresentation
- Freud, A. 38
- Friedman, Milton 12, 88
- Friedrich, C. 5
- Friesen, P. *see* Miller, D. and P. Friesen
- Fromm, E: *The Fear of Freedom* 73
- Frost, David 56
- Fukuyama, F: *Trust ...* 5
- futures market 55
- switching process 55–8, 60, 62
- Gap clothing company 95
- Gapper, J. and N. Denton: *All That Glitters: The Fall of Barings* 55, 56, 58, 60, 61, 66–7
- General Electric 74–5
- George, Bill 48
- Gioia, D. A. 20, 36, 37, 44–5
- globalization 86, 94, 95
- corporate corruption and 8–11, 137–41
- government investigations 2, 14, 47, 103–4, 107, 124
- Granovetter, M. 5
- Grant, R. M: *Cases to Accompany Contemporary Strategy Analysis* 86
- Greece 9
- greed 59, 61, 128
- group pressure 72–5, 80, 96, 129
- peer pressure 15, 74, 126, 132
- see also* conformity
- Haddad, C. 74
- Haller, D. and C. Shore (eds): *Corruption* 11
- Halliburton 4, 9, 137
- Hamilton, V. L. *see* Kelman, H. C. and V. L. Hamilton
- Heath, Christopher 54
- hedge funds 11–12
- Heffernan, W. C. and J. Kleinig (eds): *Private and Public Corruption* 5–6, 8–9
- Heimel, P. 102
- Hitler, Adolf 17, 22
- human life, value of 20
- hypocrisy 34, 35, 36, 37, 50
- see also* rationalization process
- ignorance, as a defence 37, 46, 47–8
- see also* self-deception/delusion
- individual freedom 21
- individual responsibility 18, 21, 22–3, 41, 85–6
- denial 42–3, 80
- intent 26, 27, 36, 47, 129
- initiation procedures 81–2, 106
- innovation 87, 90
- insanity 22
- intent 26, 27, 36, 47, 129
- see also* decision-making; rationalization process

- International Chamber of Commerce
106, 125
- International Labour Organization
(ILO) 125
- Iraq war 4, 137
- Italy 8, 138
- Jackall, R: *Moral Mazes* ... 27–8, 30,
36, 40–41, 74, 132
- Jacobson, Robert 90
- Janis, I. L.: *Victims of Groupthink* 80
- Kaleida Health 88
- Kaptein, M. 121, 122
- Kaufman, H. 92, 93
- Keane, C. 69–70
- Kelman, H. 79
- Kelman, H. C. and V. L. Hamilton:
Crimes of Obedience 82
- Kinder, 89
- Kleinig, J. *see* Heffernan, W. C. and J.
Kleinig
- Kohlberg, L. and E. Turiel:
Moralization ... 28, 32
- Kramer, R. M. 79
- Lange, D. 5, 6, 131–2
- language, of business 42, 44, 76–7,
94–5
- Lay, Kenneth (Ken) 11, 13, 34, 36,
81
- Leeson, Lisa (Mrs Nick Leeson) 52–3,
58
- Leeson, Nick
Barings Bank collapse and 3, 7, 15,
51, 52–67, 112, 113, 117, 118,
128, 130, 132
his bonus payments 58, 61, 62
career 55–8, 60
character 52, 53, 56, 57, 59–62, 128
decision-making/choices by 61–2, 85
drinking habits 53, 57, 59
as a futures trader 55–8, 112; his
error account (88888) 56, 57,
58, 59, 62, 63, 65, 114
as a liar 56, 60–61, 62
media representation of 52, 53, 56,
58
rationalization(s) by 53–4, 59, 62–6,
67, 102, 103, 129
- Rogue Trader: How I Brought Down
Barings Bank* ... 53, 56, 61,
63–6, 67, 112
as self-deceiving 53–4, 63, 66–7
legal framework 4, 7, 8, 9, 13, 17–18,
132
- Leonard, D. 99, 100
- Lewis, M: *Liar's Poker* ... 41–2, 45
- Lifton, R. J: *The Nazi Doctors* ... 31,
39–41
- locus of control 28, 29
- Lucent 41, 62, 117, 126
- lying 47, 56, 60–61, 62, 112
- Machado, L. 137
- Manson, Charles 17
- market capitalism 85, 86–7, 129, 137–9,
140
commodity trading 89
debt market 94
futures market 55–8, 60, 62
options market 57
see also capitalism
- Martin, M. (ed.): *Rationalization and
Self-understanding* 47
- Matten, A. and D. Crane: *Business
Ethics* 12, 136
- McCarthy, Mary 23
- McGuire, William D. 88
- McKendall, M. A. 87
- McLaughlin, B. 47
- McLean, B. and P. Elkind: *The
Smartest Guys in the Room* ... 82,
86, 89, 91, 93, 94, 116, 117, 124
- McLean, Bethany 95
- media representation
of corporate corruption 2, 139–40;
of Nick Leeson 52, 53, 56, 58
of corporations 1, 139
- Medtronic 48
- Merrill Lynch 100
- Messick, D. M. 79, 117
- Milgram, S: *Obedience and Authority*
70, 72, 77
- Miller, D. and P. Friesen: *Organizations*
... 123, 125
- Mintzberg, H. 91, 92
- Mizik, Natalie 90
- morality *see* ethical issues
- Morgan Stanley 60

- Morita, Akio 90
 multinational organizations (MNCs)
 see globalization
- Nazi regime 17, 25, 31, 40, 41, 77, 78
 banality of evil concept of 15, 19,
 22–3, 39–40
- Nixon, Richard 17
- Norris, F. 61, 63, 64
- Nye, J. 5
- obedience 26, 71–2, 77
- OECD 10
- Oedipus story 18, 68–9, 70, 82
- Office Space* (film) 43
- options market 57
- organizational complexity 71, 79–81,
 96
 at Adelpia Communications 103–4
 definition 79
 see also business environment/
 practices; social environment
- organizational control, of corruption
 119, 120–21, 122, 130–35
- Orwell, G: *The Lion and the Unicorn* 77
- outsourcing, of corrupt practices 9–10,
 32, 95
- Peck, M. S: *The People of the Lie* 47
- peer pressure 15, 74, 126, 132
 see also group pressure
- personality cult 54, 59, 67
- Petri, Tom 115–16
- pharmaceutical companies 1, 9
- Pierer, 36
- Pinto, J. 122, 140
- Plato 84, 125
- Poses, R. M. 88
- prevention/control 16, 113, 117, 118–22
 bureaucratic controls 132–3
 ethical codes 119, 120, 121–2
 by individuals 130–34
 by organizations 119, 120–21, 122,
 130–35, 137–40
 transparency 132–3, 138
 whistle-blowing 23, 30, 136–7
- price-fixing 2, 6, 23–4, 25, 43, 75, 139
- profit-making 1, 11–13, 24, 59, 87, 88,
 94, 108, 110–11, 138
 see also financial performance
- psychoanalysis, of rationalization 37,
 38
- psychological experiments/tests 31, 70,
 72–3, 74, 75, 76, 77, 129
- psychology, of corruption 3, 15, 18–19,
 20–21, 22, 31–2, 124–5, 128, 129
 dispositional approach 20, 22–3,
 28–9
 situational approach 20–21, 26, 27,
 33
- psychology, of rationalization 37, 38,
 39
 see also ethical distance
- Public Interest Disclosure Act 1998
 (UK) 137
- public relations (PR) 135, 139–40
- punishment 21, 26, 32, 139
- Rachman-Moore, D. 122
- Racketeer Influenced and Corrupt
 Organization Act (RICO) (US) 7
- rationalization process 33, 34, 35–51,
 68, 71, 75–7, 114, 118, 119–20,
 129, 133, 135–6
 at Adelpia Communications 102–3
 at Arthur Andersen 109–10
 availability of/choice in 36, 44,
 109–10, 122
 cognitive dissonance theory 37, 39
 credibility and 80
 definition 35–6, 41, 42, 62
 denial 42–3, 80
 doubling concept 40–41
 ethical issues in 39–40, 45, 49, 50
 at Ford Motor Company 37, 42,
 44–5
 hypocrisy 34, 35, 36, 37, 50
 intent 26, 27, 36, 47, 129
 by Nick Leeson 53–4, 59, 62–6, 67,
 102, 103
 limitations of 48–50
 mechanisms of 37, 41–4
 psychoanalysis of 37, 38
 psychology of 37, 38, 39, 71, 77–9
 self-deception *see* self-deception/
 delusion
- Rawnsley, J: *Going for Broke ...* 54, 55,
 57, 58–60, 61, 63
- regulatory framework 12, 13, 58,
 59–60, 97, 139

- Reingold, J. *see* Toffler, B. L. and J. Reingold
- religious beliefs 21, 25, 99, 141
- reputation 139–40
- research and development (R&D) *see* innovation
- responsibility *see* individual responsibility
- Richardson, W. 29
- Rigas, John 99, 101, 102, 103
- family 99–100, 101, 102–3
- see also* Adelphia Communications Corporation
- Rosanas, J. M. 120
- Rudden, Kyle 93
- Russia 141
- salary levels 8, 88
- bonus payments 7–8, 12–13, 58, 61, 62, 78–9, 110, 119
- Salomon Brothers 42
- Sanders, Bernie 107
- Saviano, R: *Gomorra: Italy's Other Mafia* 8
- Schreven, S. W. J. C. 92–3
- Schroth, R. J. *see* Elliot, A. L. and R. J. Schroth
- Schwartz, M. S. 121
- self-deception/delusion 15, 31–2, 36, 37, 45–51, 68, 75, 101, 112, 113, 129
- definition 36, 46, 47
- at Enron 47, 48
- ignorance, as a defence 37, 46, 47–8
- by Nick Leeson 53–4, 63, 66–7
- lying 47, 56, 60–61, 62, 112
- see also* rationalization process
- self-image 38, 39
- shareholders 12–13, 32, 34, 46, 85, 86, 94, 102, 129
- increasing power of 137–8
- stakeholder management 138–9
- Shell 135
- Shore, C. *see* Haller, D. and C. Shore
- short-termism, in financial performance 84, 90–91, 94, 96, 138
- Siemens 134, 138
- bribery by 7, 9, 19, 28–9
- Pierer at 36
- SIMEX (Singapore International Money Exchange) 52, 53, 55, 56, 61
- Simmel, G. 47
- Simmons & Simmons 9
- Simpson, S: *Corporate Crime, Law and Social Control* 6, 7–8, 74–5, 131, 139
- Skilling, Jeff 23, 28, 34, 43, 46, 47, 48, 81, 85
- Smeulers, A. 81–2
- Smircich, L. 47
- smoking *see* tobacco companies
- Snow, C. P: *Science and Government* 71
- social environment (structure) 2, 3, 4, 5–8, 11, 15, 18, 19, 31, 32, 36, 49, 68–83, 84, 112, 128–31, 134–7
- at Arthur Anderson 108–11
- Hannah Arendt on 22–3, 24–5
- availability of rationalizations in 71, 75–7, 102–3, 109–10, 122
- at Baring Securities 59–60, 64–5
- conformity 71–5, 79–80, 82, 96, 109–10, 111, 118, 124–5
- definition 14
- at Enron 23–4
- ethical distance 71, 77–9, 81, 96, 102, 108–9, 116, 118
- at Ford Motor Company 45
- types of 71–81
- see also* business environment/practices
- societal norms 7–8, 123–6
- global variations in 8–11
- see also* cultural issues; legal framework
- Socrates 84
- Spacek, Leonard 105–6, 108
- stakeholder management 138–9
- see also* shareholders
- Stanford Prison Experiment 31, 70
- Staw, Barry 115
- Stewart, T. A. 90
- structure concept *see* social environment
- sub-prime mortgage crisis 94
- Sullivan, S. 74
- Swartz, M. and S. Watkins: *Power Failure ...* 47

- tax evasion 7, 140
- Thompson, A. A. (Jr): *Economics of the Firm* 90
- tobacco companies 7, 35, 135, 137
- Toffler, B. L. and J. Reingold: *Final Accounting* ... 108–10
- Toulmin, S: *Forecasting and Understanding* 93
- transparency 132–3, 138
- Transparency International 10
- Corruption Perception Index 10–11
- Trevino, L. K. 28–9
- trust violation 4, 5, 76, 89, 101, 139
- Turiel, E. *see* Kohlberg, L. and E. Turiel
- Tyco 126
- United Nations (UN) 125
- United States (US) 7, 11, 13, 17, 26, 137
- US Securities and Exchange Commission (SEC) 103–4
- US Today* 48
- unsafe products *see* defective/unsafe products
- Useem, M: *Investor Capitalism* ... 137
- Vaughn, D. 79
- The Challenger Launch Decision* ... 126–7
- Velilla, M. 120
- Volkswagen 12
- vulture funds 11–12
- Waddock, S. 121
- Wadia, Jim 106
- Wagner, J. A. 87
- Wall Street* (film) 140
- Warren, D. E. 124–7
- Watkins, S. *see* Swartz, M. and S. Watkins
- Watkins, Sherron 23
- Weber, Max: *From Max Weber* ... 73
- Whistle Blower Protection Act 2007 (US) 137
- whistle-blowing 23, 30, 136–7
- Wigand, Jeffrey 137
- WorldCom 1, 2, 11, 13, 19, 41, 46, 62, 69, 77, 79, 98, 130
- business environment/practices 91
- Bernie Ebbers at 36, 48, 74
- financial misrepresentation 74, 117
- S. Sullivan at 74
- Young, S. M. 92
- Zekany, K. E. 74
- Zimbardo, P: *The Lucifer Effect* ... 23, 25–6, 30, 31, 70, 72, 73
- Žižek, S: *The Parallax View* 41
- Zumwinkel, Klaus 140
- Zyglidopoulos, C. S. 78, 79, 92–3, 120, 121–2