What Do Corrupt Firms Have in Common?

Red Flags of Corruption in Organizational Culture

What kind of an organizational culture do corrupt companies tend to have? To answer this question, I conducted a study based on a review of academic literature as well as in-depth interviews with 23 prominent lawyers, investigators, scholars, and policymakers with firsthand knowledge of the inner workings of dozens of corrupt firms. They highlighted a number of common traits often missed by standard compliance processes that might be "red flags" for organizational corruption. These traits don't guarantee corruption within an organization, but they do point to the conditions in which it thrives.

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Lessons from Scholarship

The academic literature on this topic is dispersed across several fields. Because corruption is covert by nature and nearly universally considered illegal and immoral, the literature on fraud and organized crime holds relevant insights. Margaret Heffernan's 2011 book *Willful Blindness* provides many vivid examples of how collective denial operates and escalates within an organization.[1] Recent articles analyzing the cultural dimension of Volkswagen's cover-up of a scam to subvert emissions tests are also relevant.[2] However, such studies are often limited by a focus on processes and control structures that neglects organizational cultural as an important dimension.

One academic study that does focus on corruption through the lens of organizational behavior distinguishes between top-down "corrupt organizations," where corruption is carried out by employees for the firm's benefit, and bottom-up "organizations of corrupt individuals," where wide-scale corruption is carried out by employees for their own benefit.[3] In the real world, this distinction is not always easy to draw, however. Corruption may arise that benefits both the individual and the organization, such as a company with aggressive bonus structures that unwittingly incentivize employees to engage in corrupt practices to meet high sales targets.

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Another widely-referenced study discusses how corruption becomes "normalized" in organizations through three mutually reinforcing processes: institutionalization, rationalization, and socialization.[4] During *institutionalization*, a corrupt decision or act becomes embedded in corporate structures and processes. During *rationalization*, self-serving ideologies develop that enable individuals to justify corrupt behavior. And finally, during *socialization*, embedded systems and norms induce new employees to tolerate corruption and view it as permissible. This model helps explain why individuals engage in corruption that would otherwise violate their internal moral framework. As the authors describe in a second article, "One of the most intriguing findings of the white-collar crime literature is that corrupt individuals tend not to view themselves as corrupt."[5] Another sociological study elaborates on the self-rationalizing ideologies of corrupt organizations, including denial of responsibility, denial of injury, denial of the victim, and an appeal to higher loyalties (such as loyalty to co-workers).[6]

Building off of this literature, my study found a highly consistent view of how a culture of corruption manifests within an organization. Corruption seems most likely in organizations where growth is a fetish, insecurity is rampant, and high performance goes unquestioned. Rules and processes put in place to promote integrity may be selectively enforced and easily evaded, as shown in many recent cases under anti-bribery statutes.

The Growth Fetish – When the Ends Justify the Means

Corporations exist to make money, grow revenue, and satisfy shareholders. Financial reports depend upon an inflexible quarterly calendar and budget targets that often assume continual growth. Many interviewees said that firms that overwhelmingly emphasize growth are more vulnerable to misconduct. For example, Volkswagen's push to dominate North American markets in diesel vehicles contributed to unethical conduct by employees.[7]

A culture that emphasizes that "the ends justify the means" may exacerbate this problem. Employees may face sales targets higher than industry peers, justified by the need for market dominance at any cost. As one interviewee commented: "There are techniques to exaggerate the urgency and seriousness of the need to win—the sense that 'this is what it takes to survive'—which short-circuits ethical reasoning." Reducing corruption risk therefore requires an active emphasis on values and behaviors that consider how growth is achieved, not just whether it is achieved. This may require creating an alternative narrative about corporate identity and success criteria, as well as a long-term commitment to ethics, sustainability, and engagement with all corporate stakeholders, not just investors.

Selective Blindness and Plausible Deniability

Interviewees agreed with regulators that leadership plays the most critical role in determining whether a firm's culture is vulnerable to corruption. Employees mirror leaders' behavior, which can create group norms that tolerate corruption. Interviewees mentioned arrogance, complacency, and opacity as leadership traits that encourage corruption. FIFA President Sepp Blatter's initial refusal to resign after the indictment of several high-level FIFA leaders is a recent example.[8] Leaders who set unrealistic targets based on opaque considerations yet keep themselves personally disengaged with frontline operational concerns may implicitly encourage corrupt activities while maintaining plausible deniability. Autocratic command-and-control structures make employees fearful and reluctant to share concerns. One expert commented: "What people watch is whether management is doing anything to cook the books when they need to, which sets the tone that it's okay to break a couple of rules to get things done."

Complex Organizational Systems

The complexities of doing business across time zones, markets, and product lines have led companies to implement organizational matrices and to diffuse responsibility. Shared responsibility may empower employees and improve information flow, but must be complemented by clear lines of accountability. Otherwise, corruption will always be "someone else's problem." The General Motors ignition switch scandal presents an example of managers failing to make overall connections in the absence of clear responsibilities for organizational risk.[9]

An organizational change expert who worked in the energy sector argued: "Much literature concerns a mythical ethical man making decisions with the facts in front of him; this isn't real. The realities of hierarchy mean that thriving in an organization involves suppressing bad news, which means that taking responsibility is hazardous. The decision maker checks only that the paperwork is complete, and those who complete the paperwork are relieved of responsibility for the decision—then everyone is protected individually, but it can add up to widespread harm."

High Pressure and High Rewards

Companies that pressure employees to meet high sales targets through rewards and penalties that disregard ethical considerations are more vulnerable to corruption. Many firms facing bribery charges, such as GlaxoSmithKline in China, used sales-based compensation schemes that failed to account for local market conditions.[10] If one sales team hits unreasonable targets by paying bribes, all teams feel pressure to cut corners, creating vicious competition that escalates misbehavior.

Many interviewees commented that companies have been slow to alter problematic incentive structures, despite widespread knowledge of their effects within the industry, perhaps due to fears of losing high-performing sales teams to competitors. Innovative approaches to incentive design that account for corruption challenges would help manage such risks. For example, Novartis International A.G. developed an integrity management process that integrated compliance issues into performance evaluations.[11]

In corporate cultures in which pressure is high and information is hoarded, high-performing teams may avoid scrutiny. They may develop a mystique for having a golden touch, which others are afraid to question. One investigator said: "The metals division in the Middle East developed a reputation for forecast-beating results, but no one could explain how they did it. The head of the division was very powerful—connected to the CEO—and his team was very loyal and discreet. It only seemed like a problem in retrospect."

Urgency and Necessity Undermine Stated Values

Since corruption involves subverting stated company values (as well as laws), it tends to be accompanied by certain values that are concentrated in a sense of urgency and necessity. Companies tend to consider financial results and reporting in fairly short time horizons, so it is relatively straightforward to build a mood of commercial necessity that justifies treating compliance processes as pro forma, or ignoring them entirely. For example, at Siemens, subject to the largest global corruption enforcement action to date, former executives said they believed paying bribes was necessary to maintain contracts and jobs—"We thought we had to do it. Otherwise we'd ruin the company."[12] Although interviewees highlighted other values that might justify corrupt behavior, building a sense of urgency was the most frequently cited means to justify the undermining of ethical and compliance commitments.

Language and Social Processes Legitimize Corruption

In fiercely competitive corporate environments, metaphors of war and games are common.[13] Corruption-related euphemisms and in-jokes are widespread. Group bonding techniques crowd out individual shame or fear. At SNC Lavalin, bribes were coded as "PCC," for Project Consultancy Cost.[14] Enron described the millions it spent in India in the 1990s as funds to "educate Indians."[15] In the TSKJ Nigeria corruption case, bribes were referred to as "cultural arrangements."[16] In banking, it is common to derisively refer to compliance training as "sheep dipping," wryly invoking the routine process farmers use to quickly bathe their sheep. "Most of us can recognize these processes as we learn them first in high school," said an interviewee who studied risk in banking culture. "We see powerful in-group cultures develop, with their own language and references, and think it is a sign of a cohesive team—but it is often a red flag."

In Sum: Cultural Traits of Organizational Corruption

Strategy:
Driven by competition, with growth as the exclusive goal.

Leadership:
Leadership is complacent, hoards information, disperses accountability, avoids responsibility, and creates plausible deniability. High performers are venerated and not questioned.

Structure:
Devolution of responsibility and autonomy with limited oversight makes groups isolated.

Decision-Making and Authority:
Strongly hierarchical and directive, top-down, opaque, myopic.

Incentives:
Discretionary bonuses and unrealistic targets, set without regard to market conditions or employee behavior.

Values and Beliefs:
A sense of fear, necessity, insecurity, powerlessness, and rivalry. In-group language that relies on humor and metaphors of war and sport.

Norms and Behaviors:
Low transparency, secrecy, fear, and a lack of pride in the organization.

Archetype:
The archetypal corrupt team is based far from headquarters, under a secretive but domineering leader. The team is widely regarded as successful and high-performing, but guards information and avoids scrutiny. Team members are fiercely loyal to each other and driven by a sense of urgency, insecurity, competition, and short time horizons.

Implications for Integrity Practitioners

Employees can often easily identify teams (or leaders) with the characteristics described above. While they are unlikely to be detected by standard compliance processes, they often lie at the root of ethical and corruption problems precisely because they evade attention. Thus, by focusing on corporate culture, we can identify problems hiding in plain sight, and target interventions at the areas of highest risk.

Approaches that use anonymous survey tools as well as data on employee engagement and whistleblowing hotlines can help identify and target the pockets of organizational silence where employees have determined that speaking up is futile or dangerous (as one NYU Stern study suggested may be the case for as many as 85% of employees.)[17] Rather than focus on processes and rules, interviewers should ask about what drives people in the organization, how success is assessed, what kind of behavior gets rewarded, and what stories the organization tells about itself. Such questions may provide insights into the ethical culture of an organization without assigning guilt or fault. And any reluctance by interviewees to answer such questions can be equally revealing.

Ultimately, changes in organizational culture require interventions into teams that exhibit the above characteristics. Integrity practitioners might benefit from the use of tools and techniques more commonly found in human resources departments to identify and address these hidden concerns.

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