

The Handbook of Business and Corruption

Cross-Sectoral Experiences

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Cross-Sectoral Experiences

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Introduction

The aim of this handbook is to provide an overview of corrupt practices in general and, more particularly, in different industry sectors from an ethical perspective. Corruption will be considered in its broadest sense, including bribery and petty payments, nepotism, and cronyism, gift-giving, embezzlement of public property, or money laundering. In this vein, the range of activities which are seen as corruption differs in several countries depending on culture, traditions, or socialization. Thus, for example, certain sorts of gift-giving in some cultures are deeply embedded in custom and are seen as social mechanism for stabilizing relationships inside and outside the business context, whereas in other countries such acts of gift-giving are by and large uncommon. In the latter, gift giving is viewed as an illegitimate means of influencing the decision of the other party by creating a specific sort of obligation as well as imposing additional costs to the company. Although the intention of gift giving may not be to obtain a favor from the donee in return, one of its aims may nevertheless be to cast the giver in a favorable light. While this might be valued highly in some cultures, it is seen as illegitimate leverage in others.

The same cultural difference in attitude can be observed with obligations vis-à-vis family members or other social groups. To take the example of employee recruitment in western countries, it is estimated that recruitment principally depends on qualifications and work experience and only to a lesser extent on recommendations, while in some other countries family relationship is seen as a guarantee of loyalty and trustworthiness and might explain why “nepotism” happens.

Nevertheless, some elements of corruption are perceived as illicit in nearly all countries – irrespective of whether other corrupt practices are common in these countries or not. A very good indicator for this is the fact that most types of bribery payments are not made public and are illegal in most countries. In spite of this, even the most stringent legal regulations concerning corrupt

practices leave room for interpretation. On the other hand, for companies working in a corrupt environment it is not easy to figure out the family ties of their counterparts or whether costs charged for administrative handling are legal payments or hidden bribes for some groups of state officials. Thus, according to which industry a corporation belongs to, it might face specific problems related to corruption.

For most western countries corruption, especially in its forms of grease money or petty payments, have been seen as a cultural idiosyncrasy of African, South-American, or East-European countries. For years, corruption has been dismissed as a cultural phenomenon especially in less-developed or developing countries, mirroring low salaries, weak infrastructure, disorganized administration, and unstable political conditions. If corruption “happened” in Western countries at all, this has been downplayed as a kind of “some-bad-apples-theory” where a few ill-motivated actors jeopardize the honesty of the whole system. What this theory fails to explain, however, is why it is western multinational corporations that have been involved in contemporary corruption scandals in recent years. Even though most of these companies ostensibly had anticorruption programs and monitoring systems in place, such measures obviously did not prevent management from engaging in corrupt activities. It seems therefore that corruption is a widespread and common practice and a universally prevalent phenomenon, even if the practices and degree of corrupt behavior may be different in different sectors.

Although a number of books dealing with the topic of corruption have been published over the years, most books treat corruption either as a cultural phenomenon or focus on fraud prevention from a managerial perspective. Less attention is paid to the specifics of corruption and corruption related topics in different industries and economic sectors. Furthermore, previous work has tended to focus only on one or two aspects of corruption and there hasn't been an attempt to discuss corruption in the broad sense as intended in this book. In contrast, numerous articles in scientific journals describe corruption not only from a country perspective but also describe various manifestations of corruption as a problem of different industries. So far no compendium exists which analyzes corruption from the perspective of different industries. Thus it is the aim of this handbook to provide an overview of corrupt practices in general and in different industry sectors from an ethical perspective.

Section I starts with theoretical considerations on corruption. In the first chapter of this section (Chapter 1) Philip M. Nichols provides a thoughtful analysis of the “general definition” of corruption through history and considers the kaleidoscope of views of what exactly it is, both in terms of its legitimacy and in a legal sense. The importance of a clear definition is outlined: “The abundance of definitions presents scholars and policymakers with a problem similar to that presented by an overly broad definition; when interacting with one another on issues of corruption, scholars and policymakers might not be talking about the same thing.” He takes us through the generally known facets of corruption including bribery, extortion, theft, embezzlement, and nepotism with the accompanying abuse or betrayal of power and trust involved in these phenomena. Nichols further extends the traditional definition, suggesting the inclusion of the notion of undue influence, an inequitable use of power to affect an outcome or to engender a “burden of debt” through preferential access to powerful structures or institutions such as government.

Thomas Taro Lennefors then takes us deeper into the theory of corruption (Chapter 2), outlining different approaches to understanding corruption. He brings together four different strands of research to move away from the purely agent-based view – where the agent betrays the trust of the principal and acts in rational self-interest. He integrates an understanding of the socialization process of corruption, the philosophical consideration of corruption as degeneration from an ideal – and of what exactly that ideal is – together with a psychological consideration of why corruption is always deemed to be elsewhere rather than directly relevant to oneself.

Our contributing authors subsequently take us through some universally experienced forms of corruption, namely petty corruption (Antonio Argandoña, Chapter 3) and ways of combating it, gift-giving as disguised bribes, or bribery as a distortion of the gift-giving function (Michel Dion, Chapter 4), nepotism and cronyism (Sarah Hudson & Cyrlene Claasen, Chapter (see above) 5). These phenomena are ubiquitous throughout human societies and have existed since civilization began, when some individuals and groups began setting down rules and developing norms for societal behavior and, just as quickly, others (or they themselves!) began finding ways to subvert them for personal or group gain.

The overview of corruption concludes with a richly developed set of insights and analysis by Richard P. Nielsen

(Chapter 6) which compares and contrasts viable and nonviable means of reforming corruption. The author provides thought-provoking concepts and examples to illustrate a variety of approaches that can be used depending on contextual influences which can help or hinder the process of reforming corruption.

We see the broad themes developed in the first part of this handbook arising repeatedly in the cross-sectoral perspectives on corruption provided in Section II. The narratives and examples hark back again and again to cases of abuse of power for gain, extortion, theft, nepotism, cronyism and bribery. Despite the familiarity of the themes, there is rich variety in the individual details of the cases and the analytical viewpoints and approaches taken. These reflect the stance taken in Chapter 2 by Lennefors that the reality, nature, and perceptions of corruption are multiple and that different lenses may be useful for analyzing different corruption cases or environments. The authors of the sectoral perspectives on corruption breathe fresh life into the topics by uncovering and proposing new and context-specific ways to deal with the problems of corruption.

Some of the sectors covered in part II of this handbook, for example the financial and banking sectors, are rather to be expected, the *sine qua non* of any serious discussion of corruption in today's world.

In the first chapter of this section Peter Rodriguez (Chapter 7) searches for answers as to why corruption persists in the government sector. Similarly to Sarah Hudson and Cyrlene Claasen in Chapter 5, he rejects the idea that there is some simplistic national or cultural characteristic that can explain corruption in government. He suggests that not all corruption is the same, and so empirical understanding of the actual economic effects of different types of corruption would help policy-makers and scholars understand which had the most impact and thus where to focus their attention. In an echo of Lennefors's discussion around being socialized into corruption, Peter Rodriguez notes that corrupt industrial practices travel with those who cannot escape them, and are diffused from individual to individual and place to place.

The resource curse is discussed in an informative chapter (Chapter 8) by Eleanor R. E. O'Higgins on the extractive industry in a context of a "vicious cycle of extractive resource dependency and corruption which reinforce each other." The author thoroughly analyses the competitive landscape of these industries and concludes with some suggestions for scenarios where anti-corruption transparency initiatives might be able to take root.

Michael S. Abländer (Chapter 9) unpicks the IT industry using the case of corruption in Siemens. He offers an intriguing insight into the processes involved in creating, maintaining, and deepening an organizational culture of corruption, as well as the redressive processes in the aftermath of public exposure, and the suggestion that the corruption cycle is set to start again.

David Chaikin (Chapter 10) examines the empirical evidence around the facilitating activities of the banks in money laundering and tax evasion. He concludes with a rejection of the “one bad apple” thesis, finding that the banking sector is a “systemic offender facilitating financial crimes, despite the enactment of international and national anti-financial crime standards and criminal prosecutions of financial institutions.” Bonnie Buchanan and Craig Anthony Zabala (Chapter 11) analyze the case of the New York Department of Financial Services investigation into and action against Standard Chartered Bank’s alleged money laundering violations involving Iran. They reveal in detail the difficulties encountered by governments and law enforcement agencies in fighting financial fraud and money laundering in particular. Chapter 12, written by Jay Youngdahl, concludes the trio of contributions on the financial and banking sectors with a thoughtful analysis of the role of the investment consulting and the financial auditing industries, with the problem of “who is watching the watchmen?” clearly emerging from the detailed depictions of these sectors. The author ends on an upbeat note, proposing that a shift in narrative around this sector could change the attitudes and practices of actors within.

Corrupt practices in the health-care and pharmaceutical sectors are the subjects treated by Tetiana Stepurko, Milena Pavlova, and Wim Groot (Chapter 13) and by Martha Gabriela Martinez, Jillian Clare Kohler, and Heather McAlister (Chapter 14) investigating radically different issues within these related sectors. Tetiana Stepurko et al. carry out a multilevel analysis of the widespread phenomenon of informal payments in the health-care sector and compare its prevalence and nature in different contexts. Based on a literature review Martha Gabriela Martinez et al. then provide an overview of the most prevalent structural and policy issues that make this sector susceptible to corruption and address the ways in which these vulnerabilities can be addressed. This analysis generates a useful and practical set of guidelines for dealing with the challenges.

Asif Reza Anik and Siegfried Bauer (Chapter 15) paint a detailed and troubling picture of corruption in the agricultural

sector in Bangladesh. This chapter stands out from the rest in that it involves corruption at the bottom of the pyramid, its victims coming from the poorest sections of society. The particular forms corruption takes in the fertilizer market in Bangladesh, the processes it follows and its daunting effects are all described here, providing valuable information on this little-known sector.

In Chapter 16, authors Peter J. Edwards, Paul A. Bowen, and Keith S. Cattell use the construction industry in South Africa to illustrate and develop a four-dimensional risk-based model of corruption allowing identification of appropriate action needed to combat corruption in this industry along the four axes proposed: eliminating and reducing opportunities; relieving the pressures to commit; rebutting the rationales and arguments used to excuse; and improving and innovating more forensic methods of detection of corruption. They place the problem of corruption in this sector firmly as a societal challenge.

The sports industry, as elucidated by Fausto Martin De Sanctis (Chapter 17), holds a mirror to society and all the sectors discussed in the handbook. This one sector runs the entire gamut of corrupt behavior, illustrated effectively with current examples and recent scandals. Equally of current interest (in the aftermath of the 2016 U.S. elections and the agonizing of the media over the “post-truth” phenomenon) is Edward H. Spence’s examination of corruption in the media (Chapter 18). His cases and analysis of cash-for-comment scandals, advertorials, infomercials and infotainment, and public relations media releases disseminated misleadingly as journalistic opinion show that “truth” in the media has always remained elusive, and that these practices are well-embedded in the media sector.

The cross-sectoral analysis concludes with an analysis of the retail sector by Michael S. Abländer and Maxim A. Storchevoy (Chapter 19). While some forms of corruption in the retail sector are similar to the form corruption takes also in other industries, the practice of charging slotting fees as up-front payments for shelf-space in supermarkets is a unique practice in the retail sector. Since such payments are made in cash and are paid for bogus services they are bribery-like payments which particularly disadvantage smaller manufacturers which are not able to pay for shelf-space and are thus forced out of the market.

Sarah Hudson
Michael S. Abländer
Editors

PART I
Explaining and Preventing
Corrupt Practices

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1

What is Organizational Corruption?

Philip M. Nichols

ABSTRACT

In its most basic usage, “corruption” means a change from functional or good to dysfunctional or bad. This definition is far too broad to be of use to scholars or policymakers, who need a more precise, shared definition so that they can communicate meaningfully with one another. Scholars and policymakers have developed scores of definitions, which this chapter briefly explains. Within this galaxy of definitions, scholars and policymakers have tended to favor one definition, which this chapter calls the “general definition.” The general definition describes organizational corruption as: the abuse or misuse of power or trust for self-interested purposes rather than the purposes for which power or trust was given. This chapter discusses and illustrates the general definition. The chapter concludes by pointing out that the general definition is only one definition. In many places, the public is deeply concerned with phenomena such as undue influence, which should also be taken into consideration as a form of corruption even though it falls outside of the general definition.

Keywords: Bribery; corruption; organizational corruption; trust; undue influence

Introduction

At its most basic, the word “corruption” describes a transition from working to not-working, from functional to dysfunctional, from good to bad. Thus, it is common to speak of computer files as having been “corrupted,” meaning that a file that once worked no longer does so. When a person who was once good manifests evil, that person too is described as having been “corrupted” – perhaps, as in the tale of the city mouse and the country mouse, having lost their countrified innocence after moving to a big city.

This use of the word is also used to describe organizations. The decline of the Roman Empire is often described as corruption (MacMullen, 1990). So too is the grinding transition of the British East India Company, which once controlled half of the world’s trade, from an economic titan to an ineffectual and disliked organization that was so embarrassing to Great Britain that it was dissolved and its holdings transferred to the Crown (Lawson, 2014).¹ The more rapid collapse of Enron Corporation, once one of the world’s largest energy corporations, which collapsed into bankruptcy under the weight of fraudulent and self-serving actions by members of its management is also one such example (Ashforth, Gioia, Robinson, & Treviño, 2008).

This use of the word corruption comports with its use and its understanding among the larger public, and thus has value. It presents, however, a challenge to scholars and to policymakers. This definition is so broad that it encompasses any systemic or institutionalized failure; it describes a phenomenon that is too general for meticulous scrutiny or for particularized solution. There are many, many reasons that organizations transmuted from functional to dysfunctional or from good to bad, which renders a theory of such reasons generalized to the point of mere description (“firms fail”) and renders solutions generalized to the point of being mere platitudes (“work hard, be honest, don’t

¹Although Lawson focusses on “the decline and corruption of a once-great Company” (2014, p. 131), he uses the word “corruption” in describing other transitions as well: for example, among the *nabobs*, young men who returned to Great Britain with huge fortunes accumulated as administrators for the East India Company in far flung markets, and who were criticized for their opulent and extravagant lifestyles; and societies in India, which were exploited and mismanaged by the East India Company.

fail”). Those who study and work with corruption, therefore, need a somewhat more precise definition.

A History of Definitions

Scholars and policymakers have responded to the need for greater precision with a galaxy of definitions and theories. Making sense of the panoply of definitions is almost as difficult as creating a new definition. Two of the more ambitious attempts to explicate definitions of corruption are those of Arnold Heidenheimer (often in association with Michael Johnston), and Ulrich von Alemann. Both write mainly about the subcategory of public sector corruption rather than organizational corruption in general, but the work of both applies to organizations in general.

Heidenheimer suggests three broad categories of definitions: market-centered, public interest-centered, and public office-centered. Market-centered definitions of corruption posit a “rational”² actor who follows a particular thought process in deciding how to act. Thus, “[a] corrupt civil servant regards his (public) office as a business, the income of which he will (...) seek to maximize. The office then becomes a ‘maximizing unit’. The size of his income depends (...) upon the market situation and his talents for finding the point maximal gain on the public’s demand curve” (van Klaveren, 1989, p. 26). Public interest-centered definitions look into the effect of activities: corruption occurs when public servant’s activities, particularly when induced by “rewards not legally provided for, (...) does damage to the public and its interests” (Friedrich, 1966, p. 74). Public office-centered definitions are very similar, but rather than focusing on the effects of behavior instead scrutinize the agency of the actor involved. This sort of definition has come to dominate the corruption literature, and will be discussed further. Before parsing this definition, however, it is worth looking at an entirely different way of organizing theories of corruption.

Ulrich von Alemann suggests that rather than attempting to define corruption, corruption should simply be understood. He therefore categorizes corruption literature into five tropes of understandings: corruption as social decline, corruption as logic

²“Rational” usually suggests material thinking rather than moral thinking.

of exchange, corruption as deviant behavior, corruption as a system of measurable perceptions, and corruption as shadow politics (von Alemann, 2004). The aforementioned decline of the Roman Empire exemplifies a social decline understanding, as may the moral decline of the Soviet Empire, which Stephen Kotkin describes as resulting in a “pre-corruption” state (2001, p. 128). Corruption as a logic of exchange is similar to Heidenheimer’s market-centered definitions of corruption: people with power decide to use that power to maximize their own well-being. Corruption as deviant behavior is similar to both Heidenheimer’s public interest-centered and public office-centered definitions, in that people with power or responsibility violate rules regarding that power or responsibility.

Von Alemann provides little guidance as to what he means by understanding corruption as perception. There is, however, a very important relationship between corruption and generalized trust or ethical climate. Generalized trust consists of a sense that systems work and people – including strangers – can be trusted (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997; Rothstein & Stolle, 2008). High levels of generalized trust substantially reduce transaction costs and increase cooperation and the formation of beneficial relationships (Bac, 2009). Generalized trust is a critical factor in the effective operation of an economy, and some developmental theorists consider generalized trust to be one of the most critical contributors to economic development (Bjørnskov & Ming-Chang, 2015; Fukuyama, 1995; Putnam, 1993; Uslaner, 2002). Within an organization, a strong ethical climate provides many of the benefits that generalized trust provides in a society. Individuals operating in an organization with a strong ethical climate contribute more to the organization and are more likely to cooperate with one another (Schminke, Arnaud, & Kuenzi, 2007). Understandably, observation of corruption or a perception that corruption exists reduces levels of generalized trust in a society, and diminishes the strength of an ethical climate in an organization (Badenhorst, 1994; Bruce, 1994; Serritzlew, Sønderkov, & Svendsen, 2014; Weeks, Longenecker, McKinney, & Moore, 2005). Von Alemann’s suggested trope of corruption as perception, therefore, might most usefully be interpreted as understandings of the interactions between corruption and the social fabric of an organization.

Von Alemann (2004, p. 32) is far more forthcoming in describing corruption as shadow politics. Von Alemann assigns political relationships to one of three groups. Relationships

considered both legal and socially acceptable are assigned to lightness, while those that are both illegal and socially unacceptable are consigned to darkness. A third group, however, exists in the shadows: relationships or transactions “considered to be legitimate but not legal according to the law, or, conversely, considered to be not legitimate although still within the bounds of the law.” Campaign finance in the United States provides an example of activities that fall within the shadows: although securing favorable treatment through large campaign donations is legal in the United States, most people strongly disapprove of such activity.

Heidenheimer and von Alemann demonstrate the plethora of useful definitions of organizational corruption. The abundance of definitions presents scholars and policymakers with a problem similar to that presented by an overly broad definition; when interacting with one another on issues of corruption, scholars and policymakers might not be talking about the same thing. Obviously, scholars and policymakers need to communicate effectively with one another. Therefore, as research and attempts to control corruption have increased, scholars in the social sciences and policymakers in general have coalesced around a particular definition.

A General Definition

The definition around which scholars and policymakers have coalesced, which this chapter will designate the “general definition,” describes corruption as: the abuse or misuse of power or trust for self-interested purposes rather than the purposes for which power or trust was given. The seeds for this general definition are sometimes attributed to Joseph Nye (1967, p. 19), although von Alemann suggests its genesis can be found in an encyclopedia chapter written 30 years earlier by Joseph Senturia (von Alemann, 2004, p. 29; see Senturia, 1931, p. 448). In either case, the earliest versions of this definition encompassed only political corruption; the definition has, however, been generalized sufficiently to describe corruption in any form of organization.

This definition permeates several of the most visible practitioner organizations. Transparency International (2016), for example, defines corruption as “the abuse of entrusted power for private gain.” The World Bank defines corruption as “the abuse of public office for private gain” (1997, p. 8). The International

Monetary Fund (2016) describes corruption as “the abuse of public authority or trust for private benefit.” The International Chamber of Commerce (2006, p. 2), focusing on corruption within private organizations, describes corruption as “the intentional [giving or taking] (...), in the course of international economic, financial or commercial activities, of any undue pecuniary or other advantage, to any person, who directs or works for, in any capacity, another private sector entity, for this or another person, in order that this person act or refrain from acting in breach of this person’s duties.”

Numerous social scientists use this definition as well. To single out any would be unfair, to list them all would overwhelm this chapter. Nonetheless, those who pause to review the arc of literature over the last 20 years agree that the general definition has in fact come to dominate the discussion of corruption (see, e.g., Delaney, 2007, p. 417).

Iterations of Corruption

Michael Johnston, who has made significant contributions of his own to understanding and defining corruption, observes that most literature and discussions of “corruption” actually contemplate bribery, which is only one iteration of the general definition of corruption (2005, pp. 20–21). Bribery consists of a *quid pro quo* – power or trust is abused or misused in exchange for some benefit given to the holder of that power or trust. Every country in the world criminalizes the bribery of its own officials, and it is important to distinguish legal definitions from conceptual definitions. Legal definitions must, particularly in countries that aspire to procedural fairness or justice, be sufficiently definite to give notice to an actor that that actor is at risk of engaging in prosecutable behavior, and sufficiently particular to allow a defendant to demonstrate that no line was crossed (or that the prosecution failed to prove that a line was crossed). Thus, for example, section 299 of Germany’s penal code, the *Strafgesetzbuches*, specifically defines bribery in business organizations:

Whosoever as an employee or agent of a business, demands, allows himself to be promised or accepts a benefit for himself or another in a business transaction as consideration for according an unfair preference to

another in the competitive purchase of goods or commercial services.

This is distinct from the first paragraph of section 331, which describes basic bureaucratic corruption:

A public official or a person entrusted with special public service functions who demands, allows himself to be promised or accepts a benefit for himself or for a third person for the discharge of an official duty.

These are distinct from other sections describing bribery of judges, or voters, or delegates to the European Parliament, and more. Each describes in precise terms a particular act of bribery. Conceptual definitions do not bear a burden of such precision or distinction. Conceptually, bribery simply means a *quid pro quo* exchange that involves abuse or misuse of power or trust.

Extortion is considered by some to be the converse of bribery and by others to be simply a variation of bribery. Extortion occurs when an actor who holds a position of authority or trust demands payment (or some other personal benefit) by threatening to use that power in a harmful way. Jeffrey Boles attempts to distinguish payment requests initiated by the person holding the power: “Commercial bribery is a separate crime from extortion, as its germane element, as pithily stated by the Second Circuit, is ‘pay me and be assisted,’ whereas extortion’s germane element is ‘pay me or be precluded’” (Boles, 2014, p. 126).³ If, for example, a customs agent asks for a private payment in exchange for allowing goods to enter the customs territory, then that transaction would be considered a bribe. If, however, the customs agent demands a private payment under threat of confiscating goods, then the demands by the customs agent would be considered extortion. In legal theory the fine distinction between bribery and extortion has engendered vigorous debate (see Lindgren, 1993). Conceptually, both fall within the general definition of corruption.

Theft and embezzlement constitute another iteration of the general definition of corruption. A person to whom an organization has given power or trust can steal from the organization. One example of this type of theft occurred when Dennis

³Boles draws his quotations from *United States v. Covino*, 837 F.2d 65, 68 (2d Cir. 1988).

Kozlowski and Mark Swartz, the Chief Executive and the Chief Financial Officer of Tyco International PLC, stole hundreds of millions of dollars from the company. They did so by, among other actions, authorizing illegal bonuses to themselves, making and then forgiving loans to themselves, and by manipulating stock prices – all of which constituted abuse and misuse of their powers (Schwartz, 2006). Other prominent examples of theft include the granting of a fraudulent “loan” to its Chairperson Bernie Ebbers by Worldcom Inc., even as WorldCom collapsed in bankruptcy; Parmalat SpA, whose Chairperson Calisto Tanzi embezzled more than eight hundred million euros in the midst of defrauding stakeholders out of several billions of euros through misleading accounting; and more recently Bernard L. Madoff Investment Securities LLC, through which Chairperson Bernie Madoff stole tens of billions of dollars from stakeholders (Ostas, 2007; Tackett, 2010).

Nepotism is another frequently discussed form of corruption. Nepotism consists of favoritism based on affinity rather than merit. When, for example, World Bank President Paul Wolfowitz was alleged to have assisted his domestic partner, who also worked at the World Bank, in obtaining a well-paid position at the United States Department of State, where Wolfowitz had previously worked, some called this as an act of nepotism (Zelizer, 2009). When the child of a manager is given a position within a firm, particularly when more qualified candidates were not, this raises questions of nepotism. Similarly, when a contract is awarded to a relative of the contracting officer or of a government official, serious questions of nepotism arise.

The damage caused to an organization by nepotism is obvious. The organization loses opportunities that it may have accrued through the services of a highly-qualified worker, the organization is saddled with the deficiencies that accompany a poorly-qualified worker, and morale within the organization may suffer as persons without connections realize that their chances for promotion have diminished (Abdalla, Maghrabi, & Raggad, 1998). Nonetheless, nepotism remains awkwardly placed within the constellation of iterations of corruption. Adam Bellow (2004) praises rather than condemns nepotism, claiming that it resonates with a biological imperative to protect affined persons. Moreover, it is not always clear that the favored person does not in fact deserve favor. In the case of Wolfowitz, for example, Wolfowitz’s partner, Shaha Riza, preceded Wolfowitz’s tenure at the bank and was greatly respected as a world-class leader in

building democratic institutions. Although the *New York Times* (2007) called for Wolfowitz's resignation, the *Wall Street Journal* (2007) castigated the criticism and investigation as the use of "trivial" matters to derail Wolfowitz's proposed institutional reforms. Wolfowitz was eventually found *not* to have engaged in misconduct by a World Bank ethics panel. Wolfowitz's ordeal serves as a reminder that nepotism requires more study, and of its complicated placement within the general definition of corruption.

The general definition is an intentionally broad definition. The study of corruption, as well as the crafting of solutions to the problems created by corruption, may be sharpened by making reference to particular iterations of corruption. Notwithstanding the usefulness of using sharper definitions, however, the general definition continues to have the greatest vitality among scholars and policymakers. That definition, therefore, merits closer scrutiny.

Parsing the General Definition

Although more specific than some definitions, the general definition requires some parsing. First, some analysts might think that a position of power or trust implies a salary, particularly in private organizations. It is likely that the majority of instances of corruption involve persons who are paid, but the notion of trust or power is not limited to persons in paid positions. There are unpaid persons in positions that could involve corruption. A volunteer physician, for example, has both the power to order a course of treatment and the trust of the patient, even though as a volunteer the physician is unpaid. A monarch has power and trust, as does a religious leader, or a community activist.

Similarly, power and trust do not imply a grand position. Some people with a great deal of power do act corruptly, and the amount of benefit demanded by persons in such positions can be large. An Interior Minister, for example, might have the power to award contracts for large-scale construction projects and might demand personal payments amounting to 20% of the contract's value. This type of corruption is often referred to as "grand corruption." But many people with far less power are still in a position to misuse the trust or power that has been given to them for their personal benefit. A notary, for example, has power over those who require an official notarization. A customs agent has

power over those who want to bring goods into a customs territory. The person tasked with cleaning the headquarters of an organization at night has been entrusted with preserving the integrity of those headquarters. All of these persons may abuse or misuse the power or trust that has been given to them. Small-scale corruption, involving personal benefits of relatively small value, is often called “petty corruption.”

Whereas the concept of power and trust is interpreted broadly, the concept of abuse or misuse of office must be defined locally. The boundaries for the exercise of power or trust are found in some form of rules. These rules may be the product of formal processes, or may develop organically. They may be written in a formal document or may just be understood. In some cultures those rules may be institutionally distinct and in others they may be deeply embedded in and intertwined with other social artifacts. In any case, those rules will be idiosyncratic and will apply only to that organization.

Because these rules are idiosyncratic, acts that constitute proper use and acts that constitute abuse or misuse will vary across organizations. One organization might consider it acceptable, for example, for a purchasing agent to accept expensive gifts from potential suppliers while another might have rules forbidding acceptance of any gifts at all. Each organization has created different standards for evaluating the abuse or misuse of the position of the purchasing agent. Purchasing agents who accept gifts, therefore, would be considered to have abused or misused their offices in one organization but not in the other. The different outcome is a product not of different actions – the same conduct is at issue in both situations – but instead is due to different rules regarding the proper use of power and trust.

It should also be recognized that more than one set of rules may apply to an organization. For example, in theory a polity could enact laws that allow government officials to accept private payments – bribes – for rendering public government service. No polity in the world has done so, nor is likely to do so, but in theory it could be done. As a legal matter, a government official who accepted bribes would *not* be misusing or abusing public office. It is very likely, however, that society would condemn such activities, and would consider them an abuse of the trust which that society had given to the government officials. In a nonlegal sense the acceptance of private payments would be considered corruption.

Finally, the general definition includes acting in self-interest rather than the purpose for which power or trust was granted. The notion of “rather” is important: a manager who earns a salary acts out of self-interest, but the act of earning a salary does not contradict the purpose for which power or authority was granted. Self-interest, on the other hand, does not require the payment of money. Indeed, one of the more frequent, and more tragic, forms of inducement is sexual acts. Moreover, the benefit need not be conferred directly on the person who misuses or abuses office. Providing admittance to college for children and paying tuition is not an uncommon form of bribery. Making donations to a cause or a nonprofit organization embraced by the person with trust or power would be to that person’s interest, even though the actual benefit is received by another party. As with the concept of power or trust, the concept of personal benefit is broad and encompassing.

In concert, the parts to the definition provide a broad but consistent notion of corruption. Although lacking the strict rigor of legal definitions, it is possible to identify behaviors that are or are not corrupt. Two pairs of examples serve as illustrations.

First, contrast two situations that might occur in a government office that distributes weather-related information to local farmers. In one situation, a bureaucrat misstates the likely weather conditions because she has not been diligent in reading weather reports as they arrive in her office. In the other situation, a bureaucrat misstates the likely weather conditions because his wife works in the office that allocates irrigation permits, and she can demand larger bribes if farmers do not have accurate information about weather conditions.

Using the general definition, the first situation does not qualify as corrupt. The bureaucrat who misstated the likely weather conditions did not perform satisfactorily, but her poor performance was due to a lack of diligence rather than abuse or misuse of office. She made a mistake, but mistakes alone do not, according to the general definition, constitute corruption. Under definitions that define corruption as dysfunction or slovenly performance alone, her failure might have qualified as corrupt, but under the general definition it does not.

The second situation, on the other hand, clearly involves corruption. The bureaucrat has purposefully misused his power by distorting the dissemination of information needed by farmers. And although the bureaucrat himself does not collect anything of value from the farmers that he misleads, the bureaucrat is acting

out of self-interest in distinction from the purposes for which the power to disseminate the information was given. The fact that the bureaucrat's wife gains something of value satisfies the general notion of self-interest.

Another pair of examples further illustrates the general definition. Compare two differently constructed organizations, each of which has as a goal of the transportation of relief goods to areas afflicted by natural disasters. To enable them to respond rapidly to disasters, volunteer truck drivers are entrusted with the keys to the trucks owned by the organizations. One organization explicitly allows volunteer drivers to use its trucks for personal reasons (perhaps this organization believes that doing so will increase the number of volunteers). The other organization explicitly prohibits the use of trucks by anyone for any purpose other than uses approved and directed by the organization (perhaps this organization believes that the liabilities created by the unsupervised use of the trucks outweigh any incentives that might be created through letting drivers use the trucks for personal tasks). In each organization, a volunteer truck driver takes a truck from the organization and uses that truck to help a friend move to a new apartment.

With respect to the first organization, the taking of the truck does not constitute corruption. The truck driver does have a position of trust, and is acting out of self-interest. The act, however, does not constitute abuse or misuse of trust. The rules of this organization explicitly allow volunteer truck drivers to use the organization's trucks for personal reasons. The fact that the organization allows such use does not mean that the organization is corrupt. The organization may have legitimate reasons for allowing personal use, perhaps, as suggested, to attract volunteer truck drivers.

With respect to the second organization, the very same act is corrupt. The volunteer truck driver has been entrusted with access to a truck, and has used that truck for personal benefit rather than the reason for which that trust was conferred. In this case the personal use of the truck clearly constitutes misuse of the trust, because the rules explicitly forbid such use. The conduct of this volunteer truck driver meets each part of the general definition of corruption. And as with the first organization, this organization may have legitimate reasons for its rules, perhaps, for example, to ensure that trucks are quickly available if a disaster occurs.

The general definition of corruption satisfies the requirements of scholars and policymakers. It does not encompass all forms of dysfunction or immoral behavior; as these situations illustrate it can be used to distinguish corrupt behavior from that which is not corrupt. At the same time, the general definition is not encumbered by the need for precision that accompanies legal definitions. The general definition captures very common understandings of corruption, understandings that were highlighted by both Heidenheimer and von Alemann. Nonetheless, although widely used, the general definition is not ubiquitous. It is important to recognize, as did Heidenheimer and von Alemann, that other definitions exist and are embraced by people who interact with organizational corruption.

Beyond the General Definition

The Organization for Economic Cooperation and Development recognizes the usefulness of the general definition: “This definition can be a useful reference for policy development and awareness-raising, as well as for elaborating anti-corruption strategies, action plans and corruption prevention measures” (2008, p. 22). Nonetheless, the Organization goes on to acknowledge that there are other definitions of corruption and to state that the general definition is not definitive.

The United Nations goes further. While negotiating the United Nations Convention Against Corruption, several member countries proposed specific definitions of corruption. The United Nations as a body, however, eschewed any definition, in part out of respect for the variety of definitions expressed by different members, but in greater part “so as to allow greater flexibility for future implementations and interpretations” (Argandoña, 2007, p. 488). The United Nations embraces a multipronged and evolving understanding of corruption that may include the public’s understanding of corruption.

One such public understanding is that corruption consists of “undue influence.” Undue influence is easy to assert but difficult to actually define. Samuel Issacharoff offers an explanation: “a distortion of political outcomes as the result of the undue influence of wealth” (2010, p. 122). This type of explanation relies more on outcome than on what actually constitutes undue influence. It also does little to distinguish undue influence from artful persuasion (see Shockley, 1984, p. 389). Rather than looking at

outcomes, when attempting to understand undue influences an exploration of “due,” or appropriate, influence might provide a more useful starting point.

In a democratic system the governed participate in some way in the process of governance, and the government is accountable in some way to the governed. It is expected, therefore, that stakeholders have influence over government. The same is true of other organizations. Certain classes of shareholders, for example, are expected to exert influence over a corporation, as are creditors and regulators and managers and other stakeholders. Moreover, each is expected to exert influence in particular ways. A democratic political system might be structured in such a way as to allow certain citizens to vote for representatives to the organs of governance, and to allow all residents to engage in vigorous debate and advocacy before voting occurs. A corporation may be structured in such a way as to allow certain classes of shareholders to vote for members of the managing board, and for other stakeholders such as unions to elect other members of the board, and for vigorous communications between stakeholders before voting occurs. The legal rules in a jurisdiction may provide creditors or unions or other stakeholders with avenues by which they may influence particular decisions made by the directors or managers of a corporation.

The influence that is exerted through any of these channels may be described as “due” – the parties that exercise influence are able to do so because they satisfy the requirements set out in the rules, and their exercise of influence accords with those rules and does not preclude anyone else from satisfying the rules and thereby also exercising influence. The influence that each exercises may be different – a shareholder exercises influence in a different way than does a creditor – but it is transparent and rule-abiding.

Undue influence would fall outside of such a characterization. It would, therefore, accrue to an actor not because that actor satisfies some criteria available to all, but rather because of some characteristic particular to that actor, such as wealth, or having donated lavishly to an election campaign, or being married to the son of the chief executive. Such influence would be exercised outside of rather than transparently inside the rules. It is influence that is not “due” to the actor through the operation of the rules, and therefore to the extent that it is exercised it is “undue” influence.

There is good reason to believe that among nonspecialists, undue influence is at least as popular a definition of corruption as is the general definition favored by scholars and policymakers. Susan Rose-Ackerman notes that the rancorous debates over campaign finance regulation in the United States are actually focused on undue influence rather than outright bribery (1999, p. 371). Numerous surveys find that large numbers of people deeply mistrust the exclusive access to legislators exercised by lobbyists, and believe that the influence exercised by special interest groups or pressure groups is corrupt (Udall, 2010). Indeed, Clive Thomas suggests that the regulation of lobbying by most North American and European polities is a response to the deeply negative attitudes that most people have to special access, and in particular represents “a populist desire to even up the political playing field against powerful special interests” (2011, p. 1462). The public disdains the exercise of undue influence in private organizations as well. Insider trading, through which people with unique access exchange information about financial instruments and trade on that information, is widely considered by the public to be corrupt and is criminalized by most polities with active financial markets (Dent, 2013). Similarly, “crony capitalism,” the exchange of favors and privilege among elite classes in an ersatz market economy, is deeply despised by the public, and generates substantial mistrust (Aligica & Tarko, 2015). The public seems to consider undue influence corrupt.

Definitions Matter

A recent court case in the United States illustrates the impact that definitions of corruption may have on analyzing corruption and particularly on corruption control. This case, *Citizens United v. Federal Election Commission*, evaluated whether rules regarding campaign finance are allowed under the United States’ constitution. Specifically, the Court examined rules that prohibited corporations and unions from making expenditures from the corporate or union treasury to advocate for or against the election of a candidate for political office. In particular, the Court asked whether the government’s interest in controlling corruption by imposing these rules outweighs the rights of organizations such as corporations and unions to participate in the process of electioneering and advocacy.

The Court considered two different definitions of corruption. The first, which it called a theory of “distortion,” resonates with the concept of undue influence. The Court described this as favoritism based on “the corrosive and distorting effects of immense aggregations of wealth that are accumulated with the help of the corporate form and that have little or no correlation to the public’s support for the corporation’s political ideas” (2010, p. 348).⁴ The Court rejected this definition of corruption, arguing that in any representative system those who act as representatives will favor some ideas and policies and therefore will be more responsive to constituents who advocate those ideas and policies. Favoritism, in other words, constitutes the very heart of the Court’s vision of a representative system. Moreover, the Court found that any government interest in preventing corruption defined as distortion did not outweigh the rights granted by the United States’ constitution to allow all actors to engage in advocacy and electioneering.

The Court instead adopted a different definition of corruption, which describes corruption as “financial *quid pro quo*: dollars for political favors” (2010, p. 359).⁵ This definition, of course resonates with the general definition used by scholars and policymakers, and in fact is a narrow definition of the iteration of corruption called bribery. The Court very specifically distinguished this definition from a definition grounded in undue influence, and again dismissed undue influence definitions of corruption: “The fact that [actors who pay] may have influence over or access to elected officials does not mean that these officials are corrupt” (2010, p. 359). Having dismissed the undue influence theory of corruption, the Court went on to hold that although a legitimate government interest exists in controlling *quid pro quo* corruption, no such corruption could exist in the case before it because independent expenditures made by corporations and unions are outside the control of candidates for office and therefore by definition cannot be exchanged *quid pro quo* for political favor.

This court case illustrates two different ways in which definitions are more than an exercise in scholarly precision: definitions

⁴The Court quoted an earlier case, *Austin v. Michigan Chamber of Commerce*, 494 U.S. 652, 660 (1990).

⁵The Court quoted *Federal Election Commission v. National Conservative Political Action Committee*, 470 U.S. 480, 497 (1985).

matter. First, the two definitions that the Court considered encompass different behaviors. If the Court had used the first definition, then a broader range of behavior would have been considered corrupt; by using the second definition it considerably constrained the range of behavior that qualifies as corrupt. An elected official who consciously decided to meet only with those constituents who contributed a threshold amount to her campaign fund would not, for example, be considered corrupt using the *quid pro quo* definition adopted by the Court, even though she certainly would be considered corrupt using the distortion theory.

The second important aspect of definitions illustrated by this case is that the deeply pondered, adequately precise definitions crafted by scholars and policymakers, in this case judges, simply may not reflect the way that actual people think about corruption. In the *Citizens United* case the Court made an empirical prediction: “The appearance of influence or access, furthermore, will not cause the electorate to lose faith in our democracy” (2010, p. 360). The Court supported this bold claim using the internal logic of its own definitions.

The Court was wrong. Its holding in the *Citizens United* case “has provoked a firestorm of criticism” (Youn, 2011, p. 136). The narrow definition used by the Court has been widely criticized, not just by scholars but emphatically by the public (Abrams, 2010). The holding has been described, by longtime observers of the Court, as “one of the most divisive decisions of the Court” (Epstein, 2011, p. 642) and “one of the most reviled” (McConnell, 2013, p. 414). In utilizing a narrow, legalistic definition of corruption the Court as policymaker has failed to reflect the public’s understanding of corruption, and has significantly eroded public support for the policies it has created.

Conclusion

Organizational corruption, according to a general definition, consists of the abuse or misuse of a position of trust or power for personal benefit rather than the purposes for which trust or power was conferred. This definition is widely embraced by scholars and by policymakers. It provides sufficient precision to allow those who study corruption to engage meaningfully with one another, and to allow those who would solve issues of corruption to identify the problem that they wish to resolve.

Using this definition, it is possible to distinguish corruption from other forms of organizational dysfunction. Nokia Corporation is no longer a dominant manufacturer of mobile telephones, but its decline cannot be attributed to any abuse or misuse of trust or power for personal benefit. Managers at Nokia may have made poor decisions as global conditions changed, but their actions do not fall within the general definition of corruption. WorldCom Inc. similarly is no longer dominant in the provision of mobile telephony services, but its decline can be attributed to abuse and misuse of power and trust for personal benefit. The general definition provides a mechanism for distinguishing corruption from the broader phenomenon of decline and decay.

The general definition, however, is not the only definition of organizational corruption. The work of scholars and policy-makers benefits from a common definition, but they would be well advised to remember that other definitions exist. Organizational corruption is a social artifact, embedded in society and intertwined with other social phenomenon. As von Alemann suggests, understanding corruption might be more attainable than defining corruption, and understanding organizational corruption requires a recognition of how others, particularly the public and other stakeholders, understand corruption.

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