Abstract

The ambition to achieve corporate goals and objectives in business organizations, in addition to the influences of cognate business environment, usually make managers of business organizations to design relevant managerial practices, policies and strategies. However, some of these managerial practices, policies and strategies may be associated with traces of corruption. This paper discusses, conceptually, corruption in business organizations with regard to its nature, causes/antecedents, consequences and remedies and proposes an empirical research direction to clarify these issues.

Key Words: Corruption, business environments, ethics, Nigeria, Africa.

Introduction

Business ethics has attracted substantial interest for many years, and this is, partly, as a result of the perception of our contemporary times as an era of crude capital tendencies which emphasize more of profit-making than the ethicality of making such profit. The ambition to achieve corporate goals and objectives, in addition to the influences of cognate business environment, make managers of business organizations to design relevant policies and strategies that would make them achieve set goals and objectives and cope with the prevailing business environment. However, some of these corporate policies and strategies may offend ethical sensibilities (Osuagwu, 2004).

Business organizations operating in developing economies, such as Nigeria, are affected by many environmental factors such as political instability, policy inconsistency, deficient infrastructure, and acute competition, among others, and these environmental factors have created unfavourable effects on the operations of business organizations. Consequently, some organizational decision-makers devise managerial practices that are seemingly unethical in order to cope and survive in their business operations. In addition, some organizational employees engage in unethical practices in their organizations. Therefore, it may be stated that both organizational managers and organizational employees engage in some form of corrupt practices.

The problem of corruption in business organizations should be of serious concern to both corporate executives, employees, academics, students, researchers, policy designers and donor agencies. This is because corruption is the most salient factor affecting, negatively, growth and development in most economies, including Nigeria. For example, governments in Nigeria have been toppled via military coups because of corruption. Although, Nigeria is the 6th largest oil producing country in the world, it is ranked as one of the poorest countries in the world mainly because of corruption in private and public organizations. Transparency international (a non-governmental organization – NGO) has, in many instances, ranked Nigeria as one of the most corrupt countries in the world. The evidence that placed Nigeria in the league of most corrupt countries came from persons, private and public organizations in Nigeria.

Corruption has been recognized as one of the greatest challenges facing both private and public businesses in contemporary times. It is a major hindrance to sustainable development, with substantial effect on both developing and developed countries, and with more effect on poor communities in developing economies such as Nigeria. According to Transparency International (2005), the effect of corruption on business organizations in the private sector is huge because it retards economic growth, distorts competition between and among firms and presents various forms of risks to business organizations. In addition, it poses severe costs for the operations of business organizations, and it is estimated to be a $1 trillion industry (www.transparency.org, 2005).
Traces of systemic and persistent corrupt practices seem to be common in many business organizations in both developing and developed nations. Corrupt practices in business organizations in developing economies, such as Nigeria, have been associated with such negative consequences as organizational inefficiency, reduced foreign direct investments, reduced economic growth and development, misdirected entrepreneurial talents, and increased rates of poverty and inequality, among others (Misangyi, Weaver and Elms, 2008).

Generally, corruption is undesirable and costly for the larger society and it has negative impact on economic growth and development. However, for persons and business organizations, engaging in corrupt tendencies may be beneficial (Lee and Oh, 2007). Specifically, it has been reported that business organizations that pay bribes are four times more likely to get business deals worldwide than those companies that do not (Management Services, 1996). Also, it has been reported that some countries have been able to achieve high economic growth in the midst of high level of corruption, while other countries suffer from economic stagnation as a result of corruption (Lee and Oh, 2007). This ambiguity with respect to the impact of corruption may explain, partly, the interest in corruption tendencies in both public and private business organizations. This paper examines, conceptually, the phenomenon of corruption in business organizations with regard to its nature, causes, consequences and remedies, and proposes an empirical research agenda to clarify these issues.

**Nature of Corruption**

Corruption may be conceptualized as the perversion or change from good to bad, right to wrong. It may be defined, generally, as the misuse or abuse of positions, power or procedures for personal or group interests, needs and wants. It involves the violation of established rules, practices, and procedures for personal and/or group interests. It is concerned with actions directed towards securing wealth, power, authority, influence, relevance or advantage through illegal means. Corruption seems to be everywhere, afflicting profit and non-profit organizations, including educational and religious organizations. Corruption is linked with individuals within organizations and organizations themselves (Ashforth et al., 2008).

Corruption, from economic viewpoint, is defined, generally, as the misuse of a position/title of authority for private/personal and/or group benefit or gain, and this “misuse” typically connotes a breach of legal norms (Misangyi, Weaver and Elms, 2008). In business organizations, it is the pursuit of individual interests by one or more organizational persons through the intentional misdirection of organizational resources, procedures, authority and power (Lange, 2008). It may be stated that corruption is a global phenomenon which varies from one country to another in terms of prevalence, types, causes, consequences and effectiveness of remedies to curb or curtail it. Corruption in business organizations may be conceptualized as acts, behaviours or tendencies involving the illegitimate exchange of resources (money, material, time, and skill, among others) for personal/private and group gain/benefit. It involves the misapplication or abuse of position of responsibility in a business organization for private/group purposes, gains, benefits, profits or privileges. It is any action or behaviour in a business organization which is at variance with formally-defined and laid-down obligations for purposes of private/group interests, gains, profits and privileges.

Corruption is not peculiar to any continent, region, ethnic group, faith, political system, age group, gender, etc. However, the magnitude of corruption may vary from one country to another, person to person, organization to organization, or region to region. Therefore, no business organization, profit or non-profit, is totally free of corruption either at the executive level or the employee level. Corruption is an economic, social and political malaise. It threatens growth, development and stability of nations’ systems, constrains the ability and capacity to attract foreign direct investment (FDI), damages national development reforms and retards the growth of democratic institutions and systems (Gore, 1998). According to Luo (2004), an organization is the basic unit of corrupt practice. Therefore, unless organizations are prepared to deal with corrupt practices, it would be difficult to fight and eradicate corruption in any economy or society.

As a result of intense pressure from organizational stakeholders to deliver relevant indices of performance (e.g., profits), in addition to sophistication in organizational processes and environmental challenges, the degree of corruption in contemporary times is higher than in yore years (Wilhelm, 2004). Most corrupt practices take place between profit-oriented business organizations and government officials and legislators (Luo, 2004; US Department of State, 2001), and pervasiveness and arbitrariness have been isolated as the two major dimensions of corruption (Rodriguez et al, 2005).
Corrupt practices in business organizations, generally, include bribery, fraud, extortion and favouritism (Luo, 2004). Bribery, as the primary form of corruption, involves payment (in money or kind) which is given or taken in a corrupt business relationship. Other variants of bribery include “kick backs”, “brown envelopes”, “gratuities” “grease money”, “facilitation payment” “expediting fees”, “PR”, “family support programme”, “social responsibility”, “sorting”, the “needful”, “appreciation” and “egunje”, among others. Fraud in business organizations may be conceptualized as an economic crime which involves trickery, swindle or deceit. Extortion in business organizations involves corrupt practices, exchanges or transactions in which money or other things are violently extracted from unwilling individuals by persons who have the power and authority to occupy certain positions. Favouritism in business organizations may be described as a highly biased distribution of group or organizational resources not minding how the resources were acquired in the first place. It is the tendency to favour friends, relations, tribesmen and women, family members and persons who are close and trusted at the expense of organizational or public interest. It is a misuse of public or organizational responsibilities for personal or group interests and desires.

Business organizations that engage in corrupt practices vary in their degree of involvement. This degree of involvement in corrupt practices pertains to the intensity, scale and hierarchical scale of corruption and this has given rise to different types of organizational identities pertaining to the extent of corrupt practices in business organizations. The intensity scale of corruption in business organizations deals with the quantity and magnitude (gravity) of corrupt practices. The hierarchical scale of corruption in business organizations deals with the levels in business organizations (such as group or team level, function or departmental level, division or SBU level and corporate or head office level) which are involved in corrupt practices. Both the intensity scale and hierarchical level of corruption show the degree of corruption prevalent in business organizations. While the intensity scale of corruption in business organizations shows the degree of the incidence of corruption, the hierarchical level shows the hierarchical involvement of organizational units in corrupt practices.

Using these two dimensions (i.e. the intensity scale and the hierarchical level of corruption), the following typologies of corruption tendencies have been isolated by Luo (2004):

1. Mad fox (i.e. business organizations having high intensity and more hierarchies of corruption),
2. Errant rabbit (i.e. business organizations having low intensity and few hierarchies of corruption).
3. Sick bulldog (i.e. business organizations having low intensity and more hierarchies of corruption), and
4. Wild puppy (i.e. business organizations having low intensity and few hierarchies of corruption).

These corruption typologies are briefly described below.

In mad fox business organizations, many organizational managers and employees, at many hierarchical levels (i.e. units, departments or sub units), are involved in corrupt practices. In these business organizations, corrupt practices are endemic and systemic; have permeated throughout the organization; and strong corporate transparency, leadership culture and codes of conduct to reduce corrupt tendencies are absent. Also, these business organizations have the following organizational peculiarities with regard to corrupt practices: a belief that their corrupt business practices are within reasonable and acceptable ethical and legal boundaries; a belief that their corrupt business activities are in the best interest of their organizations; a belief that their corrupt business activities are safe and will never be known or made public and; a belief that because the corrupt business practices help their organizations, executives in these organizations will condone corrupt activities and even protect person(s) involved in the corrupt activities.

In the errant rabbit business organizations, the intensity and hierarchical scales of corrupt practices are both very low. Therefore, there are fewer cases of misconduct and narrower hierarchical involvement in corrupt practices which ethically-strong business organizations would not engage in. Specifically, in errant rabbit business organizations, misconduct is not structurally systemic and systematic but is occasional and typically performed by few organizational employees at lower-level hierarchies. This type of corruption is likely to be prevalent in business organizations which have decentralized organizational power to every lower-level hierarchy.

In the sick bull dog business organizations, corrupt practices are not intensive. However, corrupt activities, here, are the practices of organizational executives, managers or employees at many different organizational levels.
In this type of organizational corruption, although the intensity of corruption is low, the breadth and spread of corrupt practices are high, and many levels of hierarchies in the organizations are involved in corrupt practices. These business organizations are “sick” with regard to corrupt practices because corrupt activities permeate many organizational hierarchies to the extent that the entire business organization is contaminated with corrupt tendencies.

In the wild puppy business organizations, corrupt practices are narrowly concentrated at one or few organizational hierarchies. These business organizations are characterized by large scale corrupt practices which are largely acted by one or few organizational employees at one or few narrow hierarchies or subsidiaries. This type of organizational corruption is wild because rampant cases of bribery, fraud, extortion, favouritism and other forms of corruption take place at one level or one sub-unit. Therefore, in the wild puppy business organization, it is possible that an organizational subunit, which independently practices corrupt activities, may be responsible for most of organizational-wide corrupt practices.

Antecedents of corruption in business organizations

The traces of corrupt tendencies in some world-known business organizations (such as Enron, Worldcom, Arthur Andersen, and Cadbury, among others) have spurred interest in isolating the salient causes of corruption in business organizations (Zyglidopoulos and Fleming, 2008). Generally, corruption in business organizations is a function of organizational and external environmental factors. The external environmental causes of corruption in business organizations include distorted government actions and decisions, weak anti-corruption institutions, culture that encourages bribery in the form of gift–taking and gift-giving, ambiguous government business relationships, complex networking practices, lack or shortage of independent and well-functioned market mechanisms and institutions, poor quality of public service delivery, low salaries in the public sector of the economy, influence of underground (black market, 419, drugs, etc) economy, strong linkage between government officials and family businesses, deficiency in democratic power-sharing formulae, weak media functions, poverty, and inadequate openness in trade and market access (Ackerman, 1975, 1999, 2001; Doig and Theobald, 2000; Goldsmith, 1999; Husted, 1999; Johnson, Kaufmann and Lobaton, 1999; Lambsdorff, 1999; Lapalomba, 1994; Luo, 2004; Mauro, 1995; Tanzi, 1998; Treisman, 2000; Wei, 2000, among others). Therefore, it may be stated that the major causes of corruption in business organizations pertain to factors internal and external to the organizations.

The organizational environmental factors that may cause or predict corruption in business organizations can be broadly classified into task environmental and institutional environmental factors (Lawrence and Lorsch, 1967; Luo, 2004; Mayer and Scott, 1983). The task environmental factors comprise resources, data and information or situations that may affect (in the immediate period) the setting and attainment of organizational goals and objectives. The institutional environmental factors, on the other hand, comprise needs and requirements to which individual business organizations must conform in order to acquire legitimacy and support. The peculiarities of the task environment include oligopolistic intensity, regulatory control, and structural uncertainty. The features of the institutional environment include institutional transparency, institutional fairness, and institutional complexity. According to Luo (2004), corruption tendencies in business organizations increase or decrease when conditions in the task and institutional environments change.

The task environments of corruption in business organizations comprise things that actively and directly cooperate and compete with the business organizations in focus (Dess and Beard, 1984). These environments interact with business organizations through resource-dependency (Pfeffer and Salancik, 1978) and information uncertainty (Lawrence and Lorsch, 1967). Generally, task environments impact on business organizations via the process of making available or withholding resources, data and information. The task environments of corruption consist of oligopolistic intensity, regulatory control and structural uncertainty. While oligopolistic intensity and regulatory control reflect a business organization’s dependency on rival companies and business regulators, structural uncertainty pertains to the variability of industry structural information which increases the costs of transactions and coordination in the activities of business organizations.

Oligopolistic intensity in a business organization’s task environment pertains to the extent to which a small group of companies in the industry of business interest (sector) has domination and power in the industry’s business activities.
If, for instance, a corrupt business organization is a member of this small group of companies, it will be persuaded or encouraged to bribe government agencies and officials in power or collude with other members of the group in order to retain its privileged corrupt position. The corrupt business organization, also, has a monopolistic power to distort, withhold or hide the industry’s structural information needed by other business stakeholders such as suppliers, buyers, new business entrants, etc. Regulatory control in the business task environment pertains to the extent to which government officials regulate and intervene various industrial policies such as market access, capital investment, technological standard, distribution channels and environment protection which may affect, substantially, business operations in the relevant industry. Business executives of companies operating in poorly-regulated industries may use corrupt practices or acts to change or alter uncertain and harmful business policies and regulations. Therefore, there may be positive relationships between poorly or uncertain regulatory control of businesses and corruption intensity for business organizations that have little or no business ethics.

Structural uncertainty of the business task environment pertains to the extent to which a business industry’s structural attributes (such as demand and supply) are volatile and unpredictable. This uncertainty means that there is absence of sufficient data and information about business industry structure and its changes. It, also, means that business executives are unable to predict (reasonably) these changes and their effects on the business decisions of organizations (Dess and Bears, 1984). Since this structural uncertainty is substantially a function of changes in government policies, corrupt business executives may bribe government officials in order to acquire beneficial information that would put their business organizations in privileged competitive positions.

Institutional business environments of corruption serve as conditioning factors which either reduce or enhance organizational corruption. The components of institutional business environments include institutional transparency, institutional fairness and institutional complexity. While the business task environment (discussed previously) impact on business activities via structural factors (which affect firms’ inputs and outputs), the business institutional environments impact on business activities via legal, regulatory, socio-cultural and professional requirements, which affect the costs of maintaining relevant dimensions of the organization.

Transparency of the business institutional environment of corruption pertains to the extent to which regulatory systems (such as political, bureaucratic, industrial and professional) are open, clear and easy to understand. This institutional transparency is especially low in regulated industries in emerging/developing economies (such as telecom, automobile, insurance, media, retailing, banking), including issues such as project approval, market access, environmental standards and requirements for gaining taxation exemptions or holidays (Luo, 2002; 2004). Also, the lack of experience by regulatory agencies in administering necessary policies and practices is a major reason for this lack of transparency (opaqueness). Consequently, this opaqueness provides the regulatory authorities/agencies and individual bureaucrats the exclusive rights to explain and interpret ambiguous rules and requirements that, partly, leads to corruption between business organizations and regulatory agencies. Extant literature posits that corruption is a function of institutional opaqueness (Goldsmith, 1999; Johnson, Kaufmann and Lobatón, 1998).

Fairness of the business institutional environment of corruption pertains to the extent to which regulatory practices or treatments (such as political, bureaucratic, industrial and professional) are impartial, just and non-discriminatory to every relevant business organization within institutional reach. During structural reforms, many economies are characterized by regulatory heterogeneity across regions, locations, sectors, ownerships and firms. As a negative consequence of these changes or reforms, some business organizations (especially those close to government agencies, officials or authorities) are able to receive institutional privileges and information which other business organizations do not have. Such institutional privileges may include tax relief, favoured financing, fiscal subsidy, exclusive rights in the use of certain resources, government protection, assured early-mover position, special rights in using governmentally-instituted distribution or export channels and increased entry barriers against new competitors. Granting of these privileges and rights can directly foster business-government corruption and business-business collusion. With more unfairness, business organizations encounter a stronger pressure for corruption if they want to remain in this institutional environment of business.

Complexity of the business institutional environment of corruption pertains to the extent to which the institutional environments (such as regulatory systems and socio-cultural environments), which the business organization must relate to, are complicated and difficult to verify, analyze, comply with and cope with. This complexity increases the information processing and agency demands facing business organizations and their top executive.
It is, generally, harder to absorb and process, internally, required information for business decisions in developing economies (such as Nigeria) than in developed economies (such as USA, Britain, France, etc) because of opaque and uncertain regulatory system, diverse and peculiar socio-cultural environments and lack of market–supporting institutions. In such business circumstances in developing economies, when business executives cannot find a professional agency, or is unable to process and interpret complex data and information for themselves and their business organizations, they are more likely to offer bribes to those bureaucrats and leaders in various segments of the institutional environments who can provide them (business organizations) with authoritative data and information.

According to Luo (2004), the business task environment (comprising oligopolistic intensity, regulatory control and structural uncertainty) and business institutional environments (comprising institutional transparency, fairness and complexity) partly explain causes of corruption in business organizations. These environments should be viewed in a larger perspective wherein political, legal, economic, historical and socio-cultural causes of corruption in business organizations are, also, taken into account. The point to note is that the business task and institutional environments of corruption are intertwined with the political, legal, economic, historical and socio-cultural environments, among others.

**Consequences of corruption in business organizations**

Corruption can involve high costs and substantial uncertainties compared to its benefits. Although it is possible that benefits from corruption in business organizations may outweigh the costs incurred for a specific business deal in the short term, it is unlikely (if not impossible) that a business organization can build on corrupt practices to achieve sustainable competitive advantage or abnormal high performance measures in the long run. The organizational consequences of corruption, according to Luo (2004), include evolutionary hazards (which include risk effect, image effect, punishment effect, and cost effect); strategic impediments (which include resource misallocation, capability building deterrence, and lack of predictability and confidence); competitive disadvantages (which include dishonesty, untrustworthiness, and inefficiency); and organizational deficiencies (which include problematic leadership, poor business morality and mismanagement). In addition, corruption does not only dampen economic growth and development, but also affects the inflow of foreign direct investment (FDI) negatively (Lee and Oh, 2007). To avoid these consequences, decision-makers in business organizations must design workable remedies to handle corruption in their business organizations.

**Remedies to corruption in business organizations**

One salient issue of interest in corruption literature pertains to the mechanics for reducing corruption level and incidence in public and private business organizations. Although many remedies have been prescribed in relevant extant literature for combating corruption tendencies in business organizations, Lee and Oh (2007) and Svensson (2003) lament that there are no visible traces of evidence of their decreasing levels in business organizations. In addition, Krastev (2000) posits that policies on anticorruption remedies have always begun with enthusiasm and ended with cynicism. Corruption has often remained a problem in many developed and developing countries (including Nigeria) despite years of reform efforts and anti-corruption policies and institutions (Tisne and Smilov, 2004). In addition, effective remedies for systemic corruption seem elusive, despite substantial attention and research to the phenomenon from both academics and policy-makers (Misangyi, Weaver and Elms, 2008).

However, remedies for fighting corruption have been instituted in many developed and developing countries of the world. For instance, anti-corruption programmes used by governments to fight corruption in developing and transition nations generally contain some or all of the following issues: an anticorruption law; a national anticorruption programme; a ministerial commission, specialized unit, or agency dedicated to corruption reform; an implementation action plan; and a monitoring mechanism (Tisne’ and Smilov, 2004), among others. These programmes focus on increasing transparency and accountability and on strengthening and enforcing relevant laws associated with corruption. However, Misangyi, Weaver and Elms (2008) lament that such anti-corruption programmes seem to be ineffective at curbing corruption. Reducing corruption levels in business organizations requires workable measures at various levels. These measures or remedies include addressing poverty and inequity (special remedy); enacting and enforcing anti-corruption laws (legal remedy); improving democracy, media freedom, and civil service (political remedy); and reforming dysfunctional dimensions or aspects of government (regulatory remedy), among others (Ackerman, 1978; Lamsdorff, 1999; Lapalombra, 1994; Scott, 1972; Tanzi, 1998; Treisman, 2000).
In addition to the above remedies or measures to fight corruption, the corporate business community must be involved in the fight against corruption in business organizations. Anti-corruption measures, generally, in any society cannot be successful unless and until individual business organizations (with their executives and employees) are involved in the fight against corruption. Anti-corruption measures at the individual organizational level can be institutionalized through an organizational design or system comprising culture, structure and system. An effective organizational design or system for fighting corruption in business organizations can be conceptualized as one which ultimately produces intended results such as education about the evils of corruption, corruption detection and deterrence through integration of corporate culture, organizational structure and compliance system. Organizational system designed to fight corruption in business organizations should be built to achieve effectiveness in this regard and for enhancing corporate performance measures (profit, market share, etc). Also, since not all business organizations’ desires for fighting corruption are the same, organizational systems designed to fight corruption in business organizations should be directed and aligned with specific organizational desires, cultures and situations.

Research direction

Research and debate pertaining to corruption tendencies in modern business organizations have been topical for some time now. Therefore, it is necessary that empirical identification and analysis of pertinent arguments and opinions with regard to the nature of corruption in business organizations, including its causes, consequences and remedies, be undertaken, especially in developing countries such as Nigeria. Findings from such a research effort will provide useful and relevant insight and help in developing fresh conceptual knowledge and approaches suitable for understanding and curbing issues and challenges associated with corruption in business organizations in the 21st century. Such a research effort will assist many countries of the world, especially developing countries in sub-Saharan Africa, including Nigeria, with high prevalence of corruption cases. Little scientifically-validated empirical evidence exists regarding relevant dimensions of corrupt practices in business organizations; the relevant available pieces of evidence regarding corruption in business organizations are substantially anecdotal. Therefore, an empirical research effort is proposed to fill this gap. Specifically, the proposed research should seek to provide data – based answers to questions pertaining to:

1. the degree of corruption in business organizations?
2. the types of corruption in business organizations?
3. the factors responsible for corruption in business organizations?
4. the consequences of corruption in business organizations?
5. the remedies for fighting corruption in business organizations?

Answers to these questions from organizational executives in national or sectoral business organizations, via fact-based empirical research effort, will go a long way in clarifying cognate corruption issues in business organizations, assist in the management of corruption in business organizations, and add to the literature on corruption in business organizations operating in specific business cultures and sectors in the 21st century.

References


