McCombs
Knowledge To Go

October 11, 2011
Organizational Corruption

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Department of Management
Objectives in Studying Organizational Corruption

- Help us understand why people in organizations engage in illegal or unethical behavior
- Develop an appreciation for the challenges and responsibilities needed to establish organizational cultures that can control corruption
How pervasive is the problem?

- KPMG Survey 2008-2009
  - 5000 employees

- ERC 2007 National Business Ethics Survey

- About 2000 people in summer of 2007

- Phone interviews
Intentional Acts of Fraud

- Employee fraud most common type (almost twice as widespread as consumer fraud)

- Fraud and abuse cost US orgs. more than $400B annually

- 74% employees reported they personally observed wrongdoing within their org. during previous 12 mos.

- 46% said what they observed could cause “a significant loss of public trust if discovered.”

KPMG 2009 – Integrity Survey
Is misconduct common in the workplace?

Percentage of Employees Observing Misconduct Has Returned to Previous Levels

High-profile corporate debacles, followed by passage of Sarbanes-Oxley Act (2001-2002)

- NBES 2000*: 55%
- 2003: 46%
- 2005: 52%
- 2007: 56%
Root Causes of Misconduct

- Feel pressure to do “whatever it takes” to meet business targets: 59%
- Believe they will be rewarded for results, not the means used to achieve them: 52%
- Believe the code of conduct is not taken seriously: 51%
- Lack familiarity with the standards that apply to their jobs: 51%
- Lack resources to get the job done without cutting corners: 50%
- Fear losing their jobs if they do not meet targets: 49%
- Believe policies or procedures are easy to bypass or override: 47%
- Are seeking to bend the rules or steal for their own personal gain: 34%
Relationship between Misconduct and Ethical Environment

As Work Environment Increases in Negativity
More Employees Observe Misconduct

Percentage who observed at least one form of misconduct in the last 12 months

- Zero: 37%
- One: 48%
- Two: 74%
- Three: 88%
- Four: 94%
- Five: 98%

Number of “negative” work environment factors

Work Environment Negativity
Organizational Corruption

- Actions taken by organizational members that are illegal or unethical by societal standards

- Two types:
  - Purposive
  - Emergent
Purposive Corruption

- Illegal or unethical behavior conducted knowingly by individuals for their own benefit or to benefit the organization
- “Bad apples”
Emergent Corruption

- Corrupt behavior that the participating individuals do not recognize as illegal or unethical

- Can arise from organizational routines

- “Bad barrels”
Where Do We Go Wrong?

- Not recognizing that one is faced with an ethical dilemma
- Using unsophisticated moral reasoning
- Responding to situational pressures
  - Diffusion of responsibility
  - Conformity
  - Blind obedience to authority
Ethical Dilemmas

Situations concerning right and wrong where values are in conflict
Diffusion of Responsibility

- Unethical behavior can occur in collectives because no one feels individually accountable

- Division of responsibility

- Bystander apathy
Reporting

Propensity to Report Misconduct

- Notify supervisor or another manager: 81%
- Try resolving the matter directly: 52%
- Call the ethics or compliance hotline: 44%
- Notify someone outside the organization: 10%
- Look the other way or do nothing: 6%
Reporting

Would feel comfortable reporting misconduct to supervisor

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<thead>
<tr>
<th>Without Program</th>
<th>With Program</th>
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<tbody>
<tr>
<td>2005</td>
<td>48%</td>
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<td>2008</td>
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<td>2005</td>
<td>88%</td>
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<td>2008</td>
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Would feel comfortable reporting misconduct to legal department

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<tr>
<td>2005</td>
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<td>2008</td>
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<td>2005</td>
<td>73%</td>
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<td>2008</td>
<td>76%</td>
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Source: KPMG LLP (U.S.)

Would feel comfortable reporting misconduct to internal audit

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<td>2005</td>
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<td>2008</td>
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<td>2005</td>
<td>63%</td>
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<td>2008</td>
<td>67%</td>
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Would feel comfortable reporting misconduct to board of directors

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<th>Without Program</th>
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<tr>
<td>2005</td>
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<td>2005</td>
<td>59%</td>
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<td>2008</td>
<td>63%</td>
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E&C Program and Reporting

Believe appropriate action would be taken

- Without Program: 44% (2005), 41% (2008)
- With Program: 87% (2005), 86% (2008)

Believe they would be protected from retaliation

- Without Program: 29% (2005), 34% (2008)
- With Program: 75% (2005), 77% (2008)
E&C Program and Reporting

Believe they would be satisfied with the outcome

Believe they would be doing the right thing

Without Program | With Program
---|---
2005 | 2008
22% | 68% | 68% | 65% | 63% | 92% | 92%
54% of employees who did not report misconduct they observed in the workplace were skeptical that their report would make a difference. Trust in manager is not enough.

2007 National Business Ethics Survey
Better Apples; Better Barrels

- Increase moral awareness
- Effective ethics and compliance programs
- Create values-based cultures
Procedurally Just Workplace

- Two key dimensions that affect employee procedural fairness judgments:
  - Fairness of decision making
  - Fairness of interpersonal treatment
Fairness of Decision Making

- Do I have input before decisions are made?

- Are decisions made following easily understandable rules?

- Are decision makers using objective data to make their decisions, avoiding personal biases and prejudices?

- Are rules applied consistently across people and situations?
Quality of Interpersonal Treatment

- Are my rights respected?
- Am I being treated politely and with dignity?
- Is my manager taking into account my needs when making decisions?
- When decisions are made does someone take the time to explain what was decided and why?
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Texas Enterprise Speakers Series: Austin Event, Monday, November 7, 2011
"Are Algae Biofuels the Future of Energy? The science, economic and policy questions that stand before this emerging industry" with Jerry Brand