

2008

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## Recommended Citation

Journal of Business Ethics.

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# Rationalization, Overcompensation and the Escalation of Corruption in Organizations

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**ABSTRACT.** An important area of business ethics research focuses on how otherwise normal and law-abiding individuals can engage in acts of corruption. Key in this literature is the concept of *rationalization*. This is where individuals attempt to justify past and future corrupt deeds to themselves and others. In this article, we argue that rationalization often entails a process of overcompensation whereby the justification forwarded is excessive in relation to the actual act. Such over-rationalization provides an impetus for further and more serious acts of illegality. Using a number of high profile cases, it is argued that this dynamic gap between the act and excessive rationalization can

explain why corruption often escalates in severity and scope in the organization.

**KEY WORDS:** corruption, dynamic, escalation, overcompensation, rationalization

## Introduction

Two aspects of the widespread corruption scandals that have recently blighted the corporate landscape in the Western world are particularly notable. First is the strikingly *ordinary* nature of the people involved. While voracious ambition and greed certainly played a role in the corruption noted, most of the perpetrators were otherwise law abiding and respectful citizens. Here, the bad individual theory of corruption (enacted by evil characters) falls somewhat flat, indicating that self-deception and rationalization played a major role in justifying the practices (Gioia, 1992). Rationalization involves actors alleviating moral anxiety via various explanations. Indeed, this is why “corrupt individuals tend not to view themselves as corrupt” (Anand et al., 2004, p. 40).

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*Paper Presented at the 13th Annual International Conference Promoting Business Ethics, Niagara, NY, October 25–27, 2006.*

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The second notable aspect is the way in which the corruption appeared to escalate beyond the control of the individuals involved. The initial act of corruption, be it deception, theft, fraud or any other unlawful behaviour, when left unchecked often increased in size and scope (Fleming and Zyglidopoulos, 2006). This was especially evident in the WorldCom and Enron cases, in which the worsening financial reality of the firm required increasingly elaborate forms of deception (McLean and Elkind, 2003). Although escalation is not inevitable and somewhat indicative of the post-hoc explanations of the events building up to the final scandal, recent research has identified escalation, snow-balling and cascading as important trends (Fleming and Zyglidopoulos, 2006; Partnoy, 2003; Zyglidopoulos and Fleming, 2008).

This article attempts to contribute to dynamic or process-oriented theories of corruption (see Brief et al., 2001) by proposing that this escalation might result from elements of the rationalization process. In our analysis of the literature on corporate corruption, we argue that rationalization of unlawful acts often involves an important excess. That is to say, when a corrupt actor rationalizes their self-defined wrongdoing via denial of responsibility, denial of injury, denial of a victim and so-forth (Anand et al., 2004), the discourse involved is one that frequently goes above and beyond what is required by the actual corrupt deed. We suggest this is the case, because rationalizations are usually not fine-grained enough to directly counter an illegal act. A rationalization that would be just enough to cover the corrupt act is practically impossible given the uncertainty invariably involved, and one is either going to rationalize too much or too little. However, rationalizing too little does not make the need (guilt) to rationalize go away, it just reinforces the need to rationalize again. Therefore, the only option for an employee, who wants to rationalize away his or her acts, is over-rationalization. Such overcompensation is exemplified in the Enron case. In order to rationalize the shifting of debt to special purpose entities (SPEs), a justificatory discourse was developed that viewed Enron as a new breed of business and that the corrupt actors were saving the organization (McLean and Elkind, 2003; Mills, 2002). This then paved the way for even greater forms of fraud and subsequently more grandiose types of rationali-

zation (saving not only the organization but also the US economy, etc). Thus, a co-evolutionary relationship is evident between corrupt deeds and justificatory rationalization, which we suggest is driven by overcompensation.

In order to make this argument, we organize the article in the following way. First, we explain the notion of rationalization, which has a long and rich history in the psychoanalysis, social psychology and business ethics literature. It is argued that rationalization is an important concept for explaining corruption, and overcompensation is an important aspect of this phenomenon. We then make our key argument by developing a model of escalation that links excessive rationalization to the increase in the seriousness of corrupt deeds. We flesh out this model by way of a number of illustrative examples drawn from recent corruption cases, and conclude by discussing the implications for current research in this area.

### **The corrupt deed and its rationalization**

Corruption has been extensively researched in the literature and a number of definitions have now been more or less accepted. In an extended analysis of workplace corruption, Anand et al. (2004), suggest that corruption signifies the “misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain, where misuse in turn refers to departures from accepted societal norms” (Anand et al., 2004, p. 40). In other words, corruption consists of those practices that violate important rules for personal or group gain (Clarke, 1983; Williams, 2000). Like ethics (Jones, 1991), what counts as corruption is culturally and historically contingent. In this sense, corruption is a “negotiated classification of behaviour rather than as an inherent quality of behaviour” (Chibnall and Saunders, 1977, p. 139). According to Bratsis (2003), and echoed in Anand et al.’s (2004) definition above, it is the subversion of the public good by private self-interest that is at the heart of Western conceptions of corruption. Bratsis (2003) argues that when a division between the public and private first appears in ancient Greek thought, corruption becomes a matter of the public good being violated by nefarious private motives (Williams, 2000).

A persuasive assumption among many theories of corruption is the existence of self-knowledge ('I know I am breaking the law'), which is in turn linked to the cultural embeddedness of the phenomenon. Corruption is a term that implies that the perpetrators have some realization, however vague and distant, that they are doing something illicit within the social context in which they operate. This is why the "evil wrongdoer" depiction of corruption is so strong in popular consciousness and elsewhere (Trevino and Youngblood, 1990). Recent research, however, has pointed to the different ways in which the realization of the unlawful deed is pre-empted or later mitigated by various forms of self-deception and distortions in order for the culprit to avoid ethical self-scrutiny (Darely, 1992; Kelman and Hamilton, 1989). Fleming and Zyglidopoulos (2006) argue that self-deception (lying to oneself in order to alleviate guilt) is an important mechanism displayed in corrupt organizations, and is often supported by broader organizational processes and scripts.

#### *The social architecture of rationalization*

The idea of rationalization is chief among the concepts used to explain why unethical acts are committed by people who think of themselves as morally upright. The term rationalization, of course, derives from two distinct fields within the domain of psychology, the field of psychoanalysis and the field of social psychology. First, within the field of psychoanalysis in order to explain how we defend ourselves from painful truths, experiences and self-definitions proffered by the super-ego (Freud, 1967). Rationalization works as a defence mechanism that protects the ego from challenges to the constitutive narcissism of the psyche. For example, I may feel guilty for being unkind to my friends (since I see myself as a kind person), and then rationalize my unkindness via a logical and plausible explanation – 'they deserved it because of what they said'. The justification alleviates the pain inflicted on the ego by a punitive super-ego. Second, within the field of social psychology, cognitive dissonance theory (Festinger, 1957) uses the notion of rationalization in addressing the same tensions between actions and normative self-definitions, in a different epistemo-

logical paradigm. The main proposition of cognitive dissonance theory is that if a person holds two cognitions that are psychologically inconsistent or if one's behaviour is inconsistent with a cognition, this person experiences discomfort or dissonance, and because this is unpleasant he/she will strive to reduce it in any way possible (Festinger, 1957, p. 1127). Rationalization within this domain is seen as a way that individuals facing cognitive dissonance 'rationalize away' deeds that are at odds with or even contradict the ideals to which they subscribe (Festinger, 1957) or deeds that are in conflict with their self-concept (Aronson, 1992; Aronson and Carlsmith, 1962). According to Aronson and Carlsmith (1962) most individuals see themselves as being relatively competent, moral, and consistent, and that any cognition or action that opposes these notions of self tends to be 'rationalized' away.

Drawing on the above, but mostly from the second use of the term, the notion of 'rationalization' has been deployed in social ethics research to explain how people can justify to themselves and others the horrendous acts of barbarism. Developing Arendt's (1951) notion of the 'banality of evil', Darely (1992) notes the importance of justificatory rationalization in the facilitation of organized cruelty (including the rape of Nanking, death-camp guard brutality, and so-forth). In the death-camps of Nazi Germany, a whole array of rationalizations were used to justify the murder of innocent men, women and children, including de-humanization ('they are not really like normal people'), blame ('they brought it on themselves') and emotional distance ('I feel nothing'). In one of the more chilling examples, prison guards justified murdering child prisoners by telling themselves they were doing a good deed by putting these sorry souls of their misery (also see Bandura, 1988; Staub, 1989). In his excellent analysis, Zizek (2006) identifies the unique reflexivity involved these rationalized acts of barbarism. The executioners used the 'Himmler trick' which states that the temptation to be resisted is not the natural inclination towards violence, but to succumb to pity and sympathy: "my very violation of spontaneous ethical instincts of pity and compassion is thus turned into proof of my ethical grandeur: to do my duty, I am ready to assume the heavy burden of inflicting pain on others" (Zizek, 2006, p. 67).

### *Rationalization in corrupt organizations*

Anand et al. (2004) point out that many of the participants of unethical practices in Enron, WorldCom and Lucent were otherwise decent individuals. This is why these cases proved so fascinating. A key component of corruption was the way in which organizational members justified or rationalized their behaviour through a set of ideas and mental strategies. Rationalization allows the corrupt individual to lessen or neutralize the attendant feelings of guilt or anxiety. A common example of rationalization is someone who tells him or herself that their corrupt activity is acceptable because 'it is a one off that hurts nobody'. In the context of unlawful organizational practices, therefore, Anand et al. (2004) argue that rationalization are "mental strategies that allow employees (and others around them) to view their corrupt activities as justified" (Anand et al., 2004, p. 39). They provide an extensive list of rationalizations that lessen or neutralize the feelings of guilt or anxiety, including denial of responsibility, denial of injury, denial of victim, social weighing, appeal to higher loyalties and balancing the ledger. Each of these 'mental strategies' allows the individual to justify past or future actions that might otherwise have been deemed unscrupulous.

The concept of rationalization provides a very useful explanation for a) the apparent contradiction between the seemingly ethical individuals and their unethical acts and b) the important role of extra-individual social processes in the corrupt environment. In moving away from theories of organizational corruption that simply posit an evil character or hypocrite, the notion of rationalization is very useful for illustrating the banality of corruption – often it is ordinary and ostensibly honest and law-abiding citizens that engage in terrific acts of unlawfulness (Audi, 1988; Tenbrunsel and Messick, 2004; Zyglidopoulos and Fleming, 2008). Moreover, while individuals still have the choice to confront and own the consequences of their actions, research has indicated why they often *do not* in relation to the supports and rationalization mechanisms provided by the organizational environment itself. That is to say, rationalization processes sometimes carry an extra-individual momentum that draws people into the realm of illegality. Ashforth and Anand (2003) cite socialization structures,

euphemistic language and other organizational properties associated with sanctions and punishments that help individual actors to neutralize feelings of impropriety (also see Bauman, 1991; Jackall, 1988). Gioia (1992) provides a fascinating example in relation to his own experiences at Ford. A formidable organizational 'script' that guided the cognition and action of Ford employees at the time enabled them to perform what is now considered to be an almost inhumane 'cost-benefits' analysis because it "precluded consideration of issues in ethical terms" (Gioia, 1992, p. 379).

### **Overcompensation and the escalation of corruption**

We now come closer to our own propositions regarding the role of rationalization in corrupt organizations. More specifically, two claims are unpacked in this section. First, we suggest that rationalization often involves an excess or overcompensation when measured against the actual corrupt deed in question. While this might be difficult to quantify (a shortcoming that we shall see is actually pivotal to the overcompensation process itself), the surplus involved is often quite striking. Second, we illustrate how such overcompensation contributes to a dynamic of escalation, especially in organizational contexts that appear to follow what some have called a 'snow-balling' trajectory of corruption – this is where the gravity of the unethical behaviour increases in seriousness, prevalence and scope (Fleming and Zyglidopoulos, 2006; Grover, 2005). In doing this, we posit a model of co-evolution that explains the dynamic relationship between rationalization and corrupt deeds in organizations, especially in relation to the snow-balling effect or escalation of corruption.

#### *The over-rationalization process*

In much of the literature on rationalization in corrupt contexts the *relationship* of rationalization to the actual deed is usually assumed to be symmetrical. Rationalization neutralizes or at least lessens feelings of ethical anxiety and guilt by perfectly matching the deed in question. In our analysis of the many cases of

corruption in the recent high profile scandals, however, we have noted a strange asymmetry between the rationalization posited and the deed that is the target of the rationalization. In short, the examples of Enron, WorldCom, Lucent and many others, the rationalization appears to be somewhat 'over the top' in proportion to the corrupt deed. In other words, the rationalization strategy goes far beyond what is actually required when one evaluates the unethical act. This is no more evident than in the Enron case, an organization well known for its boastful grandiosity and self-aggrandizing public rhetoric (Swartz and Watkins, 2003). The rationalization developed by this organization increasingly gained in scope and grandiosity, which now appears perplexing *apropos* the specific acts of rather 'main stream' fraud being committed. Indeed, like WorldCom, we find rationalizations such as 'we do this because we are saving this great firm' become 'we do this because we are saving our great economy', rationalizations that appear to far outweigh what the simple unlawful acts of setting up SPE's required (a fraud network that subsequently escalated too, which is important for our model below).

Prima facie, excessive rationalizations in the face of corrupt activities seem to naturally resonate with the 'larger than life' conceit of many corporations involved in the recent spate of corruption scandals. Enron, of course, is a good example here of how a corporate culture can build such an overly important and confident image of itself that it borders on delusional. However, in addition to such delusional hubris that characterized many large corporations in the 1990s, we suggest that there may be some important social psychological reasons underlying why the rationalization of unethical behaviour tends to overcompensate for the respective act of corruption. More obviously, it is a way to cope with the inevitable uncertainty that surrounds the ambiguous relationship between an unethical act and its rationalization. We suggest that it is reasonable to assume the actual process of rationalizing a corrupt behaviour involves a high degree of uncertainty. When agents are endeavouring to create an one-to-one correspondence between their cognitive processes and the illegal act no easy standard or measure is likely to be available in order to provide guidance. In other words, it is difficult to identify the precise rationalization to deal with only the specific act of corruption.

Due to the disconnect between ideas and practice, one is never sure if the rationalization one deploys is enough to cover the corrupt act and its associated (foreseen and unforeseen) implications. Moreover, additional uncertainty is introduced because it is difficult to quantify guilt when experienced in relation to unethical behaviour. As the psychoanalytical literature indicates, guilt is a highly intangible and diffuse emotional response to an event in the social world (involving internalized perceptions of compunction from significant others), and thus it is difficult to gauge the appropriate level of rationalization to alleviate the guilt. The anxiety and guilt associated with the realization that one has committed an unlawful act involves a general feeling of ill ease and dissonance that is then met with a justificatory rationalization 'better safe than sorry' in its scope.

It is this uncertainty which we suggest is a key driver of the excessive rationalization processes one witnesses in a range of corrupt firms including Enron and WorldCom. At the heart of our argument is the hypothesis that the range of rationalizations available to the actors are not fine grained enough to map onto an instance or trend of corruption. Indeed, a rationalization that would be just enough to cover the corrupt act is practically impossible to gauge and therefore they are either going to rationalize too much or too little. However, rationalizing too little does not make the need to rationalize go away and usually foregrounds the need to rationalize again. Therefore the only option for an employee, who wants to rationalize his or her acts away, is over-rationalization. Given this uncertainty in relation to the rationalization repertoire, we propose that the rationalization process will tend to make the justification overly inclusive to cover all likely consequences. Put in simple terms, one always fears that the response may under-shoot rather than over-shoot the mark simply because of the unquantifiable motivation behind the justificatory reactive stance. In this sense, over-rationalization may act in an analogous manner to what some commentators have called a 'cognitive buffer'. The idea of a 'buffer' as a way to deal with uncertainty is a familiar one in the realm of manufacturing; inventory buffers (i.e. having excess inventory) are often used as a way to protect the firm from uncertainties both internal and external to the firm (Hayes et al., 1988; Newman et al., 1993). Similarly, the concept of cognitive buffering is used in

psychology in reference to strategies and traits that protect individuals from negative impacts. Self-complexity, for example, has been shown to be a cognitive buffer against stress-related illness, depression, as well the negative psychological effects suffered by abused women (Linville, 1987; Steinberg et al., 2003). In a similar way, over-rationalizations act as a protective barrier in the face of the uncertainty for those ‘ordinary’ individuals who may suffer negative psychological effects from their unethical behaviour.

### Charting the escalation dynamic

It is this relationship between the excessive rationalization and the actual unethical deed that we propose is an important force in instances whereby corruption exponentially increases in seriousness, scope and prevalence. The idea of escalation has been investigated in recent research. Fleming and Zyglidopoulos (2006), for example, developed a process model of escalation in relation to deception, fraud and pecuniary misrepresentation. Their starting point is the observation that many of the organizations involved in the recent high-profile scandals, such as Enron, WorldCom, Arthur Andersen and Lucent, did not start out deceitful. Indeed, the founding motto of Arthur Andersen was ‘think straight, talk straight,’ and for many decades the company was highly principled. At some point in time, however, deceptive practices crept in and escalated uncontrollably. This is where lying soars overtime in scale and scope, taking on a momentum of its own that eventually consumes the organization. Drawing on prior literature and research, Fleming and Zyglidopoulos (2006) list a number of factors associated with lying that drives escalation including sunk costs, the escalation of commitment and ethical fading. In this section of the article, we suggest that the escalation of corruption more broadly may also be understood with reference to overcompensation in the rationalization strategies mobilized by individuals.

Our model of escalation can be explained in the following manner. We suggest that overcompensation through excessive rationalization has an impact on future activities of the corrupt individual and organization. That is to say, overcompensation can be seen as part of a dynamic relationship between ideas (rationalizations) and practices (corrupt

actions), reinforcing each other in a co-evolutionary manner. We propose that this dynamic between overcompensating rationalizations and unlawful deeds may result in the escalation of overall corruption in the organization. Why so? When the rationalization is bigger than the initial corrupt act, the way is paved for further and more extensive corruption since such acts already have what we might call an ideological cover. Since the rationalization has overcompensated for the initial corrupt act, the gap created at least facilitates the more severe and serious forms of corruption by the very fact that a justification is already available. The dynamic we propose is one in which an initial corrupt act is rationalized in an excessive manner, which then facilitates or invites a more serious act of unlawful behaviour, which then is rationalized via another more grandiose justification and so on (see Figure 1).

This escalation dynamic explains why such inflated and grandiose justifications were identified in the large scale corporate corruption cases in recent years. The ideological justifications found in Enron, WorldCom and Arthur Andersen, for example, have been usually explained as self-deception, hypocrisy and delusion brought on by rampant greed (Beren-son, 2003; Jeter, 2003; Partnoy, 2003). This kind of account is important since it does capture the final phase of the patently delusional thought processes underlying the unethical behaviour. However, our approach differs in that as it aims to highlight the dynamic nature of the relationship between thought and practice, the slippery slope, if you like, that leads to the final catastrophic scandal.

The model we are proposing here does not aim to position overcompensating rationalizations as the single cause of the escalation process. Other factors

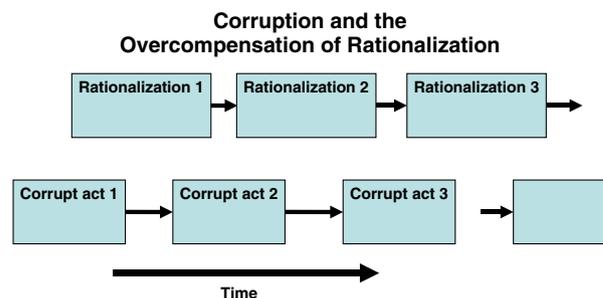


Figure 1. Corruption and the overcompensation of rationalization.

may be driving the escalation of the corrupt deeds. Indeed, as Fleming and Zyglidopoulos (2006) point out in relation to the Enron case, the worsening financial reality of the firm was key to escalating the types of corrupt deeds individuals felt were necessary in order to 'save' the organization. The aim of our model is to include the overcompensation as a factor that may explain aspects of the escalation process. For example, at Enron the grand ideology of the innovative business justified not only the initial acts of debt shifting, but also allowed for more aggressive and deviant accounting procedures which lead to the ruin of the company. Indeed, this escalation of practice may stall if it can no longer find an 'ideological cover' – therefore, in the case of Enron, WorldCom and other large-scale corruption cases, the ideology also expanded to keep up with ever-increasing unethical acts. Thus, overcompensating rationalizations do not necessarily cause escalation, but may facilitate it under conditions where growing unlawfulness is likely. What defines such conditions, of course, has been the topic of great discussion in this research area (see Brief et al., 2001; Fleming and Zyglidopoulos, 2006; Gioia, 1992), and mapping our model to such conditions is a key implication for further research which we discuss next.

### **Implications and conclusion**

In this article, we propose that corruption in organizations often spreads through a process of overcompensation, where rationalization and action interact in a dynamic way. To summarize our argument, our model suggests a relationship between rationalizations that 'over-shoot' the actual corrupt deed that in turn provides an impetus for more serious forms of illegality. Of course it is not new to say that beautiful words are often used to cover ugly deeds, but the potential dynamic interplay through 'words' and 'deeds' is, we think, something that is relatively unexplored in the study of the spread of corruption in organizations, and something that our article brings to the forefront.

Our theoretical work here has, at least, two implications for further research in the field. First, further research could investigate the conditions under which the overcompensation of corruption through rationalization is most likely to take place.

The model of escalation and overcompensation we have outlined here has been developed to account for some of the more prominent cases of corruption that have blighted Western economies over the last few years. However, it would be reasonable to assume that specific contexts play a critical role in how the escalation of corruption plays out in an organization (Sims, 1992). Does the type of industry (financial, energy, manufacturing, etc.) that defines the organization have an impact on the nature of the dynamic we have described? For example, it may be easier to rationalize the abstract and obtuse shifting of debt on a balance sheet compared to not recalling a patently faulty and dangerous consumer good. Moreover, perhaps the dynamic between rationalization and acts of corruption is more likely to take place when rationalizations are readily available in an organization (such as the one Gioia (1992) described). We can certainly see a widely accessible repertoire available in Enron, but other firms such as Lucent tended to maintain a rather secretive set of rationalizations that were not easily visible to organizational members. Another important variable relating to context relates to whether rationalizations are more likely to be used if there is no room for exploring ethical reasoning in the organization. Here, a whole other set of issues become important that can serve to limit ethical reflection such as complexity, distance from the impact of corrupt activities, culture and so-forth. As intimated by Brief et al. (2001), ethical organizations are not necessarily about individuals doing the right thing all the time, but about creating an environment where actors are at least encouraged to do the right thing. In such an environment, rationalizations may not be as essential since there is room for actors to explore the real reasons and motivations behind a potentially corrupt act.

A second implication that reflects the need for further research is in the area of ideology and its impact on the escalation of corruption through rationalization. We suspect that the concepts of ideology and rationalization share certain commonalities that may be fruitful to explore in relation to corruption. The concept of organizational ideology has long been an interest of management studies and could be drawn upon to further enhance our understanding of rationalization processes. For example, according to one point of view, ideology refers to a system of ideas that does not represent things as they

are and through this misrepresentation serves certain sectional interests (Khan, 2004; Shrivastava, 1986). Ideology here is implicated with the power arrangements of the firm and tends to reflect the interests of certain groups over others. This raises interesting issues for the model depicted above since internal organizational politics might determine what type of rationalizing ideologies are held, who is more likely to hold them and who might challenge them either through non-participation or even whistle-blowing. In this sense, what is the relationship between empirically observable rationalizations (in Enron or WorldCom, for example) and their ideological effects within the political system of the organization? In other words, further research could investigate questions such as: “Are all rationalizations ideological?” And “What is the role of ideology in the escalation of corruption?” Such questions are important for identifying the internal differentials in any corrupt organization. That is to say, many of the accounts of the large-scale corruption cases that we have already mentioned show that these organizations were struggling with themselves (along definite political fault-lines) as much as with external parties. The concept of ideology may reveal these internal nuances of organizational corruption, and perhaps shed more light on the political structure of the overcompensation process demonstrated in our model.

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