

The Dark Side of Authority: Antecedents, Mechanisms, and Outcomes of Organizational Corruption

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ABSTRACT. Corruption poisons corporations in America and around the world, and has devastating consequences for the entire social fabric. In this article, we focus on organizational corruption, described as the abuse of *authority* for personal benefit, and draw on Weber's three ideal-types of legitimate authority to develop a theoretical model to better understand the antecedents of different types of organizational corruption. Specifically, we examine the types of business misconduct that organizational leaders are likely to engage in, contingent on their legitimate authority, motives, and justifications. We conclude by suggesting managerial implications of our theoretical model and propose directions for future research.

KEY WORDS: authority, bureaucracy, corruption, opportunity, motivation, justification, types of organizational corruption, weber, white-collar crime

The issue of corruption has been gaining increasing importance in today's world. The World Bank has singled out corruption as the largest obstacle to economic and social development, and in our search of the word 'corruption' in article headings in *The Wall Street Journal* in 2004, the word appeared 496 times. Much evidence also suggests that corruption is as ancient as disloyalty and greed, particularly in the context of politics. For example, in a fourth century B.C. manifesto entitled *Arthashastra* ('Science of Polity'), Indian political philosopher, Kautilya discusses the principles of governing the state and includes the problem of

corruption. A few centuries later, Machiavelli in the *Prince* offers advice on how to rule XIVth century Florence even in the face of widespread moral corruption.

Despite the richness of corruption research in political science and political philosophy, organizational scholars have only recently started to systematically explore the causes and consequences of corruption in the corporate organization (see for example, Argandoña, 2003; Zahra et al., 2005) and to offer recommendations on how to reduce corruption, if not eliminate it (Lindgreen, 2004; Matsumura and Shin, 2005). For example, a survey by *Transparency International* identified 4,000 books and journal articles published on corruption in the last 10 years, of which 74 percent addressed politics and public administration and only one percent focused on business ethics (Global Corruption Report, 2001, p. 229; Luo, 2004). This relative lack of research is explained partly by the complexity of corruption, particularly as it transpires across multiple levels of analysis, and partly by the different perceptions and definitions of organizational corruption across societies. Moreover, the secrecy and illegality surrounding corruption typically precludes empirical analysis.

In this article, we address some of these concerns by discussing the causes, mechanisms, and outcomes of corruption at the organizational level. We draw on the Opportunity-Motivation-Justification model of crime¹ (also referred to as the 'fraud triangle', see Albrecht et al., 1984; Coleman, 1985; Cressey, 1953) to understand organizational corruption, which we conceptualize as the use of *authority* for personal gain. In this model of crime, opportunity refers to "the context or the environment that makes a possible course of action feasible" (McKendall and

Wagner, 1997, p. 626). Motivation includes factors that prompt individuals to act in certain ways, and justifications are socially constructed accounts to legitimate individuals' actions (Ashforth and Anand, 2003). Specifically, we contend that different combinations of opportunity, motivation, and justification lead to different types of organizational corruption. We focus on Weber's construct of authority² (Weber, [1922] 1978) as a critical opportunity for organizational corruption to occur and to develop a middle-range theoretical framework based on Weber's three ideal-types of authority. In particular, we discuss how members of an organization with a particular type of authority (legal-rational, charismatic, or traditional), who are driven by a particular type of salient motive (individualistic, collectivistic, or relational) and who are able to justify their behavior using a specific technique (rationalization, socialization, or ritualism) are likely to commit a certain type of corrupt act (procedural, schematic, or categorical). These relationships are illustrated in Figure 1. For example, we argue that members with mostly individualistic motives in organizations salient with legal-rational

authority, and who largely justify their behavior using rationalization, are more likely to engage in procedural type of organizational corruption. We note that the relationships proposed in this article are ideal-types as we recognize that none of the sub-categories of opportunity, motivation, and justification exists in pure form, although one subcategory can be more salient than the others. For instance, prior research suggests that individuals can have multiple motives for their behaviors, but it is difficult to isolate the exact weight of each of them (see Latham and Pinder, 2005). We also contend that understanding the relationship among the ideal-types of opportunity, motivation, and justification, operationalized as the most salient subcategory, is the first step to gain a better comprehension of the complex phenomenon of organizational corruption. Thus, we focus exclusively on the ideal-type relationships.

We make several contributions to the organizational and ethics literatures. First, we maintain that to study corruption in organizations, we need to understand its genesis. Weber's three ideal-types of legitimate authority allow us to unpack the opportunity box in the opportunity-motivation-justification

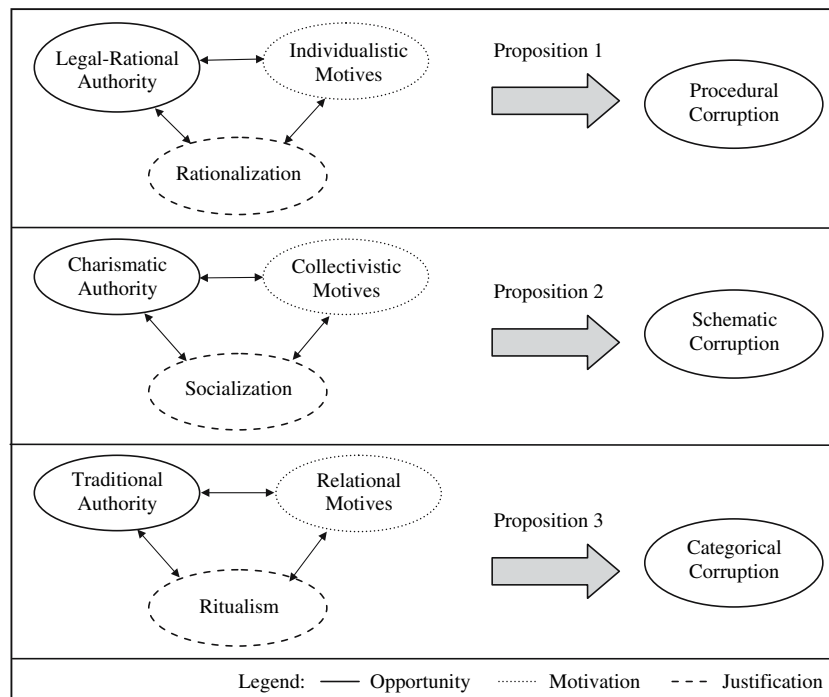


Figure 1. The Relationship Between the Interaction of Opportunity, Motivation and Justification, and Types of Organizational Corruption.

model and to explore the roots of corruption in organizations. Also, to our knowledge, no study has yet looked at Weber's authority types as a conceptual tool for grasping the mechanisms and outcomes of corruption. We, therefore, contribute to the organizational and ethics literatures by analyzing how authority plays a key role in influencing individuals to engage in organizational corruption. Second, most studies on corruption seem to use a broad terminology to include a wide range of organizational crimes. We argue that different types of corrupt activities are likely to emerge from distinct individual and organizational precedents. In this article, we discuss how Weber's three types of authority, in combination with motives and justifications, provide opportunities to commit different types of organizational corruption. Third, although the opportunity-motivation-justification model discussed below, is gaining increasing importance in the sociological and accounting literatures on crime and fraud (Albrecht et al., 1984; Coleman, 1985), there is no study that systematically analyzes the simultaneous interaction of the three pillars of this model as an antecedent to organizational corruption. In this article, we fill this gap in the literature by suggesting that a combination of one type of opportunity (authority, in our case) with one type of motivation and one type of justification may lead to a particular type of organizational corruption.

This article is organized as follows. We first explicate the construct of organizational corruption. Next, we discuss each of the pillars in the opportunity-motivation-justification model. We then construe Weber's ([1922] 1978) three types of authority to develop our theoretical framework, which links the interaction of opportunity, motivation, and justification with types of organizational corruption. Finally, we propose managerial and policy implications of our model of organizational corruption, and suggest possible avenues of future research.

Organizational corruption

The most widely used definition of corruption, particularly in the political context, is the abuse (or misuse) of public power for private (or personal) benefit (Habib and Zurawicki, 2002; Robertson and Watson, 2004; Rodriguez et al., 2005; Theobald,

1990). This definition encompasses a wide range of phenomena from an individual favoring one organization over another in return for some personal favors to a politician who misappropriates public assets for personal use. Gaviria (2002) argues that, although these diverse phenomena may have the same causes and effects, it is important to distinguish between at least two types of corruption: one that involves illegal transactions between public officials and private parties, and another that does not involve private parties and mainly refers to acts of politicians and other government officials. Argandona (2003) extends this idea further to include acts of corruption implicating individuals in organizations in the private sector and terms it as 'private-to-private corruption.' Following this stream of research, we focus on the acts of corruption by individuals within organizations.

A large part of any type of corruption involves the abuse/misuse of authority. For example, Sherman (1980) conceptualizes corruption as the illegal misuse of public *authority* resulting in private gain for the agents involved in the acts. Ashforth and Anand (2003), while discussing how corruption is normalized in organizations, define organizational corruption as the "misuse of *authority* [italics added] for personal, subunit, and/or organizational gain" (p. 2). However, research focusing on similar conceptualizations has been criticized for not specifying what 'abuse' or 'misuse' mean in this context or what is meant by 'public' authority (see Theobald, 1990 for a detailed discussion). We clarify the construct of organizational corruption by defining it as *the crime that is committed by the use of authority within organizations for personal gain*. Therefore, we contend that when individuals endorsing the authority of their organizations use that authority for their own benefit, then they have committed organizational corruption. Personal gain may also entail broader corporate benefits such as higher firm profitability or longer-term survival of the firm or what appears to be a corporate crime for the benefit of the organization may spill over into significant personal gain³ For example, the internal audit report on the fraud at H. J. Heinz found no evidence that any employee engaged in fraud for personal gain *per se* (Mathews et al., 1991); and the price-fixing collusion in the folding-box industry during the 1970s was found to be designed to stabilize prices and control the

environment, and not for personal gain of the colluders (Sonnenfeld and Lawrence, 1978). However, these actions may have also led to job security and higher chances for promotion for the colluders (e.g., personal gain). In this article, we assume that organizational corruption is committed chiefly for personal benefit, although we do not deny that it might also be carried out, intentionally or otherwise, for organizational or subunit gains in addition to personal gains.

Also, although the construct of authority has been used in the definition of organizational corruption, as in, corruption being the use of authority for personal gain (Ashforth and Anand, 2003; Sherman, 1980), prior research has not focused explicitly on the construct of authority to better understand the problem of organizational corruption. Weber ([1922] 1978) defines authority as “the probability that certain specific commands (or all commands) will be obeyed by a given group of persons” (p. 212). The salience of a certain type of authority in an organization brings with it certain control capabilities that organizational leaders and administrative staff⁴ may exercise in their organizations. Therefore, these organizational members are likely to assume that they will get away with their crimes due to their authority within the organization. Authority in an organization, thus, works as an opportunity for its members to engage in acts of organizational corruption. We draw on this Weberian construct of authority to suggest that a combination of one type of authority with one type of motivation and one type of justification may trigger these leaders to engage in certain types of organizational corruption due to a specific combination of the capability to exercise control, the desire to behave in a particular manner and having the cognitive ability to justify their behaviors. In the following section, we discuss the opportunity-motivation-justification model before putting forth our propositions.

Opportunity-motivation-justification model

The opportunity-motivation-justification model of crime (see Albrecht et al., 1984; Coleman, 1985; Cressey, 1953) is based on the notion that the opportunity for a crime, the motivation to act and

the justification to rationalize these behaviors must come together for any crime to occur. This implies that the social-psychological causes and structural causes of white-collar crime are inseparably interwoven, and the presence of all three (opportunity, motivation, and justification) is necessary for an individual to engage in crime. We discuss each of these pillars of the model below.

Opportunity

Opportunity means “the presence of a favorable combination of circumstances that makes a possible course of action possible” (McKendall and Wagner, 1997, p. 626). Opportunity, therefore, arises when individuals or groups can engage in illegal and unethical behavior and expect, with reasonable confidence, to avoid detection and punishment. For example, an oversight of the board of directors may allow management to manipulate earnings inappropriately in order to reach analysts’ forecasts (see Wilks and Zimbelman, 2004). Opportunity to commit crimes may include macro- and micro-level factors. Macro-level factors encompass the characteristics of the industries in which the organization is embedded such as the market structure (Needleman and Needleman, 1979), ‘organizational sets’ of an industry, that is companies whose actions are visible to each other (Gross, 1978), and variations in the regulatory environments (Clinard and Yeager, 1980). The more micro-level factors consist of the occupations of the offenders and also their gender (Zietz, 1981) and the characteristics of the organization itself (Bowen, 2004; Clinard, 1983; Conklin, 1977; Kramer, 1982).

None of these studies looks at authority per se in an organization. The only research related to the authority of an organization examines the composition of the board of directors and ownership structure that is, in Weber’s ([1922], 1978) terminology, the structure of administrative staff of an organization (Clinard, 1983; Cochran and Nigh, 1987; Frederick and Weber, 1987). However, the findings on the relationship between organizational crime and governance structure are mixed and inconclusive. For instance, Beasley (1996) shows that firms with higher percentages of outside members on their boards are less likely to commit

financial-statement related fraud. On the other hand, Kesner et al. (1986) demonstrate that the proportion of outsiders is not significantly related to the number of illegal acts committed by the firm. Dechow et al. (1996), while investigating firms that manipulated their earnings, show that these firms are more likely to have board of directors dominated by management, to have a CEO who simultaneously serves as chairman of board, to have a CEO as the firm's founder and are less likely to have an outside blockholder (also see Dunn, 2004). However, Kesner and colleagues (1986) find evidence that board structure does not indirectly or directly lead to the commission of illegal acts and that firms in which one individual serves as both CEO and chairman are no more likely to be associated with illegal acts than those in which separate individuals hold these positions (see also Schnatterly, 2003).

We, therefore, draw on Weber's ([1922] 1978) classic work on the legitimate authority of organizations as an opportunity that provides a possible cause of action and that, in combination with motivation and justification, will lead to different corruption outcomes. We specifically focus on the individual or collective action of the individuals who endorse the authority in an organization. In other words, we pay attention to the agents of authority whom Weber called the leader and his administrative staff. These are the white-collar employees who in the corporate governance literature are considered the governing team, i.e., the top management team and board of directors, and includes, among others, the chief executive officer (CEO), chief financial officer (CFO), and, in the post-Sarbanes-Oxley world, chief risk officer (CRO) as well as middle managers who can use their organizational authority for personal gain.

Motivation

Motivation involves personality and cultural factors that induce individuals to act in ways that neutralize the strong ethical controls of society. However, no evidence has been found that supports the hypothesis that a single set of personality characteristics is conducive to crime in all situations (Coleman, 1985). Specific cultural factors that lead to crime and criminal behavior include the desire to 'make a fast

buck' (Lane, 1954), the fear of losing what has already been made (Weisburd et al., 1991), defining competitive struggle as being positive rather than negative or selfish (Coleman, 1985), differential association (Sutherland, 1940) and even the structure of the industrial economy such as market exchange and the use of money (Coleman, 1985).

In the context of organizations, individuals typically have three types of motives that explain their behavior: individualistic, collectivistic, and relational⁵ (Sedikides and Brewer, 2001). Even though we acknowledge that these motives can co-exist, we argue that it is the salience of a particular motive that drives behavior. For example, Aguilera and colleagues (Forthcoming) consider three types of motives as antecedents to a firm engaging in socially responsible behavior, but emphasize that 'in practice, all organizational motives might be working simultaneously yet some motives will be more salient than others.' By *individualistic motives*, we mean motives by which one seeks to maximize one's own gains exclusively (McClintock et al., 1973), and these motives encompass gains that are financial, physical, or even psychological. *Collectivistic motives* arise when individuals consider maximizing not only their own gains but also those that benefit the organization. Thus, these motives can develop because of a strong sense of attachment or identification with the organization. *Relational motives* arise when individuals identify not with the organization, but with a smaller group(s) within the organization. Therefore, individuals with relational motives are more concerned with benefiting themselves and a subgroup within an organization. The subgroup can be a department or a subunit. Hence, we argue that these different types of motives may have different targets of benefit. It is the individual who benefits when the motives are individualistic, the individual and the organization benefit when they are collectivistic, and the individual and the subunit benefit when they are relational.

In other words, individualistic motives are drawn from Lewin's concept of instrumental rationality (1935), whereas collectivistic and relational motivation are also termed as self-expressive motives, which suggests that individuals are motivated to affirm their self-concepts, including their beliefs and values (Snyder and Ickes, 1985). Also, to reiterate, we contend that although individuals may be driven

by all three motives simultaneously, one motive is more likely to be salient than the others in determining their behavior.

Justification

Justifications are socially constructed accounts that individuals who engage in corrupt acts adopt to legitimate their behavior (Ashforth and Anand, 2003; Loebbecke et al., 1989). Research on cognitive defense mechanisms, self-serving biases, and ingroup biases, among others (Chen and Tyler, 2001; Sykes and Matza, 1957; Taylor, 1989) share the notion that groups and individuals are usually motivated to resolve the ambiguities surrounding actions that serve their self-interests. Justifications are, therefore, beliefs that counteract negative interpretations by articulating why the corrupt acts are justifiable or excusable exceptions to the norms (Ashforth and Anand, 2003). Justifications can be both prospective and retrospective (Coleman, 1985). Prospective justifications are future-oriented and are usually adopted by individuals before they engage in corrupt acts. Retrospective justifications, on the other hand, are espoused by individuals after undertaking corrupt acts and tend to be defensive since they are adduced post-hoc (Ashforth and Anand, 2003; Lerner and Tetlock, 1999). We assert that most justifications regarding organizational corruption are prospective since these acts are more likely to be intentional and calculated. Hence, individuals typically justify actions benefiting themselves before they participate in them (Wilks and Zimbelman, 2004).

There exist different categories of justification of self-interested acts. For example, Sykes and Matza (1957), referring to juvenile delinquents, suggest five techniques of neutralization that individuals use to justify their acts—denial of responsibility, denial of injury, denial of the victim, condemnation of the condemners, and appeal to higher loyalties. In addition to these, Ashforth and Anand (2003) propose three more techniques that individuals who engage in corruption may adopt, including legality, social weighting (broader category of ‘condemnation of the condemners’), metaphor of the ledger (i.e., claiming entitlement to engage in deviant behaviors), and refocusing attention (i.e., deemphasizing,

compartmentalizing, or suppressing knowledge of the illicit acts). Taking into account these techniques, we propose three over-arching justifications that include the justification techniques suggested by both, Sykes and Matza (1957) and Ashforth and Anand (2003): rationalization, socialization, and ritualism. *Rationalization* justifications refer to individuals justifying their actions by arguing that their acts may not be criminal since there may be no direct victim. Also, individuals who use rationalization justifications tend to argue that their behaviors are not criminal as laws and regulations codifying their behaviors as illegal may not exist, may be dated or not enforced, or their applicability may be questionable. For example, when a Westinghouse executive on trial for price-fixing was asked about his behavior, he responded, “Illegal? Yes, but not criminal...I assumed that a criminal action meant damaging someone, and we did not do that” (cf. Coleman, 1985). Individuals using this type of justification are likely to deny any responsibility for their acts because they may consider them as harmless and victimless. *Socialization* justifications occur when individuals attribute their behavior as necessary for the betterment of the group. Individuals adopting this justification may reason that their unethical behaviors is important for the survival of their groups, even if their actions are detrimental to other groups and society as a whole. For instance, the Westinghouse executive quoted above went further to state that “I thought we were more or less working on a survival basis in order to try to make enough to keep our plants and employees” (cf. Coleman, 1985). This justification is very similar to the ‘appeal to higher loyalties’ suggested by Sykes and Matza (1957). Finally, *ritualism* justifications include those neutralization techniques that maintain that ‘everyone else is doing it.’ Individuals using this justification reason that they are responsible for their actions since they may consider their actions to conform to the expectations of others (Ashforth and Anand, 2003) or are merely following a pattern of behavior accepted among their peers (Coleman, 1985).

In the following section, we discuss, in detail, Weber’s ([1922] 1978) conceptualization of authority. As suggested above, an organization’s authority provides its members an opportunity for organizational corruption. We then propose how

opportunity, motivation, and justification interact to increase the propensity to commit different acts of organizational corruption.

Types of authority

Max Weber defines authority ('domination' or *Herrschaft*) as "the probability that certain specific command (or all commands) will be obeyed by a given group of persons" ([1922] 1978, p. 212). Hence, authority assumes voluntary compliance or an interest in obedience. He further explains that obedience is an obligation that is formal and one follows it without regard to one's own attitude or

lack of value of its content. For sustaining authority, Weber emphasizes that it is essential that the authority be believed to be legitimate (gains a right to 'rule') and that there needs to be an immediate relation between command and obedience. Probably one of Weber's most important contributions for organizational theory is the theory that authority will depend on four key factors: the type of *legitimacy*, the type of *obedience*, the composition of the *administrative staff*, and the *mode of exercising authority*. Based on these four factors, Weber ([1922], 1978) argues that three types of legitimate authority exist: (1) legal-rational; (2) charismatic; and (3) traditional. We discuss each of them in turn and provide a synthesis of our discussion in Table 1.

TABLE 1
Main characteristics of Weberian authority

Dimensions of Legitimation	Legal-Rational Authority	Charismatic Authority	Traditional Authority
Type of Obedience	<p>Legality of enacted rules</p> <p>Impersonal and formal order</p>	<p>Devotion to the exceptional sanctity, heroism or exemplary character of an individual person.</p> <p>Normative patterns and order revealed and ordained by him.</p> <p>Recognition is freely given and guaranteed by what is held to be proof</p>	<p>Sanctity of immemorial traditions</p> <p>E.g. "Owed to the person of the chief who is bound by traditions"</p> <p>Traditional status</p> <p>Personal loyalty resulting from common upbringing</p>
Structure and Administrative Staff	<p>Hierarchical</p> <p>Staff is separated from the ownership of the means of production.</p> <p>Specialized training is necessary</p>	<p>Charismatic community</p> <p>No specialized training required</p> <p>Chosen on charismatic qualifications; or provided charismatic authority of the chief</p>	<p>Staff related to the chief by traditional ties of loyalty:</p> <ul style="list-style-type: none"> - Gerontocracy or Primary Patriarchalism: where the master has no personal administrative staff. - Patrimonialism (in extreme cases, Sultanism): administration and military force are purely personal instruments of the master. - Estate-type: administrative staff appropriates powers and the corresponding economic assets. <p>Basic training is hardly required</p>

TABLE 1
continued

Dimensions of Legitimation	Legal-Rational Authority	Charismatic Authority	Traditional Authority
	Appointment by free contract: - Clearly defined sphere of competence.	No fixed salary; no pension; no benefices; Pursue satisfaction in a typical anti-economic way.	Appointment by traditions ("Patrimonial" recruitment) or favoritism: - Conflicted tasks and ad hoc powers assigned at the master's discretion.
	Receive fixed salary and pensions according to rank.	Succession based on the "search-based" on criteria; revelations; designation on part of original leader; recognition by community.	No fixed salary; based on the master's discretion, according to the power assigned initially;
	Promotions on the judgment of superiors.		Promotions through seniority; objectively determined achievements; social status; sense of status honor.
Mode of Exercising Authority	Domination through knowledge obtained from technical training, experience. Knowledge of "official secrets" Rights to appeal Rights of statement of grievances from lower to upper levels Cases of complaints differ in the "correct" ruling from higher authority or responsibility left to lower offices.	Formally concrete judgments are newly created from case to case and are originally regarded as divine judgments and revelations; Charisma may effect a subjective or internal reorientation born out of suffering, conflicts, or enthusiasm (no rights to appeal) The radical alternations may result in radical alterations of the central attitudes and directions of action with a completely new orientation of all attitudes toward problems of the world.	Based on traditions or master's discretion in the sphere which tradition leaves it open to him; Exercise of power based on how far the master can go without arousing resistance; Resistance directed toward the master and his servant personally if they failed to observe the traditional limits.

Legal-rational authority

Legal-rational authority is built on the belief of the legality of the rules enacted and the right of those elevated to authority under such rules to issue commands. Obedience is, therefore, owed to the 'legally established impersonal order' (Weber, [1922] 1978). In short, this authority is based on the rules and hence on the office, rather than on the officeholder. Orders are followed only if the rules require

that the commands of superiors be obeyed. This aims to make the legal-rational form of authority impersonal, objective, and based on equality.

Since authority is specified by the office, the administrative staff (e.g., the firms' managers) is appointed on the basis of their technical qualifications and promoted according to the judgment of their superiors. Organizations are, by definition, designed around 'clearly defined spheres of competence' (Weber, [1922] 1978), where officials are

usually paid a fixed salary and even a pension, corresponding to their organizational rank. Thus, hierarchical positions in the organization are contingent on the technical competence of the officials, and there exists a boundary-set hierarchy. Leaders dominate or exercise their authority through the knowledge that they gain due to their technical expertise and their experiences in the organization. The rules that are obeyed are usually written down and recorded in official capacity. The rules, and consequently the acts that follow, are added to the organizational memory – a concept that was later developed to describe the processes that an organization undertakes to store and retrieve data that it was once attained (Anand et al., 1998).

According to Weber ([1922] 1978), the purest type of exercise of legal-rational authority is that which employs a bureaucratic administrative staff. Since the staff is subject only to impersonal official obligations, the bureaucracy adopts a hierarchical structure. Each officer has a fixed status in the organization, and hence, a clearly defined job profile. Candidates are selected on the basis of their technical capabilities and qualifications. They have fixed career paths contingent on their position in the hierarchy and promotions are mostly made on the basis of seniority and achievement within the organizational boundaries. Their jobs are very secure, and they can be terminated only under exceptional circumstances. According to Weber ([1922], 1978), one of the advantages of the bureaucratic organization is that the administrative staff is completely separated from the ownership of the means of production, allowing the use of impersonal and rational mechanisms to impose authority. This separation also shifts the focus of the organization toward the ends instead of the means.

The U.S. federal system of government is an example of an organization with legal-rational authority. The ‘rules’ in this organization are established in the Constitution, which sets up the federal system by dividing powers into three autonomous branches. The executive branch, represented by the office of the President of the United States, enforces the law. The legislative branch, signified by the U.S. Congress, develops and enacts legislation. And the judicial branch, embodied by the Supreme Court, interprets these laws, ensures that they are compatible with the Constitution and applies them in different social contexts. Each of these branches has limited

power and is kept under check by another branch. For example, the President appoints judges and departmental secretaries, but these appointments must also be approved by the Senate. The Congress can pass a law, but the President has the right to veto it. The Supreme Court can rule a law to be unconstitutional, but the Congress, with the States, can potentially amend the Constitution. This exemplifies Weber’s ([1922] 1978) ‘separation of powers.’

Charismatic authority

Charisma is defined as a certain quality of an individual by which he or she is considered extraordinary and treated as endowed with superhuman or exceptional powers or qualities (Swedberg, 1998). Charismatic authority arises from the charisma or ‘gift of grace’ of the leader (Weber, [1922] 1978). It is up to the followers to recognize this characteristic in leaders (the CEO and/or governing body) and to act accordingly. The leader and his or her administrative staff influence the subjective reorientation of the individuals (subordinates) from within. Therefore, charismatic authority emerges due to the personal devotion to the leader/official, arising out of enthusiasm, despair or hopes, and it will disappear if success evades the leader for too long. The leader makes judgments about situations and problems on a case-by-case basis, and these are initially treated as revelations or divine judgments by the followers (Weber, [1922] 1978).

Since this form of authority exists due to the emotional attachment to the leader in authority, officials are perceived as volunteers who join the organization out of an affinity toward the charisma of the leaders (Swedberg, 1998). These officials usually have no requirements for technical training and are not bound by rules and/or hierarchies. They also do not have fixed salaries, career paths, or job profiles. Recruitment and promotion of charismatic officials depends on their devotion to leaders such as the top management team and the enthusiasm with which they share the leader’s vision. The leader appoints her or his administrative staff relying on the charismatic characteristics of individuals.

We propose that Enron, the energy trading company that has been the focus of media attention since the corporate wrongdoing came to light in 2001, can be defined as an organization with

charismatic authority. Enron's CEO, Kenneth Lay and ex-CEO, Jeffery Skilling can be considered charismatic leaders. For instance, Watkins, the now-famous Enron's whistle-blower reports that "[Just] about everyone who met Lay for the first time liked him, from world leaders to ministers in Houston's poorest neighborhoods" (Swartz and Watkins, 2003, p. 16). Nathan Childs, former Enron hardware technician, describes Kenneth Lay as "Very caring, very giving, very personable – maybe just like the guy next door" (see McLean and Elkind, 2003). Watkins, while referring to Skilling quotes:

It was Skilling who made the stock price ascend to the heavens. So it was Skilling who made Enron's troops frantic to live in a fast-forward mode, who made them anxious to prove that they could deliver any concept he could dream up, who made them desperate to tag along on his extreme adventures – rock climbing, bungee jumping – around the globe. Because if Jeff Skilling thought you 'got it', you really did (Swartz and Watkins, 2003, p. 12).

These quotes suggest that Enron employees may have legitimized the authority of Lay and Skilling by exhibiting their personal devotion toward these individuals. Thus, the type of obedience at Enron seems to be based on the charismatic authority of its leaders. Describing the mode of exercising authority at Enron, Watkins notes that Skilling had a relentless push for creativity and competitiveness and fostered a growth-at-any-cost culture at Enron (Swartz and Watkins, 2003). Regarding new hires, one manager who helped with recruiting at Enron stated, "It was not your typical, hard-working, extracurricular-activities type of student...It was a sharp-dressing extrovert, someone who would fit in as a ruthless trader. We weren't looking for softies" (see McLean and Elkind, 2003), thus highlighting the role of the leader in hiring new recruits based on 'search-based criteria.' This indicates that the authority at Enron was of the charismatic type.

Traditional authority

Traditional authority is 'the right to rule' by virtue of passed down rules and orders, regardless of the

person's technical abilities or charisma properties. This type of legitimate authority relies mostly on the 'sanctity of immemorial traditions and customs' (Weber, [1922] 1978) that the organization follows. In this case, the leader can be the one to follow these inherited norms or traditions, or the leader can be the one to set these customs and, thus, initiate a tradition. The latter case usually occurs during the initial years of the organization. However, the leader can utilize his or her powers as long as there is no resistance from subordinates.

In traditional authority, whenever there is a failure to follow the traditional rules, resistance is directed toward the leader and her administrative staff. The leaders appoint their administrative staff either by following traditions or by favoritism. There are, thus, two types of recruitments: 'Patrimonial' which involves hiring mostly members of ruling clans or slaves who follow traditions, and 'Extrapatrimonial' which includes hiring mostly favorites and people who volunteer to follow the traditions (Weber, [1922] 1978). In most cases, initially, the administrative staff is composed of 'house-hold officials' who eat at the leader's table (i.e., the leader pays them out of his or her pocket) (Swedberg, 1998). Administrative staff is selected through favoritism and their roles are *ad hoc* and overlapping, but always decided by the leader. As the organization grows, some patrimonial officials can no longer eat at the leader's table and are paid by some other means, namely, benefices (*Pfründen*). In this sense, unlike in organizations with legal-rational authority, there is no hierarchy in these organizations and no requirements for technical expertise. The complexity of this ideal-type authority stems from the two-step dependence on the leader (i.e., being at the dinner table or not at the dinner table).

We suggest that Adelpia Communications is an illustration of an organization with traditional authority. Adelpia was a family-run firm with founder John Rigas as CEO and Chairman of the Board, son Tim Rigas as CFO, second son Michael Rigas as VP of Operations, third son James Rigas as VP of Strategic Planning, and son-in-law Peter Venetis as member of the Board of Directors. In total, the Rigas family held five of the nine board seats. They also filled the other four seats on the board with John Rigas' friends and business associates. Thus, the administrative staff, in Swedberg's

(1998) words was ‘related to the chief by the traditional ties of loyalty.’ Regarding the mode of exercising authority, Tom Cady, a former Adelpia sales and marketing executive says: “Decisions were made at the dinner table rather than in a boardroom or somebody’s office,” (cf. Leonard et al., 2002) which is typical of an organization with traditional authority (Weber, [1922] 1978).

In the following section, we present the mechanisms (the interactions of opportunity, motivation, and justification) by which individuals in the various ideal-type authorities engage in different types of organizational corruption. It is important to note that just as these forms of authority are ideal-types and may not exist in real life, the mechanisms and outcomes outlined below are also ideal-types for the sake of theory building.

Corruption antecedents, mechanisms, and outcomes

We have discussed the different legitimate ideal-type authorities that organizational leaders might endorse. We now explore how these leaders might bring to bear the dark side of authority, that is, the *use of authority for personal use*, or corruption. In this section, we discuss how and why individuals in organizations with these different types of authority commit acts of organizational corruption due to the salience of different motives and justification techniques. We use Weber’s ([1922] 1978) construct of authority to develop the Opportunity pillar in the Opportunity-Motivation-Justification model, but by considering the dark side of authority, in order to understand the antecedents of the corruptive behavior and its outcomes.

We propose that individuals who commit organizational corruption are likely to engage in one of these three types of corruption: procedural, schematic, and categorical (see Luo, 2004 for similar distinctions). Specifically, we argue that individuals in organizations with legal-rational authority and driven by individualistic motives will use rationalization to engage in procedural outcomes of corruption, those in organizations with charismatic authority and driven by collectivistic motives will use socialization to engage in schematic outcomes, and those in organizations with traditional authority

and driven by relational motives will use ritualism to engage in categorical outcomes of corruption. We discuss each of these below.

Procedural corruption

Procedural corruption results from *either the lack of formalized procedures or formal ‘rules’ of business conduct in the organization, or from the violation of existing formal procedures, for personal gain*. In other words, when employees at all or some levels of the organization do not follow or are not mandated to follow (ethical) procedures of business conduct, the corrupt outcome is defined as procedural corruption. For example, consider an organization in which the code of ethics is nonexistent. In such organizations, employees may not be encouraged to follow ethical standards to conduct business, resulting in procedural corruption due to the lack of any (ethical) rules. Newly started entrepreneurial firms are likely to be exposed to this type of corruption. Procedural corruption usually occurs when there is a high dependence within groups or members of the same status, and also when there are high standards of accountability with regards to the ultimate goals but not the means (Trice and Beyer, 1993). Procedural corruption results from the malfeasance of one or more members at any level of an organization for their personal benefits by bending the established rules or due to the lack of any rules. Moreover, in some organizations, certain subunit managers might feel that they need to use illicit means to meet their goals because of the pressure of industry norms or because of purely economic reasons (such as to gain competitive advantage). Therefore, as more subunits use illicit means to obtain their goals and are not checked by the organization, the use of corrupt means becomes an unspoken rule. Procedural corruption is likely to cause tremendous damage to the organization because the entire organization is blamed for the corrupt acts of its members and, may face dire consequences in terms of economic and reputation loss.

Unlike organizations with charismatic or traditional authority, organizations with legal-rational authority draw on formalized rules, and its members are selected on the basis of competence and pro-

moted according to seniority (Weber, [1922] 1978), which gives them an opportunity to commit crimes that violate the formalized rules of the organization. Now, if these members are driven by individualistic motives and are able to justify their behavior with rationalization, they are more likely to commit procedural corruption than those who have different motives and justifications. Organization members with individualistic motives are more likely to view their organizations as a good opportunity to commit crimes that benefit themselves, in contrast to members with collectivistic and relational motives who are concerned with benefiting the organization or subunit respectively, particularly if they can justify their behaviors as not causing any injury or absence of victims. The legal-rational authority thus provides the self-interested members, who can validate their 'bending of the rules' as lacking any injury or any victim (Ashforth and Anand, 2003), with the appropriate platform to commit procedural corruption such that they are benefited themselves. Also, if the procedures are absent, these members are more likely to engage in procedural corruption because they are more likely to seek personal gains due to their individualistic motives, and the lack of rules gives them the justification that no one is harmed by their actions since there are no rules suggesting that their actions are considered illegal or detrimental to others. Thus, we propose that

Proposition 1: Members of organizations with *legal-rational authority*, driven by *individualistic motives* and who are able to justify their behaviors through *rationalization* are more likely to engage in procedural corruption than members of organizations with other types of authority, driven by other motives and justifications.

Schematic corruption

Corruption is said to be schematic *when it is structured and present uniformly throughout the organization* (Luo, 2004). In other words, schematic corruption results due to the simultaneous involvement of multiple organizational levels in corrupt acts and at multiple points in time. The repetition of a corrupt act is reinforced by mechanisms that make them seem normal and part of the organizational culture. Schematic corruption may also occur due to the

norms of the institutional environment in which the organization is embedded. For example, if the organizational environment requires frequent bribery and pay-offs to politicians and bureaucrats for conducting daily business, the corruption will become part of the *modus operandi*, which we define as schematic corruption. The necessary condition is the existence of upper leadership pressure on organizational members and subunits to follow these (unethical) rules and norms (Luo, 2004). The need for organizational corruption is usually recognized from early years of the members' tenure at the organization. The leaders (e.g., the CEOs) usually face severe consequences for their acts even though the organization faces some losses itself. Schematic corruption cannot be checked internally since the entire organization has accepted it as a norm.

Authority in organizations with charismatic authority is based on the charisma of the leader and the faith that followers or subordinates have in their leaders. Therefore, in organizations with charismatic authority, the followers identify with the leader and the collective mission of the organization, and may perceive the latter to express important aspects of their self-concepts. When these members are driven by collectivistic motives and are able to justify their behaviors through socialization, they are more likely to engage in corruption that involves the entire organizational fabric. Members of organizations with charismatic authority behaving mostly in response to collectivistic motives, as opposed to individualistic and relational motives, are more likely to show blind faith in the leader and his or her actions (Howell and Shamir, 2005). Research shows that charismatic leaders tend to influence either the subordinates' personal or social identifications, resulting in an increase in productivity and efficiency of the organizational members. For instance, Waldman et al. (2004) find that CEO charisma was related to subsequent organizational performance as measured by net profit margin and return on equity. However, if members of such organizations are able to justify their behaviors as contributing to the betterment of the organization, they are more likely to engage in schematic corruption that implicates the entire organization. They may, thus, undertake corrupt activities due to a blind belief in the leader and due to the assumption that their acts will ultimately benefit the organization.

As noted, Enron is an illustration of how a corporation with charismatic authority can produce schematic corruption. The involvement of Enron officials in organizational corruption brought about the fall and bankruptcy for the entire organization (schematic corruption). The earlier quotations of whistle-blower Watkins suggest that members of Enron may have been driven by collectivistic motives toward the organization. Watkins, describing the rationale that company employees may have used to justify their actions, states that “[You] push your employees to constantly innovate, they finally get backed into a corner where they become too creative” (Swartz and Watkins, 2003). This suggests that executives involved in the schematic fraud may have contributed to the downfall of Enron by justifying their behavior as one involving creative solutions for the betterment of the organization exemplifying the socialization technique of justification. Therefore, we propose that

Proposition 2: Members of organizations with *charismatic authority*, driven by *collectivistic motives* and who are able to justify their behaviors through *socialization* are more likely to engage in schematic corruption than members of organizations with other types of authority, driven by other motives and justifications.

Categorical corruption

Categorical corruption is *the result of concentrated and delimited acts of corruption within the organization*. For example, suppose there is a large multinational corporation consisting of several subsidiaries that are highly diversified geographically. In the case of subsidiaries located in countries with an expectation that unethical or corrupt means will be used to survive, corruption is likely to be concentrated in only those particular subsidiaries. Therefore, one observes concentrated or categorical acts of corruption in such multinational corporations. These instances of organizational corruption can be categorical at specific (higher or lower) levels, units or geographical locations of the organization, rather than extensive and found throughout the organization. These acts mostly occur in organizations with highly decentralized structures. Specific subgroups (e.g., subunits or hierarchical levels) may be corrupt

due to strong environmental pressures, pressures from the organization and senior managers to meet some particular goals, or simply, mismanagement (Luo, 2004). Since corruption tends to be highly concentrated in these organizations, there are very few diffusion effects. That is, if corruption in a particular subgroup is exposed, then that subgroup is blamed for the act with severe penalties imposed by the central organization. In some cases, the organization will disown the corrupt subgroup to protect the entire organization from the repercussions of the misconduct of a few. Also, cases of categorical corruption are easily detected by others in the organization and therefore, the leaders (e.g., CEO and/or other senior managers) can keep a check on the category before the effects of corruption are magnified.

Members of organizations with traditional authority are either patrimonial or extra-patrimonial. In the former case, they may be directly supported by the leader or, as in the latter case, may receive benefices from the leader. The belief in the traditions laid down by the leader is usually greater in the former than in the latter case. Therefore, members in organizations with traditional authority tend to be driven by relational motives toward the leader or the organization when the traditional authority is patrimonial, and toward the subunit, when it is extra-patrimonial. Hence, if the leader and the administrative staff follow unethical means to conduct business, the close associates are more likely to do the same if they are able to justify their actions as being part of the norm. In this case, members who are extra-patrimonial are less likely to engage in such acts due to the lack of relational motivation. For instance, if we consider Adelpia as an example of a corporation with traditional authority, in which five of the nine board members were from the founding Rigas family (Leonard et al., 2002), then when these founding members were accused of committing a given corporate crime that personally benefited them, we could categorize their crimes as categorical corruption.

As discussed, when the members move away from the ‘master’s table’ (Swedberg, 1998), their loyalty to the leader is likely to decrease. Their relational motives are now not directed toward the leader or the organization, but are directed toward the subunit to which they belong. Therefore, if other members

of this subunit engage in corruption, these members are more likely to be corrupt. This is because the relational motivation of these members is with the subunit and their justification is likely to be of ritualism at the subunit level. In such a case, members belonging to the patrimonial unit may not engage in corruption. In either situation, the corruption is said to be categorical. We thus propose that

Proposition 3: Members of organizations with *traditional authority*, driven by *relational motives* and who are able to justify their behaviors through *ritualism* are more likely to engage in categorical corruption than members of organizations with other types of authority, driven by other motives and justifications.

Discussion and conclusion

Corruption refers to the abuse of authority for personal benefit. When applied to the organizational level, we find that Weber's three ideal-types of authority can help us unpack the opportunity pillar of the Opportunity-Motivation-Justification model and, in turn, explore the likelihood of different types of corporate misdeeds. In particular, we propose that the three ideal-types of authority (legal-rational, charismatic, and traditional) interact simultaneously with different types of motivation (individualistic, relational, and collectivistic) and justifications (rationalization, socialization, and ritualism) to result in three distinct types of organizational corruption (procedural, schematic, and categorical). Empirically, we realize that no organization has a particular authority in the *pure* form, nor will its members follow a *pure* motive or justification technique to engage in a *pure* corruption outcome. However, it is important to note that the type of corruption mechanism that an organizational member or group utilizes will depend on the salience of each of the components in the Opportunity-Motivation-Justification model and their combined effect. We also acknowledge that the three types of authority, motives, and justifications may interact such that it can potentially lead to 27 different types of organizational corruption. However, in this article, we focus on the most salient and conceptually linear outcomes obtained by three particular combinations of authority, motivation, and justification. We do

not make any predictions about other possible combinations.

Additionally, most organizations allow for some flexibility in the interpretation of their rules. In effect, Barnard's (1938) classic book, *The Functions of the Executive*, suggests that part of the job of an executive is to adapt to new circumstances in order to achieve effectiveness, in the sense of organizational purpose, and efficiency, in the sense of satisfying individual needs. It is, however, difficult to assess whether executives' deviation from organizational norms is due to the need to be flexible and adaptable, or is mostly due to the need to reap personal benefits that accrue to the official. This choice can further be understood by focusing on the authority of an organization which is at the core of this article.

Managerial and policy implications

One might ask how our proposed theoretical model of organizational corruption can help policy makers to keep managers 'honest' and restore investors' trust in the invisible hand of the market. First, our model shows that the type of authority that leaders endorse in organizations, in combination with their motivation and justification, will determine whether corporate misdeeds are likely to remain centralized or spread through the organizational system.

Second, as Finkelstein and Mooney (2003) astutely point out, 'the usual suspects' of classic good corporate governance looked almost 'stellar' in companies such as Enron, WorldCom, Global Crossing, and Tyco before they collapsed. This shows the need to go beyond the organizational- or country-level rules of corporate governance and beyond focusing solely on the abuse of legal-rational authority. Leaders can perfectly conform to the established legal norms and yet abuse their traditional authority for personal benefit. For example, they may not distribute the dividends fairly to shareholders in a family-owned business. Thus, as many of the scholars of ethics have asserted (Seidman, 2004; Weaver, 2004), it is necessary to address the deeper opportunities (authorities), motivations and justifications behind corruption, and how their interactions will play out in order to have a significant change in behavior (and misbehavior).

Interestingly, in recent times, issues have been raised regarding the benefits of ethical leadership and training. For example, as an invited executive in the *Academy of Management Executive* (May 2004 issue), Perry Martini stated: “Unfortunately, ethics training has often failed to achieve its desired outcome because it has addressed external behaviors, rather than the root cause of an inappropriate business practice and workplace behavior.” (p. 54). We believe that one of the main reasons for this failure of ethics training and ethical leadership in organizations is that organizational researchers and ethics trainers have not systematically distinguished between the three types of Weberian authority. Since the mechanisms of the three types of authority differ, the importance and applicability of the ethical leadership is also likely to vary contingent on the type of authority.

For example, organizations with legal-rational authority mostly rely on rules and procedures for the conduct of business. Therefore, in these cases, ethical leadership is not going to play a major role in inculcating the importance of ethics in employees; more fundamental and deeper changes in rules and the consequences of breaking the rules may be more enduring. Conversely, ethics training and ethical leadership would probably be more effective in organizations with charismatic authority since employees in such organizations believe in the leaders and look to them for their values, beliefs, and norms. Similarly, ethical leadership would probably be most helpful in the case of traditional authority.

Future research

We would like to highlight some areas that are a natural progression from this article and deserve future examination. First, reputational intermediaries, such as auditing firms, bond rating agencies or stock analysts, play an important role in the monitoring system because they sell ‘trust’ and because shareholder/stakeholder democracy is a ‘fiction’ in the majority of corporate governance systems. In most of the recent scandals, these organizational actors have cooperated with the focal abusers of authority by providing false or misleading information. Future research should explore the direct and indirect effects of these intermediaries in reinforcing the dark side of authority of officers in power. Both

Gourevitch (2002) and Windolf (2004) provide some interesting theoretical ideas in this direction by emphasizing the collective action problem and information asymmetries, respectively.

Second, we see future research extending into institutional theory to explore how social action can be changed with regards to the abuse of authority in organizations. Institutional theory offers valuable insights about institutional change (Ahmadjiam and Robinson, 2001; Davis et al., 1994; Greenwood et al., 1990; Leblebici et al., 1991) and when and how socially ‘deviant’ or illegitimate actions diffuse or are eradicated (see Westphal et al., 1997). We suspect that institutional arguments for social change such as coercive institutional forces (i.e., rules, norms and power structures that constrain choice), normative institutional forces (i.e., shared values and integrative social fabric) and mimetic institutional forces (i.e., shared cognitive maps) (Scott, 2001) could guide theoretical arguments regarding legal-traditional, charismatic and traditional authority. For example, in the case of leaders with charismatic authority, one could argue that in order to change their social actions away from corruption, we would need to change the normative institutions or community shared values of what is morally accepted. This could be achieved by introducing, and ultimately institutionalizing, strong non-corrupt values in their professional associations that in time would be accepted by the charismatic leader and socialized throughout the firm.

Third, future research could also empirically test our proposed theoretical model by operationalizing the dominant type of authority that leaders have within corporations. This could be done by first disentangling the independent variable, authority, into the four dimensions as suggested by Weber: type of legitimation, type of obedience, kind of administrative staff, and mode of exercising the authority. Then, the relationships between these four dimensions and the three motivations (individualistic, collectivistic, and relational) and justification techniques (rationalization, socialization, and ritualism) and three outcomes of corruption (procedural, schematic, and categorical) could be tested.

Fourth, there are multiple situational variables such as institutional norms and environmental uncertainty as well as social and economical factors,

such as financial health of the firm, which can influence the relationships we proposed. Empirical research testing our model should account for these situational variables. Research testing our propositions should also be cautious when coding the types of authority in organizations since most organizations can have multiple authorities at once, but only one is predominant at any given time.

Finally, we also encourage more in depth qualitative work and systematic case studies like the accounts of Time person of the year and Enron's whistle-blower, Ms. Sherron S. Watkins (Watkins, 2003) because they shed bright light into the dynamics and content of organizational deviant behavior.

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Notes

¹ We thank two of the reviewers for their suggestions and comments on the justification part of the model.

² For distinctions between the constructs of authority, influence, power, and leadership, please refer to Uphoff (1989) and Grimes (1978). Authority primarily entails voluntary compliance on behalf of the subordinates such that obedience of the leaders' commands is seen as an obligation that is formal and followed through without regard to one's own attitude. On the other hand, influence or power may be exercised when there is no voluntary conformity or when the formal orders from the leaders are being questioned. Furthermore, influence may also be adopted by the subordinates toward their

leaders. Thus, influence can be bidirectional, whereas power and authority are considered to be unidirectional. More importantly, leaders are agents of authority who underscore the authority of the organizations to which they belong. Apart from adopting authority to seek obedience, leaders may thus also use power or influence. It should also be noted that although it may be difficult to distinguish between authority, power, influence, and leadership empirically, they are conceptually very distinct constructs.

³ We thank two of our reviewers for making this pointed suggestion.

⁴ Weber uses the terms 'leader' and 'administrative staff' as agents of authority and 'officials' to signify their subordinates. However, while relating his ideas to the modern organization, we use 'managers,' 'organizational members,' and 'leaders' interchangeably to denote the agents of authority.

⁵ Although discussing motivation in the order of individualistic, relational, and collectivistic seems preferable, we alter the sequence to individualistic, collectivistic, and relational to be consistent with our propositions related to authority and motivation types.

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