

Business as usual: The acceptance and perpetuation of corruption in organizations

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Executive Summary

Many of the recent corruption scandals at formerly venerated organizations such as Enron, WorldCom, and Parmalat have some noteworthy features in common. In most instances, the fraudulent acts involved knowing cooperation among numerous employees who were upstanding community members, givers to charity, and caring parents—far removed from the prototypical image of a criminal. The involvement of such individuals in corrupt acts, and the persistence of the acts over time, is both disturbing and puzzling. We argue that the above phenomenon can be explained in part by the rationalization tactics used by individuals committing unethical or fraudulent acts. Rationalizations are mental strategies that allow employees (and others around them) to view their corrupt acts as justified. Employees may collectively use rationalizations to neutralize any regrets or negative feelings that emanate from their participation in unethical acts. Further, rationalizations are often accompanied by socialization tactics through which newcomers entering corrupt units are induced to accept and practice the ongoing unethical acts and their associated rationalizations. We describe the different forms of rationalization and socialization tactics and the ways in which firms can prevent or reverse their occurrence among employees. The onset of these two tactics can establish enduring corruption in organizations and become institutionalized in seemingly innocuous processes.

In the past, fraud was viewed as a rare event that happened to unlucky organizations. Now it is commonly accepted that fraud is taking place at virtually every organization, every business. The only question is how big it is and how can we catch it before it gets out of hand and destroys a company or organization as it has done with some companies recently, such as Enron.” (Tony Bishop, President of the Association of Certified Fraud Examiners)¹

If we look within the organization and identify the individual who seems most closely connected with the harm—for instance, the foreman who orders the workers down the dangerous mine shaft or the corporate executive who orders the marketing of an unsafe drug—we do not find an individual whom we recognize as evil but someone who looks rather like us.²

The intense focus on corporate corruption started by Enron and WorldCom has continued with more recent discoveries of fraud in other organizations such as Tyco, HealthSouth, and Parmalat. A notable and disturbing feature of these and many other corruption cases is that they did not result from the actions of single individuals; the corrupt acts typically required knowing cooperation among numerous employees. Employees typically went along with activities that were obviously unethical. Most such acts were committed by individuals who were upstanding members of the community, caring parents, and givers to charities—clearly different from the image of a typical criminal. It is unsettling that such apparently ethical individuals engaged in patently unethical practices in the workplace. Equally unsettling is that many of these practices apparently prevailed for a significant duration. New employees—who typically had no prior history of unethical acts—adopted and

continued the prevalent unethical practices, perhaps despite some initial qualms.

Taken together, rationalizations and socialization practices allow perpetrators of unethical activities to believe that they are moral and ethical individuals, thereby allowing them to continue engaging in these practices without feeling pangs of conscience.

We address the above phenomena in this article. Drawing on a wide range of literature, we discuss how employees perpetrating corrupt acts engage in “rationalizing tactics”—describing their actions in such a way that they do not appear to be unethical at all. We describe the different types of rationalizations that individuals use to neutralize their negative feelings or regrets about their behavior. We also discuss how newcomers in unethical organizations are subjected to specific socialization processes that lead them to accept the prevalent activities as normal. Taken together, rationalizations and socialization practices allow perpetrators of unethical activities to believe that they are moral and ethical individuals, thereby allowing them to continue engaging in these practices without feeling pangs of conscience. Figure 1 illustrates our model of how rationalization and socialization, in conjunction with certain facilitating

factors, allow for the acceptance and perpetuation of corruption in organizations.

In this article, we use the term corruption loosely to refer to misuse of an organizational position or authority for personal or organizational (or sub-unit) gain, where misuse in turn refers to departures from accepted societal norms.³ The above definition allows for the possibility that individuals termed “corrupt” by societal standards may nonetheless see themselves as ethical within the context of their organization. Indeed, the rationalizations and socialization tactics described in this article mediate the tension between societal norms and corrupt practices, creating a local reality that recasts unethical acts as justifiable if not laudable.

Rationalizing Corruption

[People who have engaged in corrupt acts] excuse their actions to themselves, by viewing their crimes as non-criminal, justified, or part of a situation which they do not control. (Tony Bishop, President of the Association of Certified Fraud Examiners)⁴

One of the most intriguing findings in the white-collar crime literature is that *corrupt individuals tend not to view themselves as corrupt*. People convicted of white-collar crimes tend to acknowledge their errant behavior but deny criminal intent and

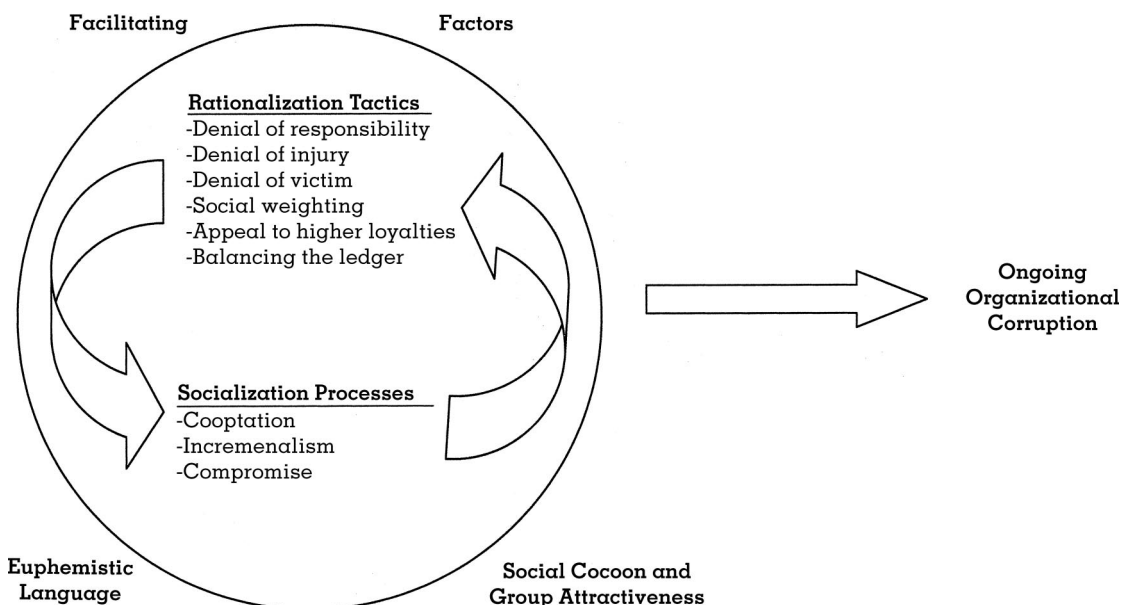


FIGURE 1
Facilitating Rationalization/Socialization in Organizations

the label of *criminal*.⁵ They avoid the tag of being corrupt by using a number of rationalizing tactics that allow them to look at their corrupt acts in a way that makes them appear to be normal and acceptable business activities.

Rationalizations often capitalize on the inherent complexity, ambiguity, and dynamism that pervade organizations. Actions that look patently corrupt in the clarity of hindsight may have been undertaken on the fly, under pressure, and with incomplete and contradictory information. Further, initial acts of corruption tend to gain a certain institutional momentum as the organization comes to count on the rewards of such acts. With the decision already made (at least implicitly) to engage in the acts, it may become easier to perpetuate the acts than to stop them—particularly if they were instigated by others.

As Daniel Chambliss cogently argues, articles on organizational ethics tend to exaggerate the amount of discretion that individuals actually have in organizations to do unalloyed good. In fact, individuals are often responding in real time to institutional precedents, routines, pressures, and dilemmas that allow scant room for reflective questioning and that require messy trade-offs.⁶ For the individual, then, ethical musings may at times seem like a distant luxury and rationalizations all too available and tempting. Indeed, given these constraints, the line between a specious rationalization and a justifiable interpretation is often quite fuzzy. Moreover, what makes rationalizations chilling is that individuals often convince them-

selves that their rationalizations are in fact quite justified. Our standard in this article for labeling something an unjustified rationalization is what we believe a reasonable, independent person would conclude about a situation.

Rationalizations can be invoked prospectively (before the act) to forestall guilt and resistance or retrospectively (after the act) to ease misgivings about one's behavior.⁷ Once invoked, the rationalizations not only facilitate future wrongdoing but dull awareness that the act is in fact wrong. Indeed, if the rationalizations become a shared resource in the organization's (or industry's) culture, they may pave the way toward defining the practice as "business as usual—the way things work."

Based on a review of research on corrupt practices, Ashforth and Anand identified several rationalization tactics used by employees to justify corrupt practices.⁸ From their list, we identify six tactics that we believe are most commonly used in organizations (see Table 1).

Denial of Responsibility

Denial of responsibility is a rationalizing tactic where individuals convince themselves that they are participating in corrupt acts because of circumstances—they have no real choice. The circumstances may involve a coercive system, dire financial straits, peer pressure, "everyone does it" reasoning, and so on. Researchers first used this term in connection with juvenile delinquents who saw themselves as "billiard balls" helplessly pro-

Table 1
Rationalizing Corruption

Strategy	Description	Examples
Denial of responsibility	The actors engaged in corrupt behaviors perceive that they have no other choice than to participate in such activities.	"What can I do? My arm is being twisted." "It is none of my business what the corporation does in overseas bribery."
Denial of injury	The actors are convinced that no one is harmed by their actions; hence the actions are not really corrupt.	"No one was really harmed." "It could have been worse."
Denial of victim	The actors counter any blame for their actions by arguing that the violated party deserved whatever happened.	"They deserved it." "They chose to participate."
Social weighting	The actors assume two practices that moderate the salience of corrupt behaviors: 1. Condemn the condemner, 2. Selective social comparison.	"You have no right to criticize us." "Others are worse than we are."
Appeal to higher loyalties	The actors argue that their violation of norms is due to their attempt to realize a higher-order value.	"We answered to a more important cause." "I would not report it because of my loyalty to my boss."
Metaphor of the ledger	The actors rationalize that they are entitled to indulge in deviant behaviors because of their accrued credits (time and effort) in their jobs.	"We've earned the right." "It's all right for me to use the Internet for personal reasons at work. After all I do work overtime."

pelled into deviance by their circumstances.⁹ When using this rationale, individuals do not regard themselves as perpetrators of unethical acts; rather they view themselves as morally responsible individuals being forced into unethical acts. For instance, *Fortune* recently reviewed the accounting frauds committed at Qwest. Several managers who participated in fraudulent deals justified their actions by claiming helplessness. An unnamed manager was quoted as saying: "What can I do? My arm is being twisted. I just gotta do what the boss says."¹⁰

Clearly, denial of responsibility is a rationalization that is rather easily adopted when experiencing intense pressure from top management to meet numeric targets.¹¹ Consider the following statement regarding accounting fraud at H. J. Heinz in the 1970s:

To hear some middle managers there tell it, the 'pressure-cooker' atmosphere at Pittsburgh's H.J. Heinz Co. wasn't confined to the concern's steamy food-processing plants. 'When we didn't meet our growth targets, the top brass really came down on us,' recalls a former marketing official at the company's huge Heinz U.S.A. division. 'And everybody knew that if you missed the targets enough, you were out on your ear.' In this environment, some harried managers apparently resorted to deceptive bookkeeping when they couldn't otherwise meet profit goals set by the company's top executives.¹²

Under such circumstances, managers often see themselves as being forced into corruption because of intense pressure from their superiors.

Denial of Injury

In this rationalizing tactic, employees convince themselves that no one is really harmed by their actions and therefore their actions are not really corrupt. This rationalization is commonly employed in situations such as theft from an organization where the organization is assumed to be well insured or can easily recover the costs, or where the actual damage is slight. For example, in a study of ongoing pilferage at an electronics factory, workers felt little guilt because no harm appeared to be done. As one worker put it:

It's a corporation . . . It's not like taking from one person . . . the people justify it that the corporation wouldn't be hurt by it . . . they just jack the price up and screw the customer.

They're not losing anything. The Company told us that last year they lost \$30,000 . . . but that was for losses of all types. It gives them a nice big tax write-off. I'll bet you a goddamn day's pay that they jack that . . . write-off way up too.¹³

Similarly, an Arthur Andersen consultant suppressed her doubts about excessive billing of clients by rationalizing as follows:

. . . the client [a bank that had been required by regulators to use this specific consulting service] was desperate. So we billed our brains out, charging more than one million for what should have been about a \$500,000 job. We billed time on the subway, we billed time rewriting notes . . . I rationalized what we were doing by telling myself that they were paying a premium for the short time frame and intensity of the work . . .¹⁴

A variant of the denial-of-injury tactic occurs when a given act is rendered less offensive by comparing it to more extreme forms. For instance, a manager involved in price fixing rationalized that since he was not making any personal profit or significantly harming the customer, and that he was just involved in correcting an adverse price situation, he was not really doing anything wrong.¹⁵ Thus, his acts were not really wrong because they could have been far worse had he been so inclined.

Denial of Victim

In this form of rationalization, employees define the victim of their unethical behavior as someone deserving to be victimized. This can be done in several ways. A very common tactic is to convince oneself that targets deserved their fate due, for example, to past unfairness or corruption on their part.¹⁶ Exploitation of the victim is thus seen as a form of revenge and the perpetrator as a modern day Robin Hood. One study found that the most common explanation offered by employees for theft of company property was unfair treatment by the employer,¹⁷ and another study found that corporations may nurse grievances against the U.S. Internal Revenue Service to justify tax evasion.¹⁸

Although some victims may indeed contribute to—or "deserve"—their fate, it is important to note that denial of the victim need not be based in reality. A recent study showed that when individuals were given an incentive to lie in a negotiation experiment, they expected their opponents also to

lie.¹⁹ Once individuals start believing that the victim is deceitful, they are likely to feel less regret about their own unethical actions. This could be a double whammy for an organization whose employees are engaging in corrupt acts such as pilferage: in addition to the physical loss, the employees might develop antagonistic attitudes toward the organization to minimize their unease about their own actions.

A variant of the denial-of-the-victim tactic occurs when the victim is depersonalized, that is, converted into a faceless statistic or, in extreme cases, to subhuman status.²⁰ By doing so, employees can place significant "psychological distance" between themselves and their victims, making it easier to deny the impact of their unethical actions on the victims.²¹ The classic corporate example is the Ford Pinto saga. Ford had discovered a design defect that often caused the car's gas tank to explode in rear-end collisions. Ford performed a cost-benefit analysis in which the forecasted 180 deaths were converted into dollars (\$200,000 each).²² Thus, the decision was no longer about human life; it was an economic choice between the cost of a recall versus the cost of foregoing a recall. Ultimately, hundreds died or suffered severe burns. Depersonalization is also evident in accounts of Wall Street traders who viewed clients not as unique individuals but as suckers asking to be conned.²³

Social Weighting

Social weighting can occur in two ways.²⁴ In the first form, termed *condemning the condemners*,²⁵ the legitimacy of the actor/entity who labels employee acts as unethical is questioned. If the legitimacy of actors/entities is questionable, then so too is their argument. For instance, individuals may characterize the law as vague, complex, inconsistent, rarely enforced, punitive, or politically motivated such that enforcement is capricious or malicious.²⁶ Since the law itself is wrong, it is not unethical to contravene it.

A second form of social weighting is *selective social comparisons*, analogous to the second form of denial of injury (i.e., extreme comparisons). When individuals are confronted with negative impressions about themselves, comparisons with others who appear even worse serve to bolster them against the threat.²⁷ Because corrupt acts can make individuals appear bad, they are motivated to find examples of others who are even more corrupt and thereby demonstrate that "we're not so bad." In an article about how longshoremen collectively engage in pilferage, one commented on an-

other: "He'd take anything—he's even taken baggage—he's nothing more than a thief."²⁸ In the face of a "real" thief, the commentator's own thievery seemed minor.

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Appeal to Higher Loyalties

When using this form of rationalization, employees argue that some ethical norms need to be breached to fulfill more important goals. Unlike the other rationalizations, this form may go beyond neutralizing the negativity of corruption to actually *valuing* it. The most common higher cause appears to be group-based loyalties. When a group becomes highly cohesive, employees often believe that the goals of the group are more important than those of other groups or society. For instance, one study found that many police officers, when forced to choose between testifying against a colleague and committing perjury, usually choose the latter and experience remarkably little conflict in doing so.²⁹ This is because they value loyalty to colleagues above loyalty to the justice system.

A less commonly invoked higher loyalty is, ironically, to moral principles. A group may act counter to universal ethical norms if they regard those norms as an obstacle to particular principles or goals. For instance, another study documented the "normal lies" told by police officers in court to persuade judges to convict defendants that the officers believe are guilty: the ends justify the means.³⁰

Balancing the Ledger

A sixth type of rationalization occurs when individuals believe that good works (whether actual or anticipated) have earned a credit that can be used to offset corrupt acts.³¹ For instance, a recent study found that individuals engaging in cyber-loafing felt no guilt pangs because they thought that they had accrued sufficient credit in the organization through the time and effort they had put into completing their work. As one cyber-loafer put it: "It's all right for me to use the Internet for personal reasons at work. After all, I do work overtime without receiving extra pay from my employer."³²

A common variant of this form of rationalization is when employees bask in the past glory of an

organization to justify current unethical behavior. For instance, in her book *Final Accounting*, Barbara Toffler describes how Arthur Andersen employees billed clients excessively as a matter of routine. When she queried a partner who had over-billed a client, she was told: "Relax. We're Arthur Andersen. They need us. They'll pay." As Toffler pointed out, "The prestigious name was being used to justify behavior that never would have been tolerated in the past."³³ Ethics and laws were for lesser firms; Arthur Andersen was above the law.

The tactics described above are instrumental in aiding individuals to commit corrupt acts while maintaining belief in their personal moral integrity. However, it should be noted that rationalization tactics in themselves are often useful to the organization. Executives operating in turbulent environments need to make hard choices that often have undesirable consequences. For example, managers laying off close associates to ensure firm survival or relocating local manufacturing sites overseas for efficiency reasons often need to use rationalization processes (e.g., denial of responsibility) to help them cope with the undesirable and visible consequences of their actions. Individuals involved in "dirty work" such as grave digging, trash removal, and so on consistently use rationalizations to maintain a positive self-image (e.g., social weighting).³⁴ Hence, in many cases rationalization tactics are essential for organizations and employees to operate. Our point is that these tactics are simply a tool, one that also can be used to excuse patently unethical practices, resulting in disastrous consequences for society—and, eventually, the organization itself.

Socializing Newcomers into Corrupt Practices

In any organization or subunit, corruption can continue only if newcomers also start exhibiting the behaviors. When newcomers are first exposed to ongoing unethical practices, they often experience significant dissonance and apprehension. Individuals may be so uncomfortable that they leave the organization. Ironically, this helps perpetuate the corruption by weeding out those who are most averse to it. However, researchers examining corruption in organizations have found that there exist potent socialization tactics by which newcomers are induced to accept corrupt practices. This is often done in conjunction with the rationalizing tactics. Based on a review of white-collar crime in the past century, Ashforth and Anand identified three such processes: (1) cooptation, (2) incrementalism, and (3) compromise.³⁵

Co-optation

In co-optation, rewards are used to induce attitude change toward unethical behaviors. Numerous examples exist, such as financial brokers who push offerings with high commissions, contract researchers who spin their findings to support their sponsor's preferences, and public officials in regulatory agencies who take pro-industry stands in the hope of getting jobs in industry. An interesting example of co-optation is provided in the book *Power Failure*, which describes how executives at Merrill Lynch (ML) were co-opted in Enron's efforts to cook the books:

Faced with an earning's crisis in 1999, an Enron finance executive came up with an irregular solution. He approached Merrill Lynch and suggested that they purchase three Enron barges containing electricity generators that were floating off the coast of Nigeria. Enron would book the sale in that year's accounts and subsequently buy the barges back and sell them to a real seller. There was intense debate in ML, with one executive pointing out that by doing this ML would be abetting Enron's "income statement manipulation." But the fact that Enron was a large customer with the prospect of large fees appeared to color the judgments of Merrill executives. In an inter-office memo, one of Merrill's top bankers argued that: "Enron is a top client to Merrill Lynch. Enron views the ability to participate in transactions like this as a way to differentiate ML from the pack and add significant value. I completed several financings like this...and they all worked out..." Ultimately, ML formed a company called Ebarge and entered the deal.³⁶

ML's executives were aware that what they were doing was not completely ethical. However, the prospect of a closer relationship with Enron (and thus the possibility of higher fees) appears to have softened their stance toward the corrupt action.

Corruption via co-optation is often subtle because the individuals themselves may not realize how the rewards have induced them to resolve the ambiguity that often pervades business issues in a manner that suits their self-interest. Bargh and Alvarez³⁷ describe how power tends to nonconsciously activate personal goals and biases, guiding information processing and behavior—which the individual then rationalizes in socially desirable terms. Thus, a broker may honestly conclude

that the offerings he is rewarded for pushing are in fact the best investments—indeed, the broker is likely to perceive herself as a victim when the practice is exposed.

Incrementalism

In this form of socialization, newcomers are gradually introduced to corrupt acts.³⁸ Initially, the newcomers are induced to perform an act that is only slightly deviant. This act, although small, creates some cognitive dissonance. To relieve the dissonance, the newcomer grasps at ready rationalizations offered by peers. As the individual comes to accept the act as normal, he or she is introduced to another, more corrupt act, with its attendant rationalizations. In this way, the individual climbs the ladder of corruption and is eventually engaging in acts that he or she would previously have rejected outright.

For instance, Gerald Mars³⁹ studied unethical practices prevalent among the sales staff of specialty copiers:

The copier manufacturer had announced discounts as high as 50 per cent and asked their sales staff to pass on the savings to their customers. However, rather than pass on the discounts, the staff approached potential customers with the original price list. The customers were informed that lower prices could be obtained if the salesperson negotiated with the manufacturer but that the process would lose them [the sales staff] their commissions. Hence, the low prices were available if customers were willing to reimburse sales staff by issuing them compensatory checks. The customers, happy to get the "low" price, paid the commissions to the sales staff. There also existed an elaborate socialization process to introduce new sales personnel into the corrupt system: "On regular rounds with myriad customers, suggestions about adding a penny on here and there and advice on who to 'watch out for' . . . are made jokingly, as if only half-meant. At this stage they are only half-meant; if the trainee objects to these suggestions, they can always be withdrawn and no harm is done." The newcomers began hesitantly and in a small way but over time became part of the system.

Compromise

In the third avenue to corruption, compromise, individuals essentially "back into" corruption

through attempts (often in good faith) to resolve pressing dilemmas, role conflicts, and other intractable problems. For instance, politicians accrue power by forming networks, currying favors, and cutting deals, often causing them to support actions and causes they would otherwise avoid.⁴⁰ It thus becomes very difficult for senior politicians to act exclusively according to their own ethical principles and preferences.

An interesting example of compromise is provided by Farberman in his study of used car dealers in the 1970s:

Used car dealers typically purchased their inventory from the trade-ins received by dealers of new cars. There was a shortage of these used cars, with the best being reserved for sale in the new car dealership itself. Managers in new car dealerships, responsible for distributing trade-ins to used car dealers, often took bribes to make good-quality cars available to used car dealers. The used car dealers were caught in a bind: they could either avoid paying the bribes and sell lemons to customers, or they could pay the bribes and get good cars. Ultimately, several used car dealers compromised and chose to pay the bribes. In order to have cash to pay these bribes, they often had to engage in short sales—a system where, for instance, a \$2,000 car was sold to a customer officially for \$1,500. Five hundred dollars was paid as cash—saving the customer tax on the \$500 and providing the dealer with cash to bribe managers in new car dealerships.⁴¹

The three forms of socialization are not mutually exclusive: they may exist simultaneously and frequently reinforce each other. For instance, the first incremental steps into corruption are hastened if rewards exist to co-opt individuals into the process. Co-optation is much easier if the individuals, at least initially, take baby steps into the realm of corruption. And finally, when individuals are forced into compromise situations, the rewards associated with an unethical course of action may induce them to choose it over the other. A common theme of all three paths to corruption is *perceived choice*: newcomers are far more likely to accept corrupt acts as justifiable if not desirable if the newcomers perceive that they chose their course of action. The most insidious of socialization practices are therefore those that provide only an *illusion* of choice, subtly inducing behavior that the newcomer would have otherwise avoided.

As with rationalization, socialization is an integral and often beneficial organizational process. Newcomers learn about an organization's culture and ethical norms and obtain operational knowledge through a variety of socialization processes in the organization.⁴² However, just as rationalization is a tool, so too is socialization, one that can be instrumental in perpetuating unethical behavior. Thus, while organizations need to ensure that they have effective socialization tactics, they also need to be conscious of how socialization can be used to perpetuate undesirable practices.

The Facilitation of Rationalization and Socialization

As we pointed out, rationalization and socialization are key processes that abet the infiltration and sustenance of corruption in organizations. They often act subtly, convincing corrupted individuals that they do in fact have integrity and converting newcomers into adherents of the deviant system. While the two processes can exist to some extent without any support from the organization's environment, certain factors therein can significantly enhance the likelihood of the two processes emerging. Three factors depicted in Figure 1 that we believe are especially important are described below.

Group Attractiveness and a Social Cocoon

In many instances, corruption is widespread among the employees in a subunit rather than being limited to one or two individuals.⁴³ Researchers have pointed out that this is often facilitated by group dynamics working in tandem with rationalizing and socializing practices to create a "social cocoon."⁴⁴ A social cocoon is a micro culture created within a group where the norms may be very different from those valued by society or even the wider organization. Social cocoons emerge when groups develop idiosyncratic solutions to the problems they face and actively seek to compartmentalize themselves from external influences.

When membership in a group is highly prized, employees are more likely to accept and adopt the norms of the group. For example, Toffler points out why newcomers were unlikely to challenge the ethical lapses they encountered at Arthur Andersen. New recruits were socialized to believe that membership was exclusive and that they were therefore special.

Arthur Andersen offered something special: a way of life . . . getting a job there meant mak-

*ing it. They all knew that their chances of making partner were slim, and that they were in for a rigorous, exhausting few years as the grunts. But there was that big fat brass ring at the end.*⁴⁵

Thus, new recruits were unlikely to raise any sticky questions that could deprive them of their chance at the brass ring.

We are not suggesting that creating exclusive conditions such as those at Arthur Andersen should be avoided. Indeed, such practices may be one of the best ways of attracting and developing talented individuals.⁴⁶ However, the downside to building such a strong sense of identity is that it increases the likelihood of blind acceptance of the organization's norms.

Once a social cocoon has formed, corruption may be facilitated through the following steps: (1) veterans model the corrupt behavior and easy acceptance of it, (2) newcomers are encouraged to affiliate and bond with veterans and develop desires to identify with, emulate, and please the veterans, (3) newcomers are subjected to strong and consistent information and ideological statements such that they view corrupt acts in a positive light, and (4) newcomers are encouraged to attribute any misgivings they may have to their own shortcomings (particularly naiveté) rather than to what is being asked of them.

Individuals who are part of a social cocoon appear to find the discontinuity between the norms of the cocoon and those of society relatively easy to live with. They achieve this acceptance through "compartmentalization"—by psychologically separating life inside the cocoon from life outside the cocoon. When the individuals enter the workplace, they quickly and almost automatically slip into their work roles, along with the local norms and rationalizing beliefs, and respond to the pressures of the local context; in short, the individuals tend to think and act like typical members. When they exit the workplace, they slip into their other roles such as parent and good neighbor, along with the norms and beliefs of those roles. It's not that individuals forget their "other" selves; it's that they tend to defer to whatever identity is most salient. A manager engaged in price-fixing is not thinking about her role as a mother and church member.⁴⁷

Mutual Support of Rationalization and Socialization

The processes of rationalization and socialization support and reinforce each other. A new-

comer engaging in the first corrupt act is likely to experience significant dissonance that could prevent the process from continuing. However, when rationalizations are available to subdue this dissonance, the process is more likely to continue. Similarly, rationalizations are easier to accept if, initially at least, they are adopted for acts that are only marginally corrupt or that offer potent rewards or a way out of an intractable dilemma. In many case studies of corruption, the questionable behaviors began as isolated acts that gained momentum.

Thomas Barker describes the various opportunities and temptations available to police officers, from bribes to free meals, petty theft to perjury.⁴⁸ The notoriously strong and insular occupational culture of policing, complete with veteran role models and valued peers, provides the kind of social cocoon discussed above. As part of their on-the-job training, rookies may be quickly disabused of their "book learning" from the police academy and taught not only what opportunities to exploit but how to regard their behaviors in a way that preserves their self-image of integrity. Bribes and free meals, for example, may be recast as fringe benefits. Thus, one study found that police recruits became more accepting of corrupt behavior over time.⁴⁹

Euphemistic Language

One of the most important factors that abet rationalizing and socializing is the use of euphemistic language, which enables individuals engaging in corruption to describe their acts in ways that make them appear inoffensive.⁵⁰ Consider, for instance, the "Payola Scandal" of the 1950s—where disc jockeys were bribed by music companies to air specific records. Congressional investigations revealed that the practice was pervasive. However, disc jockeys never referred to such kickbacks as payoffs. Rather, terms such as "auditioning fees" were used, thus making the corrupt practice appear benign.⁵¹

One of the most extreme uses of euphemistic language is found in Lifton's description of the Nazi doctors who worked at Auschwitz.⁵² The doctors who selected prisoners for the gas chambers never used the word *death*; rather, "they called it going on a transport back to camp." Similarly, before the gas chambers were installed at Auschwitz, prisoners suffering from illnesses were routinely killed by injecting them with phenol. During this time, the killing process was referred to as euthanasia or as "preventive medicine": if people were sick and unlikely to

recover in three weeks or so, they were better off being put out of their misery. Similarly, the concept of preventive medicine applied when a prisoner contracted an infectious disease such as typhus. In this case, killing the patient was the "right thing" as it prevented other inmates from contracting the disease. In the above instances, euphemistic language enabled the doctors to engage in a denial of the victim and of responsibility because gassing and death were words that were never used; therefore the doctors could claim unawareness of those acts and perceive little conflict with the Hippocratic oath they had taken when they obtained their medical degrees.

One of the most important factors that abet rationalizing and socializing is the use of euphemistic language, which enables individuals engaging in corruption to describe their acts in ways that make them appear inoffensive.

Thwarting the Use of Rationalization and Socialization

While many forms of rationalization and socialization are beneficial for the organization, it is vital for managers to understand how to prevent corruption-related rationalization and socialization from gaining a foothold and how to dislodge them if they already have. Here, we describe a set of actions that we believe can address the challenges posed by the rationalization and socialization of corruption.

Focus on Prevention

Rationalization and socialization are the processes through which corruption can become routine and carried on as a normal business activity.⁵³ If the two processes become embedded in an organization, they can have a devastating effect for several reasons. First, because rationalization and socialization are mutually reinforcing, the unethical practices associated with them can become entrenched. Second, because the two processes make the practices appear less unethical, the organization may not be aware that it is engaging in unethical practices, and its ethical checks and safeguards may fail to detect them. Finally, if external agents do expose the unethical practices, the organization is likely to stonewall and deny the accusations because the practices are so entrenched and have been

rationalized away. This in turn almost always magnifies the problems and losses associated with corruption, as illustrated in the infamous case of Beech-Nut's apple juice:

Beech-Nut Corporation, the second largest baby food manufacturer in the US, generated shock waves by admitting that it had sold millions of jars of phony apple juice between 1981 and 1983. Beech-Nut employees were aware of these acts and had been purchasing sub-standard concentrate from a supplier at a price 20 per cent below market value. Management had been co-opted into this practice because Beech-Nut had been losing money, and this seemed a good way to return to financial health. Employees justified their actions by arguing that "many other companies were selling fake juice" (denial of responsibility) and that their fake juice was "safe to consume" (denial of injury).⁵⁴ When Beech-Nut's actions were finally exposed by the New York State authorities, rather than accept their unethical practices, they stonewalled and moved their entire stock to New Jersey in the dead of night. Subsequently, this stock was sold off in foreign markets.⁵⁵

Apart from the devastating effect that rationalization and socialization have on an organization, we believe that they are extremely difficult to reverse once established. Hence, an ounce of prevention is worth many pounds of cure. Below we highlight four key factors for preventing corruption.

Foster awareness among employees

In many cases when employees are using psychological tactics to justify inappropriate behaviors, awareness of the speciousness of those tactics reduces the likelihood of employees using them.⁵⁶ Clearly, training employees to be familiar with rationalizing and socialization tactics, euphemistic language, and social cocoons can go a long way toward improving the ethical climate of an organization. For example, rationalizations often sound suspect to outsiders precisely because they are not members of the social cocoon that sustains the rationalizations. Thus, training employees to at least periodically think about a prospective action or decision from the perspective of customers, shareholders, and other constituents might help to puncture the ideological balloon. This has been termed the

"headline test": what would an organization's constituents think about the act or decision if it was reported in the media?

Note also that if employees have rationalized their corrupt acts and have been performing them for some time, those acts can become highly routine. Such behaviors are enacted as a matter of habit without much thought about why the act is performed and its ethical implications.⁵⁷ In such situations, awareness may not be sufficient. Organizations need to have periodic "introspection days" where employees look at all the acts they perform and examine them for ethical implications. The involvement of external facilitators in this process can be especially useful in questioning any rationalizations used in the workplace.

Use performance evaluations that go beyond numbers

When you rely heavily on management by objectives, you feel a tendency to manage by the numbers. Most managers that I know have far more to do than they can get done. They live by trade-off when it comes to performance evaluation. You focus on the guys who didn't get it all done. The guys who are meeting the sales quotas, you slap them on the back and say do it again next quarter; and next quarter, of course, has to be better than the same quarter last year, and you end up sending a message in a company that management, top management, doesn't care how you get there, only whether you get there⁵⁸

In recent years there has been an increasing debate about the merits of outcome-based vs. behavior-based performance evaluations. On one hand, evaluating performance based on predetermined numeric outcomes has been advocated because it removes ambiguity and biases from the appraisal process and decreases risk-averse behavior. In addition, it may be the only available option when the evaluators do not thoroughly understand the business managed by the executive.⁵⁹ On the other hand, because executives in many industries have little control over their organization's competitive environment, monitoring their behavior rather than their results can sometimes hold value.⁶⁰

From an ethics standpoint, evaluations based on numeric outcomes may significantly increase the likelihood of unethical activity abetted by

rationalization and socialization tactics.⁶¹ Such evaluations relieve the burden on the evaluator of probing deeply into *how* outcomes have been achieved. And any feeble efforts by the evaluator to go beyond the numbers can easily be thwarted because of the existence of a social cocoon or through the use of euphemistic language. As the quote above suggests, as long as the targets are being met, the manager gets a pat on the back.

Consider the case of the Leslie Fay Companies, accused of falsifying their accounts. Apparently, the controller of Leslie Fay "made a practice of providing divisional controllers with quarterly or monthly figures for the profits their divisions were expected to make."⁶² Clearly, the controller sent the message that meeting the pro formas was paramount and thus created a fertile environment where subordinates would try to meet the expectations through whatever means possible. Managers would also have little difficulty in justifying their actions through a denial of responsibility. And since no one is likely to challenge the rationalization (because the means are not probed), managers can become strongly entrenched in believing their own rationalizations. Moreover, making the numbers means obtaining the co-opting balm of rewards (and avoiding punishments).

While pointing out that outcome-based monitoring is undesirable from an ethical standpoint, we do not deny its other advantages. However, it is imperative for executives to understand the ethical risks involved in outcome-based evaluations and balance them with other means that examine the ethical conduct of employees in meeting their targets. A performance evaluation approach that simultaneously explores whether the numbers were met and how the numbers were met is much more likely to prevent the onset of rationalization/socialization.

Nurture an ethical environment in the organization

The Sarbanes-Oxley Act, passed in 2002, requires public companies to disclose in periodic reports whether they have adopted a code of ethics for senior financial officers; if they haven't, they are required to explain why not.⁶³ Consequently, an increasing number of companies have adopted codes of ethics. While adopting such codes is a positive development, it is not sufficient. Organizations can sometimes use the presence of a code as a badge of morality. Thus, they may practice corrupt acts and believe (and convince others) that since they possess a code of ethics,

they must be morally sound: good companies, after all, do good things.⁶⁴ However, for a code to influence actual behavior, it must be supported by organizational structures and policies.

An increasing number of companies have adopted codes of ethics. While adopting such codes is a positive development, it is not sufficient.

Support of an organization's ethical environment can come in two forms. First, when employees have misgivings or uncertainties about the propriety of an action, they should have access to mechanisms that allow them to discuss the issues with an independent company representative. In large organizations, a corporate ombudsperson or an ethics officer could be recruited for this purpose. For instance, several organizations have established an Ombudsperson Office which operates independently of the parent organization. Employees are free to discuss any perceived ethical code violations with an ombudsperson. The Ombudsperson Office maintains no names in its records and counsels the employees, vendors, and contractors and assists in identifying resolution procedures for the problem.⁶⁵ This process helps to create an environment where individuals who have any ethical concerns are free to discuss them without fear of retribution.

Second, the organization should have strong verification procedures in place for code-compliance during key activities. For instance, Shell managers are required to certify that "neither the company nor its authorized representatives has been party to the offering, paying, or receiving of bribes" and that "no payments have been made that knowingly violate the law of the country."⁶⁶

Top management serves as ethical role models

Clearly, rationalization and socialization are facilitated if top management is perceived as being unethical. Rationalization tactics receive a tremendous boost if they are also being used by top management. It is not sufficient that top management be ethical: they should be seen to be ethical.⁶⁷ Clear choices made by top managers to take the ethical high road in spite of conventional practices or obvious temptations should be disseminated widely, and ethical lapses should be swiftly punished. Such actions can serve as the stuff of organizational stories and legends that can act as foils to rationalization tactics and provide new-

comers who are being socialized into corruption with alternate perspectives. For example, the manager of a used car dealership informed us that he tries to personify—for employees and customers alike—the dealership's ethical commitment by behaving directly contrary to the shady practices for which dealerships are stereotypically known.

In addition, given that all organizations are susceptible to corruption, it is extremely important for top managers to assess the risk factors associated with their particular organization and industry that may facilitate rationalization and socialization. For instance, industries in ill-defined or dynamic environments tend to have fewer clear and stable precedents for what constitutes ethical acts, thus allowing greater leeway for managers. Similarly, organizational subunits whose performance is difficult to gauge because of the uniqueness of their tasks are also high-risk centers because performance monitors may not be aware of the standards and procedures associated with these tasks. Conversely, industries in stable environments tend to have entrenched modes of operating and sense-making that can institutionalize unethical practices.

Reversing Rationalization and Socialization

In an organization where corrupt acts have been supported by rationalization and socialization for some time, the corruption can become embedded in organizational structures and processes. Reversing the corruption can therefore be a challenge. Because involved employees do not see themselves as corrupt, it often takes a strong shock—such as public exposure—to spur recognition of the need for change. Once ongoing rationalization and socialization have been uncovered, organizations need to make reversal a top priority. In this context, we believe that quick action and the involvement of credible external change agents become critical, as described below.

Avoid denial and move quickly

Recent events have shown that when unethical acts are uncovered in organizations, there is often strong resistance to accepting the facts, no matter how strong the evidence. This is not necessarily surprising because rationalization, by its very definition, fosters a belief that there has been no wrongdoing. For instance, when the pervasive sexual harassment environment at Mitsubishi was first exposed, Mitsubishi employees staged demonstrations and petitioned the government to call off the investigations.⁶⁸ Mitsubishi even launched

PR efforts to convince outsiders that nothing was amiss. Ultimately, such denials and unwillingness to act hurt the company's reputation, led to high court-assessed damages, and delayed the needed changes. In some cases such denials may lead to such a loss of stakeholder confidence that a firm may well dive into a death spiral.

When unethical acts are uncovered in organizations, there is often strong resistance to accepting the facts, no matter how strong the evidence.

Further, even when wrongdoing is acknowledged, senior executives tend to blame rogue individuals or isolated groups, arguing that they do not represent the otherwise pristine organization. In cases of collective corruption, such scapegoating misses the point that individuals and systems are mutually reinforcing. As our discussion of rationalization and socialization suggests, bad apples can be the product of bad barrels. Indeed, one of the chilling lessons of the many sordid sagas of corporate corruption is that otherwise good people can be induced to do very bad things.

Accepting wrongdoing and moving quickly to address it is critical if a company is to overcome enduring fraud of the kind supported by rationalization and socialization. For instance, in 1998, Waste Management had been involved in a massive accounting fraud. Its regulators had accused it of dressing up earnings and disbursing almost \$30 million in illegal bonuses to top management. Maurice Myers, who was hired to take over the firm in the wake of the scandal, acted quickly. He acknowledged the dubious practices prevalent in the system and launched an in-house newspaper that discussed and described questionable actions and the resulting fallout for the company. He also created an anonymous hotline to enable employees to report any unethical practices that they came across.⁶⁹ Acceptance of wrongdoing, coupled with quick action, resulted in a significant turnaround: Waste Management has to a large extent moved out of the shadow of its dubious past.

Involve external change agents

When socialization and rationalization underlie corruption, insiders are often so embedded in the organization that they may lack the ability, will, and credibility to effect the needed changes. Having been part of the system, they continue to be susceptible to the rationalizations associated with

corrupt actions and are a visible reminder to stakeholders of the old regime. In many cases, calling in an outsider to clean house is the only viable option. For instance, in the Mitsubishi case described above, once the prevalence of unethical practices was accepted as a fact, the company recruited former Secretary of Labor Lynn Martin to help reorganize its labor practices.⁷⁰ Similarly, in the Waste Management example above, Maurice Myers had not worked in Waste Management's industry prior to becoming CEO of the firm.

External change agents are more likely to be successful at reversing corruption for a variety of reasons. First, their appointment signals a break from the past and sends an unequivocal message to employees and other stakeholders of the organization's intention to make the necessary changes. Consequently, employees and stakeholders are more likely to cooperate with the change efforts and provide needed resources. Second, outsiders come to the organization with a fresh and different perspective. They are much more likely to question tenets and practices long held to be sacred in the organization.⁷¹ Third, while outsiders may know the business less intimately than insiders, they are also likely to possess social networks diverse from those held by employees within the firm. This allows them to seek advice from individuals and entities that are not linked to the organization, further accentuating their ability to question existing organizational practices.⁷²

Remaining Aware and Vigilant

Today's executives must pursue ambitious and at times contradictory goals and make difficult decisions in real time based on necessarily incomplete information. The pressures and temptations to cut ethical corners and to continue questionable practices instigated by others are strong indeed. And given the ambiguity, complexity, and dynamism that pervade contemporary environments, there is often ample room to rationalize such transgressions as unavoidable, commonplace, and even laudable. In this context, organizations need to be especially conscious in guarding against the onset of such tactics within the organization. Employee education and the establishment of independent ethics ombudspersons could go a long way toward protecting against the onset of rationalization/socialization tactics. Executives who find themselves in units where corrupt activities are being justified by rationalizations need to question these practices rather than meekly acquiesce. Past precedent and "accepted practice" should not guide executives in their judgments about the appropriateness

of such activities—rationalizations can endure over a long period of time and can be collectively practiced in organizations and industries. Indeed, if in doubt, it may make sense to get an opinion from an independent person. Awareness and vigilance can prevent organizations from falling prey to the debilitating consequences of corruption abetted by rationalization and socialization.

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