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# Exploring the Link Between Organizational Culture and Corruption

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## Abstract

This paper will focus on how corporate organizations manage and respond to corruption risk. In order to understand the problems that confront organizations seeking to reduce their exposure to bribery and corruption, it is useful to examine this guidance through the lens of the Burke-Litwin model of organizational performance and change. This is a model of organizational change and development, based on open systems theory. It focuses on the connections between different organizational elements, and how and understanding of these relationships can be used to design wider systemic change. The complexity and all-encompassing nature of the corruption challenge suggests that more attention should be given to organizational culture and behavior as a means to embed ethics and integrity into company operations.

Our hypothesis is that organizational culture and work climate are particularly relevant factors in understanding vulnerability to corruption. Since corruption is illegal and unethical, corrupt practices necessitate the growth of particular norms within the corrupt focal group or organization. These norms will be in conflict with the stated values of the company, and will require secrecy to disguise the corrupt behavior. The study focuses on results collected through qualitative interviews of 23 professionals specialized in anti-corruption in the private sector and all located in the USA.

## Introduction

Corruption has been increasingly recognized as a significant global problem, driving poverty, inequality, terrorism and conflict. Over the last decade in particular, the issue has caught the attention of national regulators, international financial and policy institutions, corporations, activists and the media. There is no universally accepted definition of corruption, but the leading non-governmental organization in the anti-corruption field, Transparency International, defines corruption as 'the abuse of entrusted power for private gain.' The academic literature on corruption uses similar definitions – for example, Ashforth and Anand define corruption as 'the misuse of authority for personal, subunit and/or organizational gain' (Anand, 2003, p. 3). This definition encompasses many commercial practices, and methods of corruption include bribery, extortion, embezzlement, theft and fraud, abuse of discretionary powers, favoritism, nepotism and clientalism.

Luo states that 'Corrupt practices generally include bribery, fraud, extortion and favoritism. As the primary form of corruption, bribery is the payment (in money or kind) given or taken in a corrupt relationship. To most companies, bribery of public officials is the most prevalent form of a corrupt act. Fraud is an economic crime that involves some kind of trickery, swindle or deceit. Extortions involve corrupt transactions where money or other resources are violently extracted by those who have the power to do so. Lastly, favoritism is defined as "the human proclivity to favor friends, family and anybody close and trusted, at the expense of public interests" (Luo, 2004, p. 122). It can be seen from this definition that corruption is multi-layered, and, at least with respect to nepotism and favoritism, covers a number of patterns of human behavior.

This paper will focus on how corporate organizations manage and respond to corruption risk. Regulations aimed at corporate entities to date have focused on the bribery of foreign public officials by company employees, or by third party companies operating on their behalf as service providers, suppliers, or distributors ('third parties'). An effective internal anti-corruption program is held as both an operational and legal defense against employee violations, and may reduce the penalties that an organization faces if it has been found to engage in corruption. Such programs may also assist with negotiated settlements. Following a wave of prosecutions under the FCPA in the US for instance, the Department of Justice (DOJ) and Securities and Exchange Commission (SEC) issued guidance in November 2012 which includes a section entitled 'Hallmarks of Effective Compliance Programs'. This framework is designed to serve as a guide to best practice for organizations on anti-corruption. The recommended measures can be briefly summarized as follows:

- Commitment from senior management and a clearly articulated policy against corruption;
- Code of conduct and compliance policies and procedures;
- Oversight, autonomy and resources;
- Risk assessment;
- Training and continuing advice;
- Incentives and disciplinary measures;

- Third party due diligence and payments;
- Confidential reporting and internal investigation;
- Continuous improvement: periodic testing and review;
- Mergers and acquisitions: pre-acquisition due diligence and post-acquisition integration.

In order to understand the problems that confront organizations seeking to reduce their exposure to bribery and corruption, it is useful to examine this guidance through the lens of the Burke-Litwin model of organizational performance and change (Burke & Litwin, 1992). The Burke-Litwin model is a model of organizational change and development, based on open systems theory. It focuses on the connections between different organizational elements, and how and understanding of these relationships can be used to design wider systemic change. It makes a distinction between 'transformational' features of an organization – the external environment, mission and strategy, leadership and culture – and 'transactional' features such as systems, management practices, individual needs and values, and work unit climate.

Most of the measures outlined in the DOJ guidance are processes that an organization can put in place to control bribery risk and are therefore relevant to the systems: policies and procedures box in the model. There is some focus on individual needs and values via comment on incentives and disciplinary measures, but the only explicit reference to other 'transformational' boxes in the organizational model is a discussion of senior management's role in establishing 'tone at the top'. A well-designed compliance program that is not enforced in good faith, such as when corporate management explicitly or implicitly encourages employees to engage in misconduct to achieve business objectives, will be ineffective.' However, there is no further commentary on what a ‘culture of compliance’ might look like, or what leadership characteristics might best reduce the risk of corruption.

There is plenty of data to suggest that many companies are not meeting the regulators’ requirements for the implementation of anti-corruption systems, policies and processes. However, beyond this, there is also data to suggest that a focus on systems and processes alone is not adequate to tackle the scale of the corruption challenge. In some cases, a narrow focus on systems alone seems to have problematic consequences for the effectiveness of ethics and anti-corruption interventions.

In addition to this evidence of gaps in implementation, there are questions over whether compliance frameworks are sufficient to tackle the corporate corruption challenge. Given the focus on processes, policies and procedures in the DOJ’s best practice framework, it is unsurprising that companies tend to treat corruption as a risk that should be tackled via internal controls, and make anti-corruption programs the responsibility of the compliance and legal departments. The dominant approach is to treat corruption risk as employee behavior that can be eliminated with the right processes, and the regulatory climate means that ‘zero tolerance’ is the only appropriate public position for companies to take on the issue. It is logical and unsurprising that companies that have implemented anti-corruption programs lean heavily on audits, due diligence checks, and other documented processes to reduce corruption risk.

The issue from an organizational standpoint is that a compliance-led approach does not tackle the full scale of the corruption challenge. Compliance frameworks are necessary, but not sufficient. Corruption risk touches almost every aspect of a multinational company's business and has consequences across back and front office functions. Senior leadership commitment to anti-corruption and ethics is rightly understood to be a critical factor in embedding a meaningful approach to anti-corruption, but many organizations seem to believe that a formal policy statement from the CEO is sufficient, and make anti-corruption implementation the compliance department's responsibility. This is demonstrated by the limited focus on the issue at the C-Suite level. Regulatory investigations are still a low likelihood/high impact event, and there is an overall tendency to view anti-corruption compliance as a cost, and treat it accordingly.

**Organizational culture and corruption**

Corruption poses strategic and external risk dimensions that cannot be eliminated, either in theory or in practice. An organization may be committed to a zero tolerance approach to bribery and facilitation payments, but it cannot control the environment in markets where corruption is endemic, and bribe requests occur on a daily basis, often with a dimension of extortion. Companies must therefore make strategic decisions as to whether to enter some markets, accepting a certain level of inherent corruption risk, or stay out of them so they can maintain stated ethical commitments. Treating corruption solely as a preventable risk stymies vital debate around these issues.

The complexity and all-encompassing nature of the corruption challenge suggests that more attention should be given to organizational culture and behavior as a means to embed ethics and integrity into company operations. Preventative processes and checks and balances will only be effective if they are aligned with a company's mission, goals, values, norms and behavioral cues. There is also a tendency to treat corruption and other ethical violations as outlier behavior by individual 'rogue employees', but enforcement data suggests that the problem is likely to be systemic. In December 2014, the OECD Foreign Bribery Report was released, a comprehensive review of enforcement data between 1999 (when the OECD Anti-Bribery Convention first came into effect) and 2014. The data is affected by the strength of the enforcement regime among signatories, and cannot be considered a comprehensive view of corporate corruption. However, there are two very striking findings from the 427 bribery cases concluded so far. One is that bribery is not just a developing country, or 'external environment' problem – the majority of bribes abroad were paid to foreign public officials from countries with high to very high levels of human development (according to UN data). The second finding, which is compelling from a systems perspective, is that in 53 per cent of cases, either senior management or the CEO was involved or at least aware of the bribe payment. In 41 per cent of cases, management-level employees paid or authorized the bribe, and the company CEO was involved in 12 per cent of cases.

The academic literature relevant to organizational characteristics of corruption is vast, but fragmented, with contributions from sociology, law, management studies, strategy, behavioral ethics, economics, political science, criminology, and organizational psychology. Moreover, literature on ethics, fraud and organizational misconduct is relevant for a study on corruption. There are many additional insights to be gained from articles on trust, ethical infrastructure, whistleblowers and organizational culture. Mainstream literature tends to focus on one particular determinant of organizational corruption, whether it is the external environment, leadership, incentives, individual moral awareness and decision-making, or organizational structures – and to examine the relationship of this factor to corruption independently. However, as argued by Niewenboer and Kaptein, 'When factors are highly interdependent – as many organizational processes are – focusing on a single factor obscures the fact that organizational degradation processes may grow in scale over time. Although Robinson and Greenberg made a case for examining the dynamics of corruption in organizations in 1998, Trevino et al. (2006) have had to repeat that call as few studies thus far touched on this apparent dynamic nature of corruption.' (Kaptein, 2008, p. 134)

One study by Pinto argues that 'the corruption literature, taken as a whole, is rife with inconsistencies and inconclusive empirical results' and that corruption at the organization level is 'underexplored' (Pinto J., 2008, p. 685). This study distinguishes between 'corrupt organizations' (a top down process, where corruption is carried out by employees to benefit the organization) and 'organizations of corrupt individuals' (a bottom up process, where corruption is carried out for the benefit of the individual, but becomes so widespread that it can be considered an organizational phenomenon). The article provides a typology of these two manifestations, and argues that the primary beneficiary of the corrupt act makes a qualitative difference, as does the degree of collusion between organizational members (Pinto J., 2008). Although this distinction is useful in driving an appreciation that the nature of the corrupt act may have fundamentally different consequences, it is also artificial in some respects. Aggressive bonus structures may be put in place by a company without the goal of becoming a corrupt organization, although they can be manipulated to the benefit of both the individual and the organization.

One powerful and widely-referenced study discusses how corruption becomes ‘normalized’ in organizations. By discussing the process of normalization, it supports the study of corruption from an organizational change perspective – ‘normalization’ is also a process of change (Anand, 2003). The study discusses three mutually reinforcing processes that lead to normalization – institutionalization (where a corrupt decision or act becomes embedded in structures and processes), rationalization (where self-serving ideologies develop to justify the behavior) and socialization (where new employees are induced to view corruption as permissible). This model is interesting, as it focuses on corruption as primarily a group and/or organizational phenomenon that can affect individuals, regardless of their internal moral framework – the authors comment in a second article that ‘one of the most intriguing findings of the white collar crime literature is that corrupt individuals tend not to view themselves as corrupt’ (Vikas Anand, 2004). There is a particular focus on how cultures or subcultures of corruption develop within organizations, as well as use of Greil and Rudy’s concept of the ‘social cocoon’ (Rudy, 1984). The authors comment: ‘As the repertoire of corrupt practices becomes embedded in the ongoing routines of the organization, a deviant culture (or subculture in the case of localized corruption) tends to emerge to normalize corruption… Deviant subcultures insulate actors from the wider culture with its prevailing norms and beliefs’ (Anand, 2003, p. 9). The authors go on to discuss the rationalizing ideologies in these deviant cultures, which include ideas of denial of responsibility, denial of injury, denial of the victim, and appeal to higher loyalties. The article supports further exploration of organizational change, as well as intergroup relationships, in explaining corruption in organizations.

A review of the behavioral ethics literature further supports a focus on group dynamics and organizational change theory, and highlights this as a gap in existing studies. Trevino, Weaver and Reynolds' comprehensive review of the field shows that studies of individual moral conduct demonstrate that it is 'highly susceptible to external influence' and that therefore the 'management of such conduct through attention to norms, peer behavior, leadership, reward systems, climate, culture and so on becomes important' (Linda K. Trevino, 2006, p. 955). The article further comments that 'Little research has focused on behavioral ethics as a group-level or organizational-level phenomenon. Because much decision making in organizations occurs in groups, and actions are taken on behalf of groups, we encourage researchers to focus more attention on the group level of analysis' (Linda K. Trevino, 2006, p. 977).

Due to the cultural differences, in the business field, particularly when dealing with foreign markets, it is difficult to predict and control the effects of corruption on businesses (Wines and Napier 1992, Robertson et al. 2007, Venard 2008). Although many companies, in particular multinationals, have developed their own strategies to deal with integrity dilemmas in unfamiliar market conditions, there is still poor agreement on how cross-cultural ethic factors should be dealt with (Cassel 2001, Cullen et al. 2004). One attempt has been to develop many-sided and complex analytical approaches that look at corruption in relation with the performance of firms in terms of quality of product delivery, inter- and intra-organizational flows of command and communication, product design and branding, and entrepreneurship (Weaver et al. 1999, Collins et al. 2009, Fan et al. 2014).

Another stream of literature has considered the fitness of companies to respond to integrity issues through the lens of the companies' organizational culture (Schminke 2010; Brief 2012). Some research has focused on the social and demographic implications of moral awareness, the very basis of ethics (Reynolds 2006, Treviño et al. 2006), or more specifically on the influence of the organizational context on moral awareness building (Butterfield et al. 2000). Another organizational approach has focused on a wide range of decision-making biases and failures (see Sunstein 2005 for a review), some of which directly relate to management (Tenbrunsel and Messick 1999, Sonenshein 2007). On the side of organizational compliance, one innovative approach has proved that it is difficult to force an ethical culture by ways of legal and sanctioning actions. This is because the logic, which underpins institutional actors' behavior within firms, is shaped by the symbolic power of their societal and cultural (other than political and economic) experiences (Frieland and Alford 1991, Uhlenbruck et al. 2006, Misangyi et al. 2008).

It seems likely that the more of these drivers are present, the more vulnerable the organization is to corruption, though 'the presence of [organizational factors] does not imply that corruption indeed occurs; it merely indicates the likelihood of corruption taking place. Conversely, corruption does not necessarily mean that organizational factors have caused it as it may also be a product of environmental or individual factors alone.' (Kaptein, 2008, p. 134).

Concepts of organizational culture appear particularly relevant to understanding organizational corruption, as they encompass covert processes and the hidden violation of stated norms and values. Organizational culture is usually defined as ‘the way we do things around here’ (Schein E. H., 1992).

Schein describes three levels of culture. The first level, an organization’s artifacts and rituals, are easily observable. They include facilities, offices, furnishings, the way employees dress and behave and the myths and stories the organization tells about itself and its history. The second level, espoused beliefs and values, reflect an organization’s statements about what it stands for – its primary goals and *modus operandi*. This includes statements such as ‘we put our customers first’ and ‘we forbid the payment of bribes to secure business.’ The values of a company will include perceptions an employee has about its reliability and trustworthiness.

The second level of culture can conflict with the third level – an organization’s underlying assumptions. This level describes traits that are rarely, if ever, discussed; they are taken for granted. Employees become acclimatized to these ‘unspoken rules’ over time and may not even be conscious that they exist. For example, employees may avow belief in open communication around risk and integrity issues This means that a focus on processes and stated values alone will not provide an accurate view of an organization’s vulnerability to corruption.

**Hypotheses and Research Methods**

As described about, our research question aims to understand which organizational factors are most likely to increase the effectiveness of anti-corruption compliance processes. We are interested in understanding which organizational characteristics might support or undermine such processes, and increase or reduce corruption risk accordingly. We are particularly interested in informal, cultural dimensions, as they are more difficult to measure, and studied much less than formal controls. Corruption is complex and encompasses many different forms of behavior, so corruption risks may manifest in different ways. However, our hypothesis is that organizational culture and work climate are particularly relevant factors in understanding vulnerability to corruption. Since corruption is illegal and unethical, corrupt practices necessitate the growth of particular norms within the corrupt focal group or organization. These norms will be in conflict with the stated values of the company, and will require secrecy to disguise the corrupt behavior.

Organizational culture is also difficult to measure, since it is partly a function of implicit, underlying assumptions that may not be acknowledged by the employee. Indeed, the employee may not even be conscious of such assumptions. For this reason, we considered that organizational surveys, or even interviews of ethics and compliance officers in companies, would be likely to be of limited use. Compliance specialists tend to frame corruption problems in terms of process, rather than wider organizational factors, and are exactly the individuals that might be excluded from awareness of the corrupt process. Further, it will be difficult for them to admit vulnerabilities in their organization without undermining their own position and credibility, as well as possibly exposing their organizations to reputational or even regulatory risk.

For these reasons, we consider that an exploratory field study is the best research strategy in understanding which organizational factors increase vulnerability to corruption.

Our research has been designed as in-depth, qualitative interviews, using the questions outlined above. Because we wanted the opinions of the interviewees to be independently generated, and limit our own bias, we stated upfront that we were comfortable if the interview took a different direction from the established questions, as it sometimes did. Between November 2014 and January 2015 we conducted 23 independent interviews of individuals with expertise in observing, or studying corrupt organizations from a legal, investigative, compliance or academic/research standpoint all located in the USA. Their backgrounds can be summarized as follows (note that some participants had substantial expertise in more than one area, so the totals do not add up to 23):

**Table 1. Research participants by area of expertise**

| **Area of Expertise** | **Number of Subjects** |
|---|---|
| Legal | 4 |
| Ethics and compliance advisory | 8 |
| Investigations (public or private sector) | 7 |

| | |
|---|---|
| Academic/research/policy | 8 |

The sample was self-selecting, as other individuals we would have liked to talk to did not have the time or interest. The people we spoke to were all passionate about the interview subject matter, and keen to share their views and perceptions. We were clear at the beginning of the call that we understood both the external environment and individual behavior to be relevant to corruption in organizations, but that my focus was on the organizational manifestations of corruption. It was emphasized that responses would be confidential and not attributed, and many interviewees shared examples from their own experience or from significant cases in the public domain.

The issues raised by the greatest number of interview subjects, in order of importance, are outlined in the table below.

**Table 2. Codification of main issues**

| **Dimension** | **Factor driving corruption** | **# of interviewees to raise issue** |
|---|---|---|
| Leadership, Culture | Corrupt leadership behaviour is mirrored throughout the organization/team | 15 |
| Systems, Culture | Manipulation of compliance systems | 15 |

| | | |
|---|---|---|
| Incentives, Leadership | Emphasis on ends vs means (including not questioning the basis of high performance/exceeding targets) | 14 |
| Systems | Lack of meaningful oversight, checks and balances | 14 |
| Structure | Disconnect between HQ and head office as a result of excessive decentralization | 13 |
| Norms | Influence of group norms and subcultures on individual behaviour | 13 |
| Strategy | Unrealistic growth targets | 12 |
| Leadership, Culture | Lack of transparency, secrecy, poor communication | 12 |
| Incentives | Ethical behavior is not recognized or rewarded | 11 |
| External Environment | Poor industry practices and norms | 9 |
| Leadership, Values | Complacency, sense of impunity | 9 |
| Values, Strategy, Culture | Short term thinking, sense of urgency and necessity | 9 |
| Leadership, Culture | Hierarchical authority, performance pressure, fear | 9 |

| | | |
|---|---|---|
| Structure, Systems | Complexity, fragmentation, lack of individual accountability | 8 |
| Norms, Culture | Use of euphemisms, sense of shame | 7 |
| Systems, Culture | Ignorance of the law | 6 |
| External Environment | Competitive intensity | 6 |
| Norms | Secrecy, mystique | 5 |
| Structure | Role conflict | 4 |
| Structure, Systems | Lack of risk assessment, risk ownership | 4 |
| Leadership, Culture | Arrogance | 4 |
| External Environment | Poor quality product | 3 |

**Discussion of main findings**

The results of our research were consistent with the initial hypothesis that an organizational change perspective on corruption is valid, because of the high level of interdependence between variables highlighted by interviewees. This suggests that tackling corruption in a meaningful way requires a transformational organizational change effort. This effort would need to focus on how the company responds to its environment, grows revenue and wins business, the style of its leadership, and the organizational culture. In order to reduce corruption, cultural efforts that support an improvement in compliance processes would appear to be less important than adopting transparency, participative leadership, rewarding ethical behavior, and combining oversight with employee engagement. Fighting corruption is an active effort, it is not about the strength or weakness of preventative controls.

The findings of my interviews were consistent with the work on the normalization of corruption in organizations, particularly in terms of employees watching and mirroring leadership behavior, and individual motivations emerging as a less powerful driver than conditions within a particular team, group or subculture. Interviews suggested there is an organizational culture of corruption archetype, which comprises remote teams with little oversight, low transparency and highly directive leaders, all of which supports the contention that 'Deviant subcultures insulate actors from the wider culture' (Anand, 2003). The interviewees also focused heavily on boundary conditions for these subcultures including the level and quality of oversight from headquarters, the need for meaningful engagement as opposed to deliberate opacity in the service of 'plausible deniability,' and the need to drive engagement with meaningful values via both top down and bottom up communication. We did not get sufficient data from interviewees to support the idea that corrupt subcultures engage in denial of responsibility and injury, though some interviewees did make these arguments.

A second key finding is that it is hard to isolate particular elements of an organizational problem, and impossible to tackle one part of the problem without it having significant unintended consequences elsewhere, particularly in a large and complex modern organization. The interview discussions on structure, and the risks of excessive decentralization in comparison to excessive centralization were illustrative in this regard. There is a need to balance different organizational elements and to understand their effects on each other, and there is no perfect formula. Rather, there is a pendulum that can swing too far one way or the other, and a need for ongoing reflection, analysis and course adjustment. Interviewees highlighted the need for trust and employee engagement at the same time as the need for process, oversight and checks and balances – it is unlikely that one organization is able to hold both of these elements with the same level of effectiveness.

Finally, our project supports the Burke-Litwin model's contention that changing organizational culture is a fundamental transformational effort that requires a focus on strategy, leadership, mission and the relationship with the external environment. Understanding how companies might eliminate corruption involves going much further than conducting an intervention to enhance the effectiveness of risk management processes – it involves a focus on the entire identity and *raison d'etre* of an organization.

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