

Theoretical Background of Factors Influencing Corporate Corruption: Review of Prominent Theories Explaining Corporate Corruption

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ARTICLE HISTORY

Paper Nomenclature: Review of Literature (RoL)
Paper Code: GJEISV16I3JS2024ROL1
Submission at Portal(www.gjeis.com): 02-July-2024
Manuscript Acknowledged: 08-July-2024
Originality Check: 19-July-2024
Originality Test (Plag) Ratio (iThenticate): 0%
Author Revert with Rectified Copy: 25-July-2024
Peer Reviewers Comment (Open): 31-July-2024
Single Blind Reviewers Explanation: 10-Aug-2024
Double Blind Reviewers Interpretation: 17-Aug-2024
Triple Blind Reviewers Annotations: 25-Aug-2024
Author Update (w.r.t. correction, suggestion & observation): 05-Sept-2024
Camera-Ready-Copy: 10-Sept-2024
Editorial Board Excerpt & Citation: 27-Sept-2024
Published Online First: 30-Sept-2024

ABSTRACT

Purpose: Corruption and deterioration of ethics in business is a persisting problem affecting consumers, businesses and regulators across industries and geographies. The ill effects of corruption are talked about very often in terms of financial losses and periodic market failures apart from loss of fair play in the market for all operating industries. Moreover, the headlines often ignore the factors that prompt actions to engage in corrupt practices by businesses and individual managers. Large number of factors have been attributed to different sources located within and outside the organization in a range of empirical research. Nevertheless, putting the causal explanation of the phenomenon in terms of plausible theoretical frameworks provides researchers and practicing managers a coherent frame of reference to put the causes of corporate corruption into perspective. This research attempts to provide a comprehensive review of a range of prominent theories explaining corporate corruption. It further delves deeply in the theoretical strands arguing in favour and against corruption in business.

Design/Methodology/Approach: This research is essentially exploratory in nature. It prominently employs the secondary sources along with expert consultations from the prominent academics researching in this field. The stages in conducting the study involved extensive literature review followed by discussion with field experts on the strength of explanation provided by a theoretical framework and analysis of its empirical potential. The resultant discussion reflectively brings forth most prominent theories explaining corporate corruption.

Findings: It reflects that theories across social science disciplines may be utilized to provide a good starting point as well as a credible frame of reference to put individual cases of corporate corruption into a comprehensible context and build a unified theory explaining causal factors behind the phenomenon of corporate corruption and address it through institutional measures.

Originality Value: This research proposes that corruption in the corporate world is a persistent phenomenon which requires analytical explanation to address it holistically. It attempts to put forth theories of social science which may be utilized by management researchers to provide a causal explanation of corporate corruption.

Paper Type: Review of Literature

KEYWORDS: Corporate Corruption | Review of Literature | Agency Theory | Rational Choice Theory

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- Present Volume & Issue (Cycle): Volume 16 | Issue-3 | Jul-Sept 2024
- International Standard Serial Number: Online ISSN: 0975-1432 | Print ISSN: 0975-153X
- DOI (Crossref, USA) <https://doi.org/10.18311/gjeis/2024>
- Bibliographic database: OCLC Number (WorldCat): 988732114
- Impact Factor: 3.57 (2019-2020) & 1.0 (2020-2021) [CiteFactor]
- Editor-in-Chief: Dr. Subodh Kesharwani
- Frequency: Quarterly
- Published Since: 2009
- Research database: EBSCO <https://www.ebsco.com>
- Review Pedagogy: Single Blind Review/ Double Blind Review/ Triple Blind Review/ Open Review
- Copyright: ©2024 GJEIS and it's heirs
- Publishers: Scholastic Seed Inc. and KARAM Society
- Place: New Delhi, India.
- Repository (figshare): 704442/13





Introduction

The prevalence of the phenomenon of unethical corporate practices and corruption are akin to the elephant in the room which are always present but not talked about in the apprehension of lack of support from other businesses. This has resulted in leaving the problem unattended in both academic literature as well as in industry circles. The recurrent manifestations of the phenomenon in terms of corporate scams and resultant lawsuits cause both financial and reputational losses to individual companies and industries. Researchers in the domain of management and associated disciplines have made attempts to study individual cases of corporate corruption. Another area of enquiry on this issue has been on the effects of corruption on different segments of the economy. Moreover, these researches have focussed on creating an empirical inquiry into the losses from corruption but not the causes of the same. Causal explanations of a phenomenon remain incomplete without a coherent theory which can be plausibly put to explain the occurrence of a phenomenon in terms of its fundamental drivers. This research thus locates existing theories of corporate corruption and provides a frame of reference for the researchers in the area of corporate corruption to conduct theoretical analysis of the phenomenon.

Prominent theories explaining corporate corruption from different perspectives

Agency Theory

According to the proponents of this theory Principals of business (owners, Shareholders, investors) entrust large amount of wealth to agents (managers and employees) based on a set of agreed principles and also implied rules of conduct which are often expressed in the form of contractual relations both articulated and implied. The principal expects a return on their investments as well as continuation and augmentation of the business entrusted to agents. In return they reward the agents in the form of agency costs which are reflected in payments and incentives to managers and employees. Regulatory and legal provisions along with the state of development of managerial competencies determine the agency costs (Jensen & Meckling, 1976). The recent studies assert that agency costs may be escalated due to moral hazard which is a situation wherein managers and employees indulge in risk taking behaviour such as engaging in corruption without the knowledge and consent of the principals. However, the costs in terms of lawsuits, decline in market capitalization and defame of the corporate image are to be borne by the principals (shareholders, owners and investors)(Al-Faryan, 2024).

Corruption incidents at major corporations such as Enron, Adelphia, Tyco, and Worldcom reflect that such agency costs are real and causing reputational and financial harm to the company along with threatening their survival

even after overcoming lawsuits and legal prosecutions (Stevens, 2024).

In essence the Agency theory implies that:

1. Corporate corruption is a phenomenon arising due to the greed and dishonest behaviour by individual or a group of agents.
2. The principal (owner, shareholder, investor) is deprived of the information of the unethical and corrupt behaviour of the agents (employees and managers).
3. Corrupt agents have not only indulged in illegal and unethical practices but also broken the contract with the principals.
4. Management controls are suggested as to check deviant behaviour by agents and reduce agency costs.

Rational Choice Theory

The rational choice theory emerges from the seminal work of Gary S Becker (1968) as postulated in his research titled "Crime and Punishment: An Economic Approach". It seeks to provide a causal explanation of the phenomenon of corruption in terms of behavioural calculus of the decision makers assuming that corporate decision makers are logical and rational being.

Following are the main features of this theory:

1. Corrupt decision makers are rational actors and decide to participate in corruption or otherwise considering personal or organizational interests involved.
2. The costs of violating ethical and legal principles are weighed by corrupt actors before deciding to indulge in corruption. This implies that if the society, legal system and internal control of the organizations are tolerant for corruption and laws against such actions are not strict then engaging in corruption is beneficial from the rational actor view.
3. The decision makers in such a scenario are purely rational economic agents (both owners and managers) opting to indulge in corrupt behaviour based on their calculation that benefits from corruption proceeds outweigh costs associated in both pecuniary penalties and non-pecuniary losses to corporate image.

This implies that corporations and managers subscribing to rational choice view are consequentialist in their approach and weigh cost and benefits before indulging in corrupt practices without being affected by the call of duty or appeals of virtuous morality.

Institutional Theory

This theory offers a causal explanation of the process of adopting or rejecting corrupt practices at organizational level.

The interacting environment of the organization consisting of value chain partners, pressure groups, regulatory bodies define its field. This organizational field is unique for each organization in the initial period. The external pressures to adjust to the environment including regulatory norms drive the organizations to introduce changes in its internal structure, behaviour and institutional norms. These changes within organizational structures lead to homogenization of organizational forms over a period of time which is termed as isomorphic changes. The isomorphic changes may be introduced to an organization through coercive, mimetic and normative mechanisms.

Coercive Isomorphism

Regulations and directives from the government often result to organizational changes. Organizational changes that are formal but substantive can result from legal compliance. Legal contexts have a big impact on how organizations behave and are structured. Interdependence and outside influences may cause organizations to adopt comparable structures. Another subtle way that coercive isomorphism can appear is through hierarchical pressures. As corporate and state institutions grow, organizations become more uniform. Standardized practices are frequently adopted by organizations in order to conform to larger corporations. Organizations follow established rules because they need to be seen as legitimate. Internal controls and external regulations may coerce an organization to adopt norms relating to transparency and anti-corruption business procedures.

Mimetic Isomorphism

Uncertainties and ambiguities in organizational environment pose challenge in achievement of its goals. The successful organizations act as model for the new organization to adopt the strategy as followed by the successful peer. This leads the new organization to change its institutional norms and methods to achieve desired goals. The organizations seen as ethical and successful in industry become role models for new entrants in the industry and thus help create an ethical environment however, the case may be just contrary to what is discussed if the most successful companies in the industry are unethical in their business transactions.

Normative Isomorphism

Professional developments within industries push the organizations operating in that industry to conform to norms in order to claim parity in professional standards. Inter-organizational networks play crucial role in normative isomorphism. Industry code of conducts play a crucial role in regulating corporate behaviour if the inter organizational network are strong and code of conduct are decided through collective consent. Thus, normative isomorphism plays a role in collective regulation at an advanced level of professional development in industry.

Arguments for and against Corporate Corruption

The phenomenon of corruption is viewed differently in its functional form owing to the fact that there are both losses and gains from it for parties affected and involved. The debate over its macro level effects has been continuing for decades and divergent views over its functions have emerged as a result of empirical research on the issue(Jain, 2001).

Grease in the Wheel

Researchers advocating the positive effects of corruption argue that it helps to overcome bureaucratic hurdles and indifference which otherwise hinder the growth of the business. The prime argument of these researchers is that bureaucratic system lacks incentives and thus reluctant to facilitate business activity through swift actions(Nurtegin&Jakee, 2020). The pace of necessary approval and permissions are speeded up through offering incentives to officials in the form of facilitation payments. and in effect the cost of delays overweighs the payments made in exchange of services. The facilitation payments or clearances obtained for new products also promote market dynamism and help in development of both firms and economy (Alshubiri et al., 2024).This reflects that opportunity cost of corruption outweighs the alternatives forgone and hence corruption is functional for business(Ajayi et al., 2024).

Sand in the Wheel

This view of corruption has been advocated to be flawed in terms of considering corruption as unavoidable. The primary assumption behind such proposition is that it ignores the fact that regulatory compliance can be ensured through mechanisms like adherence to rules and strict oversight by industry bodies over bureaucratic systems(Dejardin& Laurent, 2024). Moreover, organizations constrained by resources may not be able to pay bribes and in turn lose business opportunities despite having innovative ideas and breakthrough products to offer(Wittberg et al., 2024). Added to this are the concerns that bureaucrats may be ever increasing the demands for bribes and this may come to a point where opportunity costs of bribes may turn negative (Lourenço & Cerdeira, 2024).

Both these views to evaluate the utility of corruption have been affirming these respective theses by adding other variables to their empirical researches(Ha et al., 2024). including local political, cultural and macroeconomic factors as covariates to understand the dynamics of business environments where corruption acts as grease in the wheel and where it acts as sand in the wheel(Bogetić & Nacher, 2024).

Conclusion

Management research on corruption in corporations and involvement of a corporate body in corrupt actions is evolving to address this problem facing industries across



global, regional and local markets. Building up a coherent and comprehensive theory for explaining causes of corporate corruption requires analytical paradigms to inductively construct a theory of after empirical testing. Thus, existing social science theories are a suitable point of departure for arriving at a new comprehensive theory of corporate corruption.

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Annexure 16.3.9

Submission Date	Submission Id	Word Count	Character Count
19-July-2024	trn:oid:::3618:81711666 (iThenticate)	2195	13281

Analyzed Document	Submitter email	Submitted by	Similarity
5.1 RoL1_Abhishek_GJEIS Jul to Sept 2024.docx	abhishekmba0811@gmail.com	Abhishek	0%



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Reviewers Memorandum



Reviewer's Comment 1: This research made a wonderful attempt to provide a comprehensive review of a range of prominent theories explaining corporate corruption. These theories of social science may be utilized by management researchers to provide a causal explanation of corporate corruption.

Reviewer's Comment 2: The study lacks transparency regarding its methodology for selecting literature. A more detailed explanation of the search strategy, inclusion criteria, and analysis techniques would enhance the credibility of the review.

Reviewer's Comment 3: The research includes in-depth study of all the relevant theories explaining corporate corruption but failed to extract the prominent factors influencing corporate corruption.



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Pramod Kumar Upadhyay and Abhishek Kumar Pandey
"Theoretical Background of Factors Influencing
Corporate Corruption: Review of Prominent Theories
Explaining Corporate Corruption"
Volume-16, Issue-3, Jul-Sept 2024. (www.gjeis.com)

<https://doi.org/10.18311/gjeis/2024>
Volume-16, Issue-3, Jul-Sept 2024

Online ISSN : 0975-1432, Print ISSN : 0975-153X
Frequency : Quarterly, Published Since : 2009

Google Citations: Since 2009
H-Index = 96
i10-Index: 964



ce: <https://scholar.google.co.in/citations?user=S47TtNkAAAAJ&hl=en>

Conflict of Interest: Author of a Paper had no conflict neither financially nor academically.

Editorial Excerpt



The article has 0% of plagiarism which is the accepted percentage as per the norms and standards of the journal for publication. As per the editorial board's observations and blindreviewers' remarks the paper had some minor revisions which we recommunicated on a timely basis to the authors (Ajitesh, Ajai, Pramod & Abhishek), and accordingly, all the corrections had been incorporated as and when directed and required to do so. The comments related to this manuscript are noticeably related to the theme "**Factors Influencing Corporate Corruption: Review of Prominent Theories Explaining Corporate Corruption**" both subject-wise and research-wise. This research made an extraordinary attempt to locate existing theories of corporate corruption and provides a frame of reference for the researchers in the area of corporate corruption to conduct theoretical analysis of the phenomenon. After comprehensive reviews and the editorial board's remarks, the manuscript has been categorized and decided to publish under the "**Review of Literature**" category.

Acknowledgement



The acknowledgement section is an essential part of all academic research papers. It provides appropriate recognition to all contributors for their hard work and effort taken while writing a paper. The data presented and analyzed in this paper by the author (Ajitesh, Ajai, Pramod & Abhishek) were collected first handily and wherever it has been taken the proper acknowledgment and endorsement depicts. The author is highly indebted to others who facilitated accomplishing the research. Last but not least, endorse all reviewers and editors of GJEIS in publishing in the present issue.

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