McCombs Knowledge To Go



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Organizational Corruption



by Professor Dukerich 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

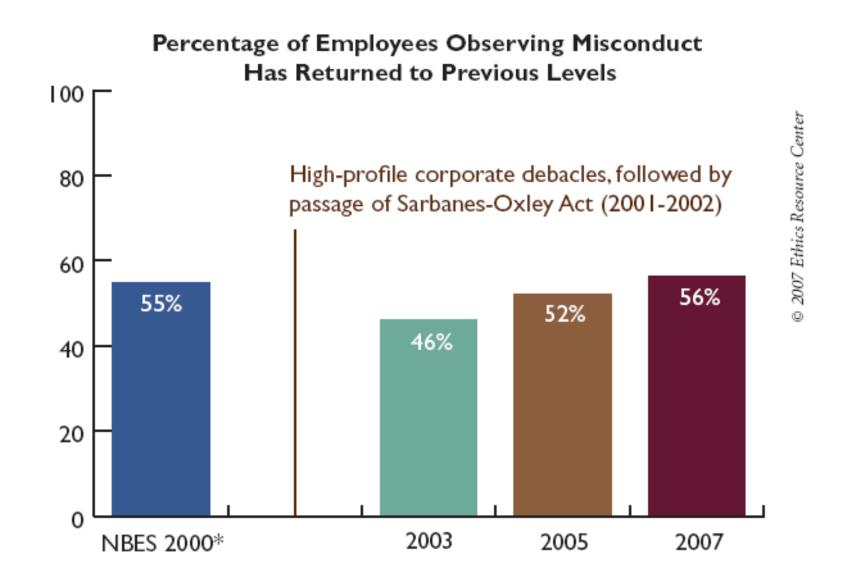
How pervasive is the problem?

- 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

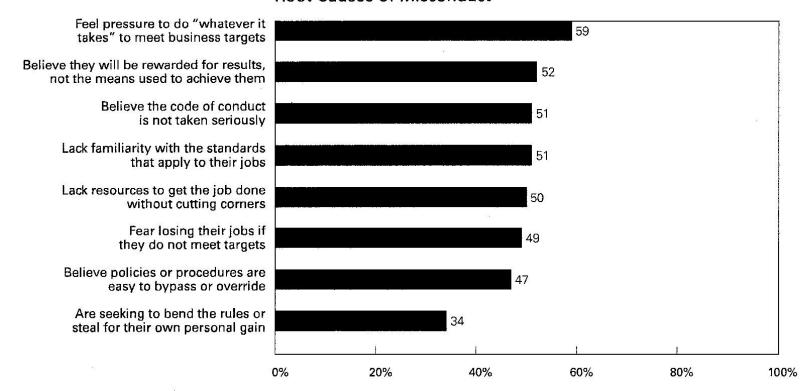
- Employee fraud most common type (almost twice as widespread as consumer fraud)
- Fraud and abuse cost US orgs. more than \$400B annually
- 74% employees reported they personally observed wrongdoing within their org. during previous 12 mos.
- 46% said what they observed could cause "a significant loss of public trust if discovered."

Is misconduct common in the workplace?



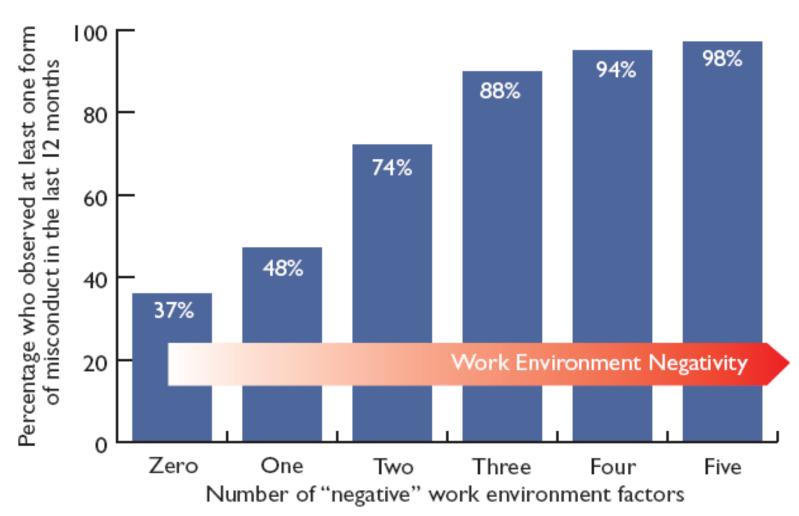
Cause of Misconduct

Root Causes of Misconduct



Relationship between Misconduct and Ethical Environment

As Work Environment Increases in Negativity More Employees Observe Misconduct



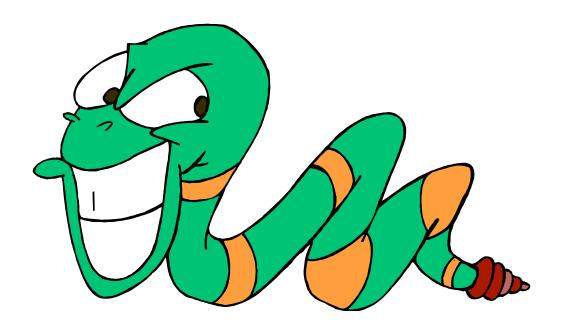


Organizational Corruption

- 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



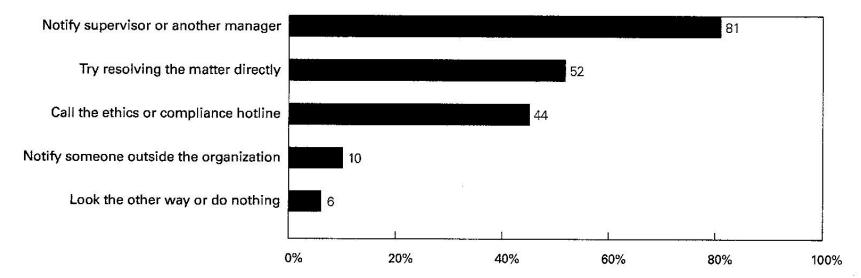


Diffusion of Responsibility

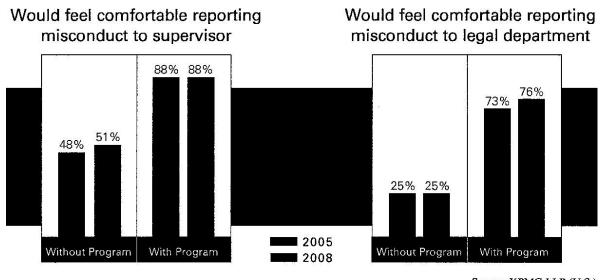
- Unethical behavior can occur in collectives because no one feels individually accountable
- Division of responsibility
- Bystander apathy

Reporting

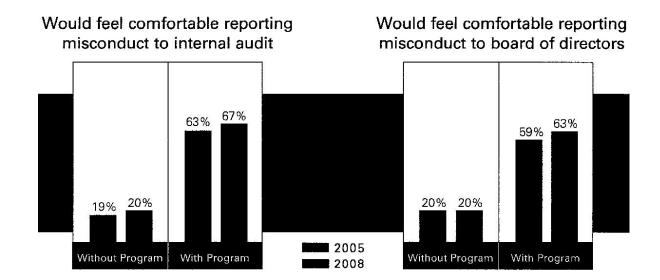
Propensity to Report Misconduct



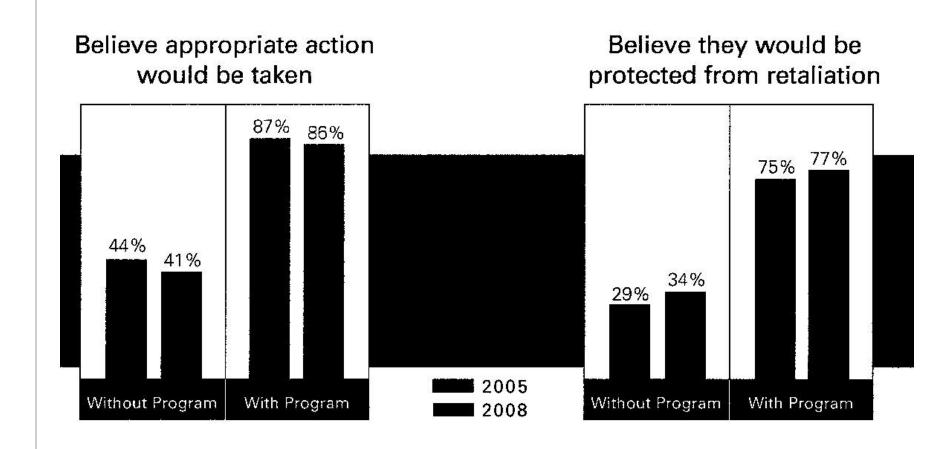
Reporting



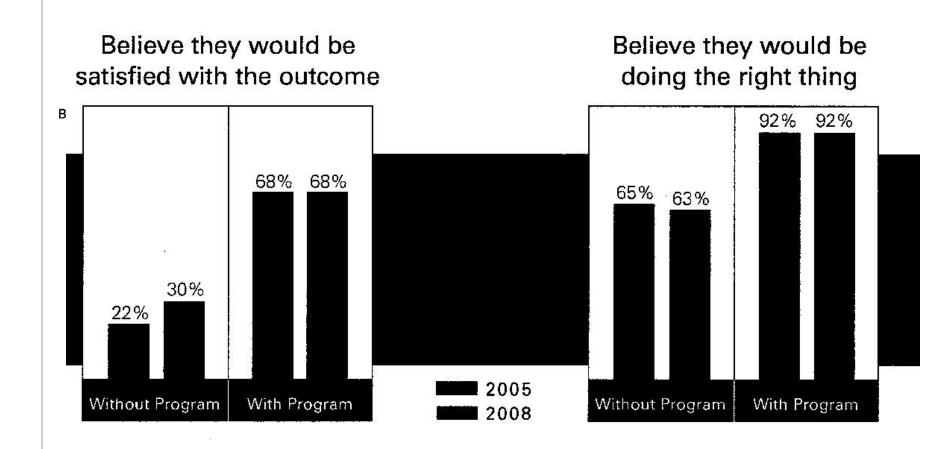
Source: KPMG LLP (U.S.).



E&C Program and Reporting



E&C Program and Reporting





Ethical Climate is Key

• 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.

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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