

PREVENTION AND IDENTIFICATION OF ORGANIZATIONAL CORRUPTION

Introduction

Both individual and systemic in nature, corruption pervades organizations in developing and industrialized countries. More than the behavior of an individual, corruption infects groups, organizations and industries like a virus. Left unchecked, corrupt individual acts can spread to other individuals and magnify in scope, eventually transcending individuals and groups and become embedded in organizational cultures and industry (Ashforth, Gioia, Robinson & Trevino, 2008). However, an economic-based approach that focuses on self interest, market liberalization and formal regulative structures to explain and remedy corruption neglects the role that normative and cognitive structures play (Misangy, Weaver & Elms, 2008). Moreover, an organizational behavior perspective that emphasizes normative and cognitive aspects of corrupt behavior by focusing on culture, structure, and cognition within organizations fails to consider a larger institutional and stakeholder perspective that also influences individual and organizational behavior (Misangy, Weaver & Elms, 2008). For instance, an economic-based approach assumes that corruption is an opportunistic response for gain and discretionary power, explaining why corruption is assumed to best circumvented by curtailing discretionary power and/or incentives. Empirical evidence regarding this approach, however, is inconclusive. For instance, market liberalization policies, e.g., mass privatization, used in transforming some ex-Soviet bloc countries have failed to eliminate corruption and even lead to different forms (Misangy, Weaver & Elms, 2008). Organizational behavior is normally limited to an emphasis on organizations. Individuals and organizations belong to organizational and wider institutional environments and cognitive communities. Organizational

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behavior accounts of corrupt behavior tend to neglect such embeddedness. For instance, although private enterprises might have replaced state-run ones, post transition economies for private enterprises could witness a transition from stealing from the state to stealing from a company (Misangy, Weaver & Elms, 2008). The inability to identify the causes of corruption and how to prevent it makes it impossible to make corporate culture transparent. Despite the apparent rise of corruption in recent years, academia seems to lag behind the media in analyzing the origins and recommending cures. Although responsible for providing more detailed analysis, academia has failed to elucidate the scope and depth of corruption (Ashforth, Gioia, Robinson & Trevino, 2008). Therefore, an effective approach must be developed to prevent and identify organizational corruption.

Based on the above, we should develop a prevention and identification approach for organizational corruption from an institutional-stakeholder perspective (Doh & Guay, 2006) by examining and comparing economic and organizational behavior perspectives on explaining and remedying corruption. The proposed approach can integrate economic and organizational behavior approaches in a larger institutional-stakeholder environment. To do so, corporate corruption behavior can be prevented by a strong and well-enforced state regulations in place to ensure corporate behaviors ethically, particularly if the process by which these regulations and enforcement capacities were developed was based on negotiation and consensus building among corporations, government, and the other relevant stakeholders. Corporate corruption can be reduced by a system of well-organized and effective industrial self-regulation in place to ensure corporate behaviors rightly, particularly if it is based on the perceived broader industrial crisis and if the state provides support for this form of industrial governance. Corporate corruption behavior can be identified if there are private, independent organizations, including NGOs, social movement organizations, institutional investors, and the press, in their environment who monitor their behavior and, when necessary, mobilize to change it. Corporate corruption behavior can be diagnosed if they are engaged in institutionalized dialogue with unions, employees, community group, investors, and other stakeholders (Campbell, 2007).

As anticipated, the proposed prevention and identification approach organizational corruption from an institutional-stakeholder perspective can influence corporations by constraining their behavior—that is, by discouraging them through rules and negative sanctions or punishments from acting in corrupt or unethical ways. The effectiveness of state regulation and industrial self-regulation may be affected by stakeholder monitoring. Indeed, scholars of stakeholder theory, corporate governance, and corporate social responsibility have intimated that the monitoring of corporate performance by stakeholders is an important factor that increases the likelihood corporations will behave in anticorruption ways (Campbell, 2007). However, institutions can enable as well as constrain action. Institutions can entice actors

to behave in certain ways through the use of more positive incentives, rewards, and other mechanisms. The proposed prevention and identification approach organizational corruption from an institutional-stakeholder perspective use the stakeholder model as a central paradigm for business and society field. The approach is built on an integration of the stakeholder concept, economic concepts (agency theory, transaction cost economics, and team production theory), insights from behavioral science, and ethics. It focuses on the contracts (relationships) between the firm and its stakeholders and posits that trusting and cooperative relationships help solve problems related to opportunism. It implies that behavior that is trusting, trustworthy, and cooperative, not opportunistic, will give the firm a competitive advantage (Jones, 1995).

The Phenomena and causes of Corruption

Black's Law Dictionary defines "corrupt" as "spoiled; tainted; vitiated; depraved; debased; morally degenerate. As used as a verb, to change one's morals and principles from good to bad." (Black, 1979). The authors obviously did not think highly of those who are corrupt. They further define corruption as "an act done with an intent to give some advantage inconsistent with official duty and the rights of others, The act of an official or fiduciary person who unlawfully and wrongfully uses his station or character to procure some benefit for himself or for another person, contrary to duty and the rights of others" (Black, 1979). Anand, Ashforth and Joshi (2004) suggest to refer to "misuse of an organizational (or subunit) gain, where misuse in turn refers to departures from accepted societal norms" (p.40).

Anand Ashforth and Joshi (2004) mentioned 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 and how newcomers in unethical organizations are subject 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. Indeed, the rationalizations and socialization tactics mediate the tension between societal norms and corrupt practices, creating a local reality that recasts unethical acts as justifiable if not laudable (Anand, Ashforth and Joshi, 2004).

Rationalizations often capitalize on the inherent complexity, ambiguity, and dynamism that pervade organizations. 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. 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" (Anand, Ashforth and Joshi, 2004).

In any organization or submit, corruption can continue only if newcomers also start exhibiting the behaviors. 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. 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. 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 (Anand, Ashforth and Joshi, 2004).

Rationalization and socialization are the processes through which corruption can become routine and carried on as a normal business activity. If the two processes become embedded in an organization, they can have a devastation 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 (Anand, Ashforth and Joshi, 2004).

The proposed approach can demonstrate that research of and policy on corruption have moved beyond examining merely the interaction of individual thought and action within organizations, and beyond a reliance on market liberalization and legal accountability, to a more complex dynamic of institutional phenomena that collaborate to prevent and identify corruption or mitigate corruption.

Perspectives on Corruption

Research and practice regarding corruption have been dominated by two alternative frameworks. An economic-based approach that focuses on self interest, market liberalization and formal regulative structures to explain and remedy corruption

neglects the role that normative and cognitive structures play (Misangy, Weaver & Elms, 2008). An organizational behavior perspective that emphasizes normative and cognitive aspects of corrupt behavior by focusing on culture, structure, and cognition within organizations fails to consider a larger institutional and stakeholder perspective that also influences individual and organizational behavior (Misangy, Weaver & Elms, 2008).

Economic Perspectives on Corruption

From an economic perspective, corruption generally is defined as the misuse of a position of authority for private or personal benefit (Doh et al., 2003; Misangy, Weaver & Elms, 2008; Shleifer & Vishny, 1993), where misuse typically constitutes a breach of legal norms (Johnston, 1986). Misangy, Weaver & Elms (2008) suggest that corruption is expected to occur where (1) there is control over economic benefits and costs and, thus, the potential for economic rents – that is, profits (e.g., as a result of government regulation), and (2) persons in positions of authority have discretion over the allocation of such benefits and costs (Misangy, Weaver & Elms, 2008). Corruption, by this account, reflects rational, self-interested behavior by persons using their discretion to direct allocations to themselves or to other social actors who offer rewards in return for favorable discretionary treatment. This economic-based approach assumes that corruption is an opportunistic response for gain and discretionary power, explaining why corruption is assumed to best be circumvented by curtailing discretionary power and/or incentives. Empirical evidence regarding this approach, however, is inconclusive (Klitgaard, 1988). In short, an economically oriented approach suggests that corruption is minimized by fostering one or more of the disciplinary effects of market efficiency, government regulatory structures requiring accountability and transparency, and enforcement of punitive structures that make corruption illegal (or that render its perpetrators incapable of accreditation, in the case of self-regulating industries and professions; Shleifer & Vishny, 1993).

This approach considers the removing of excessive formal governmental regulatory structures is the panacea for reducing corruption. This approach suggests that if abolish the state, then abolish corruption. Empirical evidence regarding this approach, however, is not encouraging. For instance, market liberalization policies, e.g., mass privatization, used in transforming some ex-Soviet bloc countries have failed to eliminate corruption and even lead to different forms (Misangy, Weaver & Elms, 2008).

Moreover, a common approach attacking corruption is through the imposition of added regulative and punitive structures (Ivancevich, Duening, Gilber, & Kono-poske, 2003; Klitgaard, 1988). For example, governmental “omnibus” programs have been used to fight corruption in transition economies. These programs focus on

increasing transparency and accountability and on strengthening and enforcing penal codes. Such compliance-oriented regulative changes also appear to be ineffective at curbing corruption (Misangyi, Weaver and Elms, 2008).

Organizational Behavior Perspectives on Corruption

Organizational behavior research on corruption and ethics focuses on controls occurring within organizations and on the normative and cognitive impacts of the social situations that inform and influences behavior in organizations.

Thus, corruption is understood as reflecting an array of interacting individual and situational factors within organizations and as including breaches of moral principles or social norms, in addition to legal norms (Ashforth & Anand, 2003).

The organizational approach explicitly attends to how corrupt practices and activities become institutionalized within organizations. As Ashforth & Anand (2003) have described the process, leaders might sanction or authorize corrupt behaviors, explicitly or implicitly, by imposing reward structures that promote corrupt practices or by condoning or ignoring such practices when they occur. As a result, corrupt practices become routinized and habitual and, habitual and, thus, institutionalized within the organization.

Misangyi, Weaver and Elms (2008) indicated two implications of organizational behavior research on corruption. On the one hand, this research argues that corrupt or unethical behavior in an organization can be reduced or eliminated by cultural change within the organization, involving both formal elements (e.g., reward systems, formal ethics initiatives) and informal elements (e.g., changed leader behavior), so that organization members identify with and commit to high standards of behavior (Trevino & Weaver, 2003; Weaver & Trevino, 1999). On the other hand, the organizational behavior framework also indicates the difficulty of stopping corrupt activities that have become embedded within daily routines. Corrupt behavior how deeply embedded can become within an organization and within the normative and cognitive framework that guide organization members' thoughts and actions.

In summary, the organizational behavior perspective on corruption offers a richer portrait of the sources and cures of corruption than does a purely economic account focusing on incentives, monitoring, and discipline. Organizational behavior is normally limited to an emphasis on organizations. Individuals and organizations belong to organizational and wider institutional environments and cognitive communities. Organizational behavior accounts of corrupt behavior tend to neglect such embeddedness. For instance, although private enterprises might have replaced state-run ones, post transition economies for private enterprises could witness a transition from stealing from the state to stealing from a company (Misangyi, Weaver & Elms, 2008).

Institutional-Stakeholder Approach to Prevent and Identify Organizational Corruption

Institutional Theory

Institutional theory is concerned with how organizations seek legitimacy within a given environment and attempt to become isomorphic with these environments (Dimaggio and Powell, 1991; Tolbert and Zucker, 1996). Doh and Guay (2006) indicated that neo-institutional theory has suggested that organizations and their strategies are substantially influenced by the broader institutional settings in which they operate, and shaped by the institutional legacies that reflect the culture, history, and polity of the particular country or region.

As Keim (2003) reports, North (1991, 1994) argues that institutional settings can be divided into three related categories. Formal institutions are the constitutions, laws, policies, and formal agreements that citizens of different locales create. Informal institutions are the behavioral norms and mental models of individuals who may have different cultural heritage or religious or political beliefs, or who may reside in different geographic areas. Within any institutional setting, organizations form to advance collective interests, often with the objective of having these interests codified as informal practices, formal rules, or both (Doh and Guay, 2006).

Stakeholder Theory

Stakeholder management is focused on those interests and actors who affect, or in turn are affected by, the corporation (Freeman, 1984). Through identification, evaluation and assessment of stakeholders and stakeholder relationships, firms can best navigate the public and private strategic environments in which they operate, and in so doing, account for the range of relationships, responsibilities, and interaction in their strategy formulation and implementation (Cummings and Doh, 2000). Stakeholder theory seeks to systematically address the question of which stakeholders do and do not require management attention through evaluation of relationships between organizations and stakeholders based on exchange transactions, power dependencies, legitimacy claims, or other claims. (Mitchell et al., 1997). Stakeholders affect a company's efforts to influence and benefit from favorable public policy through the political advantage process (Cummings and Doh, 2000), and to use different types of influence strategies depending upon the nature of the stakeholder relationship (Frooman, 1999).

Mitchell et al. (1997) developed a theory of stakeholder identification and salience based on managerial assessments of stakeholders' possession of one or more of three relationship attributes: power, legitimacy, and urgency. According to Mitchell et al. (1997, p. 865), a party to a relationship has power 'to the extent it has or can gain access to coercive, utilitarian, or normative means, to impose its will in the relationship'. Legitimacy is defined as 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Mitchell et al., 1997, p. 865), while urgency is reflective of 'the degree to which stakeholder claims call for immediate attention' (Mitchell et al., 1997, p. 867).

It should be noted that not all researchers agree on the importance of stakeholders, and that stakeholder theory has been criticized on both theoretical and empirical grounds. Williamson (1993), the father of transaction cost economics, has argued that agency problems are aggravated when managers act on behalf of non-shareholder stakeholders; that is, the direct principle-agent relationship between owners and managers is distorted with the addition of other stakeholders to the equation. Specifically, Williamson and Bercovitz (1996) suggest there is no place for non-equity stakeholders on boards if directors and such constituents should be instead relegated to boards of advisors. A more frontal assault on stakeholder theory has been launched by Sternberg (1997), who suggests that stakeholder theory is intrinsically incompatible with all legitimate business objectives and undermines basic property rights and corporate responsiveness. Nonetheless, we find that stakeholder theory provides important insights into the ways in which firms and their managers interact with NGOs, governments, and other actors (Doh and Guay, 2006).

Instrumental Stakeholder Theory

Jones (1995) attempted to offer an instrumental theory of stakeholder management by arguing that a subset of ethical principles (trust, trustworthiness, and cooperativeness) can result in significant competitive advantage. He suggests that three core assumptions in management and economics describe the relationship between the modern corporation and its environment: (1) firms have relationships, called contract, with many stakeholders; (2) firms are run by professional managers; and (3) firms exist in markets in which competitive pressures influence behavior but do not necessarily penalize moderately inefficient behavior. He reviews and summarizes both agency and transactions costs perspectives on contracting and point out the failures that can occur when key variables do not perform efficiently and in consort, as summarized above in our review of agency theory. Jones (1995, p412) suggests, however, that in addition to the technical solutions offered to the agency problem de-

scribed above, 'there is another way to reduce opportunistic behavior, however – the voluntary adoption of standards of behavior that limit or eliminate it'.

Drawing new inferences from classic economic and institutional theory, Jones contends that honest, trusting, and ethical relationships result in positive reputation effects and minimize opportunism, as contracting parties interact and grow to depend on the reliable behavior of their business partners. Importantly, this voluntary but genuine trust-building further reinforces positive response, and serves as a constraint to opportunism. People who are honest, demonstrate personal integrity, do not lie, cheat, or steal, and honor their commitments are clearly moral in nature and are desirable partners for a large range of economic relationships.

Institutional Conditions

Campbell (2007) indicated during the 1980s and 1990s, government deregulation created an environment where U. S. corporations began to take more liberties and act in more unethical ways than they would have otherwise. For example, 1990s' financial deregulation created savings and loan crisis, the Enron debacle, the U. S. accounting frauds, and other corporate scandals (Stiglitz, 2003). And the Parmalat scandal caused by Italy's feeble stock market regulation (Economist, 2004).

With globalization, firms move investments and production from one regulatory regime to another. The threat of capital disinvestment has long been an important concern for regulators at subnational levels of government in advanced countries that may mitigated the imposition and enforcement of more stringent corporate regulations (e.g., Crenson, 1971). Because national governments do not want to loss local investment, production, jobs, and tax revenues, they are forced to ease business regulations (e.g, Ohmae, 1990,1995).

Certainly, the presence of regulations of the state will monitor corporate behavior and enforce these regulations when necessary. The fact that external actors, such as environmentalists, unions, consumers, and other stakeholders, participate in creating and enforcing effective state regulations and monitor these regulatory processes (e. g. Campbell, 2007). We therefore propose:

Proposition 1: Corporations will be more likely to act ethically if there are strong and well-enforced state regulations in place to ensure such behavior, particularly if these regulations and enforcement capacities were developed by which the process based on the negotiation and consensus building among corporations, government, and the other relevant stakeholders.

In fact, sometimes the most effective means of facilitating increased corporate social responsibility is through corporate peer pressure (Martin, 2003:98). Industries recognize that regulation is not always the responsibility of the state. Thus, industries

often establish their own regulatory mechanisms to ensure fair practices, product quality, workplace safety, and the like by setting standards to which their members are expected to adhere.

Recently, this sort of activity has taken on a global dimension. Campbell (2007) determined that new organizations, such as Transparency International, which is supported by sixty-four corporations from the United States and other countries, have been created to help reduce corrupt business practices around the world (Porter & Kramer, 2003:40).

Such self-regulation by industry association is often linked to the state. Sometimes this sort of activity is encouraged and authorized by the state so that the state can displace its own regulatory responsibilities on to these private associations (Campbell, 2007). Sometimes industry moves toward self-regulation to reduce state regulatory intervention. To protect the industry from itself, sometimes corporations develop self-regulation because they fear that state regulation is insufficient. Therefore we argue:

Proposition 2: Corporations will be more likely to act ethically if there is a system of well-organized and effective industrial self-regulation in place to ensure such behavior, particularly if corporations perceive the threat of state intervention or broader industrial crisis and if the state provides support for this form of industrial governance.

Indeed, scholars of stakeholder theory, corporate governance, and corporate social responsibility understand that the monitoring of corporate performance by stakeholders is an important factor that increases the likelihood corporations will behave ethically (Aguilera & Jackson, 2003; Driver & Thompson, 2002; Mitchell et al., 1997). Thus, the effectiveness of state regulation and industrial self-regulation may be affected by stakeholder monitoring.

Moreover, legal institutions are particularly important in facilitating this sort of dialogue between corporations and stakeholders. In this regard, the literature on stakeholders and the literature on corporate governance are particularly helpful because they paid much attention to these institutions and how they vary across – nationally (e. g., Aguilera & Jackson, 2003; Roe, 2003). Therefore we propose:

Proposition 3: Corporations will be more likely to act ethically if they are engaged in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders.

Conclusion and Implications

Given the limitation of economic-based perspective and organizational behavior perspective on explaining and remedying corruption, we attempt to develop a prevention and identification approach for organizational corruption from an

institutional-stakeholder perspective. Corporations are more likely to act ethically if they have strong state regulation, collective industrial self-regulation, NGO's and other independent organization that monitor them, and a normative institutional environment.

Some implications remain. First, corruption is a dynamic process, it is difficult to stop the corrupt activities that have become embedded within daily routines, thus most scholars suggest that corruption "is best handed through prevention (Ashforth & Anand, 2003:39). Secondly, newcomers in unethical organizations are subjected to specific socialization processes that lead them to accept the prevalent activities as normal. Moreover, Fligstein (1990) found that corporate executives' approaches to managing their firms depend in part in the sorts of training they received in business schools. Therefore, for both corporate executive's and newcomers, it is important that business schools should incorporate courses on business ethics into their curriculum (Vogel, 1992).

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