

UNDER THE BIG TOP: HOW EXECUTIVE HRM FAILS AND OPPORTUNITIES FOR CORRUPTION PREVAIL

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ABSTRACT

Using a strategic human resource management (HRM) perspective, we identify and address factors that enable and induce organizational corruption at the upper-echelons. Specifically, we develop a multilevel conceptual model that examines how executive culture, decoupling, and cognitive constraints influence the content and process of executive HRM in a manner that contributes to corruption. This executive HRM-oriented approach allows us to advance our understanding of why and how executive corruption occurs despite the scrutiny of watchdog constituencies and progressively stricter rules and regulations. Related to this last point, our theory building exposes some of the limitations of agency theory and answers calls by agency scholars (Eisenhardt, 1989) to compliment existing agency perspectives with other organizational theories.

In the last several years, the domestic and international business community has been rocked by the revelation of a cankerous and pervasive infection of corporations. The sheer enormity of this damage might have been unanticipated by the public because corporations were originally chartered to serve the public good (Estes, 1996) not inflict injury. Further contributing to this element of surprise might include the widely held belief that systems of incentives, controls, and punitive measures were firmly in place that would prevent corruption from occurring and spreading. Indeed, and spurred by agency theorists (Eisenhardt, 1989; Jenson & Meckling, 1976), the prevalence and utilization of incentive compensation plans (Gomez-Mejia & Balkin, 1992) and bureaucratic controls (Driscoll & Hoffman, 1999) has dramatically increased. Ironically, so too has executive corruption. Against this backdrop, the central questions that motivate this paper is why and how does corruption continue to occur in spite of the presence of safeguards that theory predicts should work (Eisenhardt, 1989; Jenson & Meckling, 1976) and what factors contribute most to the phenomenon of executive corruption. In making sense of this phenomenon, we arrive at a more expansive perspective of executive human resources management (HRM), which promotes the potential impact of a new way of interpreting and understanding executive corruption.

It is interesting to note that the term “corporate corruption” depersonalizes corrupt behavior and disguises the individual responsibility for egregious acts. However, the corporation is composed of individuals and, indeed, it is individuals who engage in corruption. In this work, we explore the contextual issues that lead certain individuals to behave in a corrupt manner. More specifically, we examine the role of ineffective HRM in facilitating corruption at the executive level. This level of analysis is particularly appropriate in that it is the executive, with ease of access to resources and the latitude of discretion as to how to deploy these resources (Hambrick & Finkelstein, 1987), who is most likely to have the greatest impact on organizational and stakeholder outcomes. Judicious utilization of resources and discretion can deliver significant benefits in the form of exceptional organizational performance and positive stakeholder outcomes. Conversely, indecorous use might have an equally substantial negative (if not catastrophic) impact on the firm and its stakeholders. It is the propensity of, and opportunity for some executives to engage in the latter behavior that is the subject of our theoretical analysis.

Interestingly, the HRM of executives is a largely ignored concept in theoretical and empirical works. Admittedly, there is a rather large body of work discussing corporate governance, as well as individual governance practices such as executive compensation. However, an intensive literature search revealed only one article that addresses executive HRM in a broader and systematic fashion (Martell & Carroll, 1995). Given the value associated with senior executives as revealed by both compensation practices and rhetoric, the dearth of research investigating the management of human resources (HR) of such significance is startling. This work attempts to ameliorate that deficiency by examining the salience of effective HRM of executives, and the implications for corporate welfare of the failure to manage those resources wisely.

In keeping with the extant literature, we do include the various aspects of corporate governance as an essential facet of executive HRM. It is important to note that we approach corporate governance not as an orthogonal research stream to HRM. Rather, we embrace the notion of corporate governance as a HRM function. Moreover, we define executive HRM as involving not only corporate governance, but also any formal or informal mechanisms used by the organization and related parties to include institutional investors and the board of directors to manage the selection, retention, development, appraisal, compensation, and performance of senior managers in the firm. As such, our approach represents a more holistic and systematic view of executive HRM and is more indicative of recent trends that place governance under the mantle of executive HRM (Andrews, 2005, Grossman, 2005; Wells, 2005). Thus, it is important to note that executive HRM is not only a duty of internal organizational members (i.e., the vice president of human resources), but also includes interested parties that typically exist outside the boundaries of the firm to include directors and institutional investors. As the theoretical analysis will demonstrate, such a conceptualization is not only desirable in theory, but is necessary in practice.

We offer theoretical support for the proposition that corruption at the top of the organization is a direct result of an ineffective HR system that is preceded, exacerbated, and perpetuated by an elite and isolative executive culture, the decoupling of HR policy from practice, and by cognitive constraints that limit both the content and process of executive HRM. In short, the failure of the HR system positively to constrain executive behavior effectively leaves the portals to corruption open wide.

EXECUTIVE CORRUPTION

Corruption is a complicated and systemic concept having numerous antecedents and consequences, and occupying multiple modes and roles according to the situation in which it occurs (Andvig & Fjeldstad, 2001). Research literature on the subject has proposed varying typologies of corruption, with some work focusing on economic corruption (entailing the exchange of goods and services), others on social corruption (e.g., nepotism), and still others on political corruption (Lindgreen, 2004). The majority of the scarce literature dealing with corporate corruption, however, narrows the definition somewhat. Works in this area assume corruption to be the misuse of public resources by individuals or entities in an attempt to secure private power or gain, and typically involves some deviations in behavior from a broader set of accepted societal norms (e.g., Argandona, 2003; Voyer & Beamish, 2004). We adopt this definition for our purposes and assume an anthropological perspective of corruption, which maintains that it is a function of culture (Lindgreen, 2004). That is, culture affects both the propensity for individuals to engage in corrupt behavior and their perceptions as to whether or not that behavior is truly (in their judgment) corrupt. Indeed, Davis and Ruhe (2003) argue that perceptions of corruption might be shared among stakeholders, implying attitudes and norms concerning corruption become part of the cultural ideology.

Similarly, Anand, Ashforth, and Joshi (2004) point out that the fraudulent acts of most organizations over the past several years involve knowing cooperation and acceptance from other members in the organization – members who were otherwise upstanding individuals in the community. Anand et al. (2004) argue that this explicit involvement in unethical acts can be explained by the fact that individuals collectively rationalize these behaviors as justified due to (among other factors) position, situation, or denial that there is a direct victim. They further posit that individuals in the group (and newcomers who join the group) are socialized to accept prevalent unethical activity as the normal course of business behavior. Such rationalization and socialization allows those engaging in unethical activities to believe that they are behaving morally and ethically, thereby, permitting them to continue engaging in these activities without feeling guilt or remorse. In addition, rationalization and socialization act to reconcile the tension between societal norms and corrupt practices, causing actors and observers to construe unethical acts as justifiable if not worthy of praise.

Given this strong association with socialization and culture, it follows logically that corruption is systemic in nature. Therefore, we must look to systems for both the explanation of its existence (as noted above), as well as potential ways to mitigate the likelihood of corrupt behaviors. It is important to note, however, that the foregoing assertions concerning the role of culture in corruption should not deny the culpability of individuals with regard to their own corrupt behavior. Rather, while focusing on individual behavior, we assert that culture is an integral factor in the facilitation of opportunities for corruption. To elaborate further on the concept of individual behavior of executives, we turn to the literature on the nature of the executive, drawing both from agency (Jenson & Meckling, 1976) and stewardship theories (Davis, Schoorman & Donaldson, 1997).

Agency theorists (e.g., Eisenhardt, 1989; Jenson & Meckling, 1976) maintain that the executive,

as agent for the principal (owner) will not necessarily act in the best economic interest of the owner in exercising discretion and deploying the resources of the firm. Instead, it is assumed that executives will act opportunistically, pursuing their own self-interest to the point of guile, and seeking to attain personal benefit at the expense of the firm. It is imperative, therefore, that the principal either devise means and methods of monitoring and controlling the agent's behavior or enact mechanisms to align the agent's self-interest with the principal's own economic interests. These means, methods, and mechanisms comprise the essential system of HRM policies and practices that should guide the executive's behavior. Typically, then, agency theorists advance control mechanisms (e.g., governance boards) and incentives (e.g., executive compensation plans) to influence executive behavior.

Stewardship theory (Davis et al., 1997), on the other hand, proposes that there are executives who will behave as stewards of the owner's resources, utilizing them as efficiently and effectively as possible. Unlike the agent as defined in the principal-agent model, there is little danger that true stewards will squander the capital of the owner, or shirk their obligations to act in the best interest of the organization, in pursuit of personal gain. No formal mechanisms of control are necessary as the steward, inherently, will undertake only those actions that will promote the owner's economic interests. It is important to note that stewards tend to possess a long-term growth perspective towards their firm coupled with a realization that both processes and outcomes are important to firm growth (Block, 1996; Davis et al., 1997). This distinction is critical; otherwise, one might assume that a steward might engage in corrupt or unethical behaviors not to further his or her own interests, but those of the principal owner and concerned stakeholders. A steward, as conceptualized here, generally would simply not engage in policies or practices that would jeopardize the functioning of the firm in the near or long term.

While these two management theories provide dramatically different perspectives regarding managerial behavior, the propensities of many executives to act as an agent or a steward are undoubtedly somewhere in between these extremes in practice. That is, we acknowledge that while the inclinations of an agent might be to act opportunistically, an agent-oriented executive might not always engage in opportunistic behaviors. Likewise, a steward-oriented executive might not always act in the best interest of the firm. Accompanying this acknowledgement is a caveat to the reader with regard to our forthcoming arguments. We do not argue that any given executive will undertake corrupt activities. Rather, we propose only that certain conditions and influences exist that will facilitate the opportunities to engage in corruption, and should executives be inclined to take advantage of those opportunities, they might do so, relatively unfettered. For purposes of parsimony and clarity, however, we assume that executives might be characterized as one of these two management types and that their behaviors will tend toward the stereotypical conventions ascribed to those types by theory. Because, theoretically, corruption is less likely to occur under the watch of a steward, a key assumption in the current theoretical model is that corruption is most apt to occur under agent-oriented executive leadership.

As mentioned earlier, agency theory predicts that a reliance on both controls such as governance mechanisms and incentives such as executive variable pay plans are important instruments to ensure that the executive behaves in a manner consistent with the owner-principal and concerned stakeholders and, because of that, safeguards against executive corruption (Eisenhardt, 1989). Driven by this theoretical orientation, we have witnessed a steady rise in controls, sanctions, and

variable pay plans. Despite the existence of controls and sanctions such as the Federal Sentencing Guidelines for Organizations (FSGO) of 1991 or the landmark 1996 *Caremark* case which warned executives, to include directors, that they could be held personally liable for the corrupt behavior of their organizations, the prevalence of executive corruption has actually risen—not subsided. Similarly, the concomitant rise in the variable portion of an executive's overall compensation plan has also not appeared to stem corruption as agency theory would predict. To explain this apparent paradox, we build theory that helps explain how corruption has occurred and will continue to occur regardless of the amount, type, or integration of controls and incentives. Thus, a major thrust of our theory development is to help understand the limitations of agency theory to predict or explain executive corruption. To get at this question, we turn back to HRM and argue that corruption is likely to occur in organizations with HRM systems for executives that are one of two types: either non-existent or strategically misaligned in regard to HRM content and processes. Such HRM systems at the executive level do not provide the monitoring, control, or alignment of interests necessary to inhibit corrupt behavior. In the following sections, we provide further explication and support of our assertions by examining three mutually reinforcing contextual factors that lead to the formulation and perpetuation of ineffective HRM systems: culture, decoupling, and cognitive constraints.

HRM SYSTEMS AT THE EXECUTIVE LEVEL

HRM CONTENT

Katz and Kahn (1978) describe HRM as part of the maintenance subsystem that specifies roles, which in turn affects individual and organizational performance. HRM content involves the design and creation of specific sets of HRM practices and policies that enable an organization to achieve its goals (Bowen & Ostroff, 2004). Empirical and theoretical work from both strategic HRM and career literatures supports the notion that the design and creation of HRM content can differ in the degree to which the individual or organization benefits. Ideally, from agency (Eisenhardt, 1989), strategic HRM (Arthur, 1994), and career perspectives (Gunz, Jalland, & Evans, 1998), the content of HRM is best aligned when both the individual and organizational goals are considered and emphasized.

One way in which executives can engage in corruption is in the design of HRM content that includes such policies and procedures as performance appraisal and executive compensation. At this juncture, executives enjoy several advantages that enable them to design HRM content to suit their interests over, and at the expense of, the principal-owner and stakeholders. Traditionally, most employees are affected by HRM. This scenario is reversed at the upper echelons, however—executives affect, and are affected by, HRM. Indeed, senior management can decide upon and influence the very creation of HRM policies and procedures that are supposed to monitor and control them. In short, executives maintain thresholds of power (Finkelstein, 1992; Pfeffer, 1981a) and managerial discretion (Hambrick & Finkelstein, 1987) unavailable to others within an organization. These executive levers can be used to imbalance the organizational and individual harmony sought in ideal HRM content design in order to ensure that self-interests are realized first and to a stronger degree over those of the owners and stakeholders. In summary, without control safeguards or commitment mechanisms in the design of HRM content, executives acting as agents enjoy considerable more opportunities to engage in

corruption. For these reasons, cultural, group, or individual factors that contribute to executive HRM content misalignment and ineffectiveness enhance the risk for organizational corruption.

HRM PROCESS

Once HRM content is designed, created, and agreed upon, HRM policies and procedures need to be put into practice. Accordingly, HRM process involves the administration, enactment, and enforcement of HRM content. Bowen and Ostroff (2004), contend that HRM processes contribute to the psychological climate of the organization, leading individuals to possess shared perceptions of what behaviors are desired and rewarded. This research argues that these shared perceptions are a result of the messages or signals constantly communicated by HRM processes. In order for these messages to motivate desired behaviors, such messages must be unequivocal and clear.

We use Bowen and Ostroff's (2004) "weak" and "strong" distinctions in our theory building to help us understand how executive corruption can occur, and, even, prosper. Weak HR processes connote little to no administration, enactment, or enforcement of stated HR content. This is a dangerous position for the principal-owner and interested stakeholder, but an opportune one for an agent-oriented executive, particularly when the agent is able to intervene in the formulation of HRM content, so that the design of the system is to the executive's advantage. In this case, there is neither effective content nor administration of the senior management HRM system. This condition can be seen in Quadrant 1 of Figure 1. In Quadrant 2, even though there is stated alignment between individual and organization in HR content, there is no enforcement or oversight in implementation. In Quadrants 1 and 2, the agent can freely engage in corruption with little concern about control, monitoring, or reprisal largely because HRM processes are only weakly carried out.

In Quadrant 3, we have strong HR processes. Strong HRM processes, consisting of forceful HRM administration, enactment, and enforcement of HRM content, contribute to strong situations. These strong situations enact a social context that typically produces a powerful impetus to conform to expected behaviors (Bowen & Ostroff, 2004; Lewin, Lippit, & White, 1939). Accordingly, the stronger the forces or situation, the more likely individuals are to conform or behave in a prescribed manner. However, in the upper echelons, these strong HRM processes can place the principal-owners and interested stakeholders in great peril and provide an enormous opportunity for, and even reinforcement of executive corruption. Quadrant 3 depicts a situation where the design or content of HR policies and procedures favors the executive over the owner-principal and concerned stakeholders. Here corruption can be at its very worst, in that misaligned HRM policies are actually enabled, supported, and enacted through strong HR processes. When this occurs, a firm uses its own resources to strengthen, emphasize, and embed these corrupt HR policies. Thus, strong HR processes can actually contribute to executive corruption. Once again, by influencing the design or exaction of HR content, agent minded executives are free to pursue corrupt activities, and this freedom is compounded through reinforcing processes. Contributing to the extant research literature in the subject, this paper challenges the conventional wisdom that strong HRM systems necessarily lead to outcomes that are more positive. Paradoxically, the same strong HRM processes associated with strong HRM systems that lead to high organizational performance (Bowen & Ostroff, 2004), might also

contribute to high levels of organizational corruption.

We propose that executives (and governing boards) might actually manipulate conditions to render HRM systems ineffective, or be faced with cognitive constraints that restrain adequate administration of HRM policies and practices. Because of contextual factors that exist at the upper level of the organization, both HRM content and process can be readily derailed, as can any coherent integration of the two factors. The existence of a strong and pervasive executive culture (the E-culture) and the potential for decoupling HRM policy from practice, along with cognitive constraints enable this derailment. Specifically, these contextual factors will predictably prevent a firm from reaching Quadrant 4, well-balanced individual and stakeholder HR content with strong enforcement and execution. Figure 1 depicts this conceptual model.

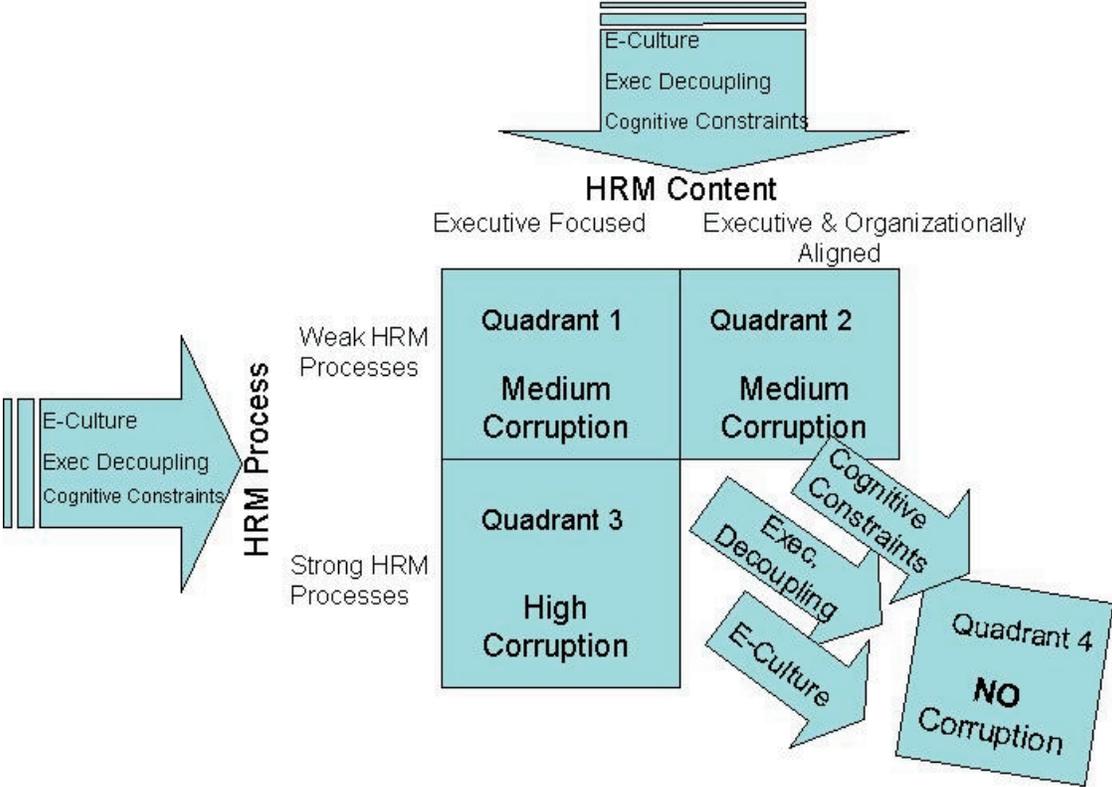


FIGURE 1. HRM CONTENT, PROCESS, AND EXECUTIVE CORRUPTION

Building on this logic, this paper puts forth a multilevel conceptual model. By multilevel, we mean that we incorporate into our theory development, individual, interpersonal, team, group, and, even, cultural-level factors that likely influence and explain how and why organizational corruption at the upper echelon can and does occur. There are at least three reasons why a multilevel theoretical model of facilitating factors is appropriate to understand corruption. First, the fact that government and business regulators, internal and external stakeholders, and watchdog agencies frequently fail to diagnose or identify organizational corruption suggests the existence of both enabling and camouflaging influences of a level of complexity and sophistication that should be examined from multi-levels. Second, we maintain that corruption is

a systemic problem and goes beyond a single unethical decision. Thus, we suggest that corruption is an embedded phenomenon (Granovetter, 1985) with causal processes that span a number of levels of analysis. Finally, theory building that accounts for multi-levels is more likely to provide a deep, rich, and more integrated explanation of organizational phenomena (Klein, Tosi & Cannella, 1999; Kostova, 1999).

THE E-CULTURE

While there are notable exceptions, the culture at the executive level cannot only be strong and pervasive, but typically is also elitist and isolationist in nature. As organizational research literature clearly documents, it consists of a tightly knit group of individuals who have common goals and philosophies, careers, education, social status, shared group memberships (including board memberships), and similar functional backgrounds (Zajac & Westphal, 1995). Useem (1984) describes executives as a cohesive inner circle of elites, answering only to themselves. Similarly, Westphal and Zajac (1997) refer to executives as a cohesive class of managerial elites, noting that board members are executives who identify with executives, which, predictably, impedes board control. Further, these authors note that there are strong norms of reciprocity in the E-culture and, consequently, there is a mutual reinforcement of each other's actions (Gouldner, 1960) and an accompanying obligation to reciprocate by engaging in activities that are beneficial to the original actor. Directors also might feel a strong responsibility for appointing the executive, and thus feel an obligation to support executive activities in order to protect their own image (Zajac & Westphal, 1995).

Hofstede's (1980) work on cultural differences delineates four well-known dimensions of culture. While this framework is usually associated with explanations of differences in national cultures, the cultural typologies and characteristics delineated in this work might be usefully applied to explain this distinctive subculture of executives, which we refer to as the E-culture. The four cultural dimensions included in this work are: individualism vs. collectivism, power distance, masculinity vs. femininity, and uncertainty avoidance. Individualism refers to the inclination of people to think of self or immediate family first, rather than the welfare of the group or society, which is typical of collectivism. Power distance is the degree to which people in a society accept and expect large variations in power distribution between the elites and people lower in the social hierarchy. Masculine societies value toughness, assertiveness, advancement, success, and materialism. Conversely, feminine cultures value personal relationships, concern for others, emphasis on social needs, and quality of life (Davis & Ruhe, 2003; Ferraro, 1994). Uncertainty avoidance is just that: an intolerance of ambiguity and a desire for predictability. Along these four dimensions, the E-culture can be characterized as collectivist, high on power distance, high on masculinity, and with a strong preference for uncertainty avoidance.

Davis & Ruhe (2003) analyzed the relationships between the various dimensions of culture and corruption and found significant positive relationships between those very factors that characterize the E-culture: collectivism, high power distance, high masculinity, and high uncertainty avoidance. Their theoretical explanation for the findings is as follows.

Collectivist cultures place strong emphasis on loyalty to the group and will protect individuals in

exchange for this loyalty. Further, collectivists expect sanctions from within-group members only, and feel that rules vary according to group. This culture and its accompanying norms are apt to create tight bonds and relationships that, under some circumstances, would facilitate unethical behavior and corruption. Cultures with high power distance believe that people in powerful positions are entitled to their power and should not hide that power. Individuals at the top of the organization are seen as inaccessible and irreproachable. Further, their decisions and actions are deemed legitimate simply by virtue of their position. Accordingly, such shared expectations can facilitate corruption. Masculine norms emphasize materialism, dominance, and assertiveness. Davis and Ruhe (2003) maintain that, in a masculine society, work takes priority over other duties such as family; advancement, success, and money are deemed highly important. They contend that highly masculine cultures present proportionately more situations with the potential for corruption. As for uncertainty avoidance, the authors draw from Jackall (1988), and argue that highly bureaucratic structures extant in such cultures would encourage managers to engage in corruption. Under these circumstances, personal career advancement and business success might come only from one's willingness to compromise on ethics. If we assume these findings are generalizable, it follows that the presence of an E-culture enhances the potential for corruption.

It is interesting to note that of all segments of our society, executives appear to undergo the most radical of cultural changes. Notably, contemporary literature reviews on leadership suggest that executives rise to the top through elevated levels of achievement motivation (House & Aditya, 1997). From an economic perspective, tournament theorists propose that a manager must exert extraordinary effort, often at the expense of behavioral or social coordination, to win the organizational tournament and earn an executive title (Henderson & Fredrickson, 2001; Lazear & Rosen, 1981). The cultural "tipping point" appears to emerge once executives make it to the top of their organization. Paradoxically, making it to the top requires embracing individualistic behaviors, while staying and surviving at the top requires collectivist behaviors to protect one another from a variety of threats that include: rival firms, institutional shareholders, government agencies, and junior managers within the organization eager for executive advancement. These threats might be the impetus for highly individualistic, and powerful, executives to enact a collective barrier to internal and environmental threats. When risk is high, mutual support operates to reduce uncertainty of outcomes and guarantee increased longevity within the elite group. In summary, the E-culture can be characterized as strongly collectivist with members of the culture obligated to protect one another by norms of reciprocity.

Drawing on the previous discussion of strong situations, it appears that there are compelling forces within the E-culture for conformity to established group norms. The group members adhere to their right to use their power and to protect themselves from reproach based on the values of high power distance. These norms suggest that the culture would even defend corrupt activity rather than violate group norms. Further, because of the strength of the situation, even new comers with ethical intent (stewards), would either accept the norms and remain, or choose to leave the group. Anand et al. (2004) maintain that newcomers would enter into the situation, be confronted with unethical behavior, and experience great dissonance and apprehension, resulting in such discomfort that they would leave the group. The very apt conclusion of these authors is, "Ironically, this helps perpetuate the corruption by weeding out those who are most averse to it" (p. 44). However, research has shown that more often, potent socialization forces

exist that induce newcomers to conform to the status quo (Ashforth & Anand, 2003), abandoning the stewardship role and donning the agent persona. For these reasons, corrupt cultures are likely to perpetuate, even gain in strength, from the voluntary turnover of those against corrupt behavior or via an intense socialization process that transforms newcomers and compels them to adopt corrupt practices.

E-CULTURE AND CORRUPTION

Figure 1 depicts the cultural influence within our conceptual model. The model shows that there are three main points of opportunity concerning HRM where cultural factors might either directly contribute to organizational corruption or fail to prevent its occurrence. First, the E-culture might choose to fulfill their collectivist agenda by influencing HR content - the design of HR policies and procedures. At this point of opportunity, HRM policies could be purposefully misaligned between individual and organization. For instance, executives could be awarded “golden parachutes” or “golden handcuffs” despite their own poor decision making or for deliberately pursuing actions detrimental to stakeholders (Davidson, Pilger, & Szakmary, 1998). In this scenario, the content is designed to protect the executive rather than the principal owners and stakeholders. Essentially, this negates the burden of risk that executives are expected to shoulder and relieves the executive of the responsibility and accountability to the organization for their decisions and actions.

In addition, the E-culture can influence the deployment of HRM processes. Executives and boards could formulate aligned and well fitted HRM practices and policies, but simply, choose not to implement such rules or fail to enforce them. This can be accomplished by either plainly failing to enact HR policies or by “rubber stamping” HR decisions, a practice known to occur regularly (Herman, 1981). Directors could also ignore executive performance appraisal procedures and, instead, base their evaluation on other tangential factors (Finkelstein & Hambrick, 1988). By its very nature, the E-culture will resist factors that limit their power (Pfeffer & Salancik, 1978). Thus, the likelihood of the E-culture supporting Quadrant 4 where executives would essentially forfeit power to other stakeholders and acquiesce to HRM controls is unlikely. Therefore, we contribute to the research literature by offering the empirically testable and potentially refutable proposition that the E-culture removes HRM as a tool to control or modify executive behavior through its influence on HRM content and process. This effect of culture on HRM, in turn, helps explain the existence and persistence of corrupt activity at the top of the organization.

While the above are pertinent and compelling arguments related to the nature of the E-culture and executive opportunity and propensity to engage in corrupt activity, we would like to delve more deeply into the individual and interpersonal factors that facilitate corruption through the crippling and disabling of HR content and process. We hone in more specifically on existing (and predictable) behaviors of executives and directors that are direct manifestations of executive culture. We are particularly focused on decoupling as a device to isolate executives from HRM content and process controls.

DECOUPLING

Reverting to the agency argument, one assumes that agent executives, at least on occasion, will act in his or her own self-interest to promote his or her own personal gain even at the expense of the principal-owner and interested stakeholder. However, such predictable behavior can only occur if there is a deficit of mechanisms in the HRM system to monitor, control, or align the interests of the agent with those of the owners. If executives can manage to protect themselves from oversight, they can behave in this characteristically opportunistic and corrupt manner. An effective method by which to obtain this protection is through decoupling, thereby assuring a nonexistent, misaligned, and ineffective HRM system.

There is a growing body of literature in the strategic management field that focuses on decoupling (Tosi & Gomez-Mejia, 1989; Westphal & Zajac, 1995, 2001). Decoupling involves the isolation of policy from actual practice (Meyer & Rowan, 1977; Westphal & Zajac, 2001). Early decoupling theory was advanced at the organizational level as a way in which firms could appear legitimate to external stakeholders via policy announcements without modifying internal practices (Meyer & Rowan, 1977). We focus on discourse that is more recent, however, and that examines decoupling at the executive level (Westphal & Zajac, 1995). Hence, in our discussion executive decoupling involves the willful and purposeful attempts to isolate HR content from HR process. Executive decoupling can take several forms and can be initiated by executives, directors, or both. Executive initiated decoupling might involve stacking the board (Westphal & Zajac, 1995), separating competitive activities from performance criteria (Offstein & Gnyawali, 2005), manipulating impressions of performance (Elsbach & Sutton, 1992; Kroll, Simmons, & Wright, 1990), or posturing. Board initiated decoupling might manifest itself as a failure to monitor, or a deviation of administration and execution from formal policy (Zajac & Westphal, 1996). Referring back to our conceptual model, we explore next how and why executive decoupling contributes to organizational corruption.

DECOUPLING AND CORRUPTION

Similar to E-culture, there are multiple points of opportunity where decoupling can directly contribute to corruption or prevent the exposure of such corruption. The initial launching point for decoupling is in the design of HR content. Executives can help ensure that the design of HR content is in their best interests through the purposeful and careful selection of the key individuals who are charged with designing senior management policy. Notably, executives can stack the board to ensure personal interests are given priority over that of the stakeholders or owners. For instance, Westphal and Zajac (1995) show that power imbalances between the CEO and board affect the demographic characteristics of successors. When CEOs are more powerful, new directors more closely resemble the demographic make-up of the CEO. Moreover, greater demographic similarity between the CEO and the board is associated with higher CEO compensation. In this scenario, executives influence the design of their compensation packages by affecting the composition of those that make this important decision. This is a particularly novel attempt at decoupling because it does not adhere to traditional perspectives linking policy to practice. Here the decoupling happens between intent and policy design. More specifically, manipulating the composition of the board, which then designs HR content, can severely circumvent the intent of firm stakeholders who view governance as a control or monitoring

mechanism. In this scenario, the link between policy and practice is not broken. Rather, the link between intent and policy is circumvented. Furthermore, corruption is compounded when executives can influence the design of HR content and then have those policies forcefully implemented (the condition depicted in Quadrant 3).

In addition to influencing HR content in favor of the individual at the expense of the organization and stakeholders, executives can skillfully decouple policy execution from well-intended and well-aligned policy design. Quadrant 2 of our conceptual model depicts a decoupling scenario where well-aligned policy is created, but is not enforced. This is a dangerous situation because symbolic announcements can override substantive actions. For instance, Westphal and Zajac (2001) found that firms would react to external pressures for stock repurchase plans by announcing their adoption. However, powerful executives would pressure the board to ignore or only weakly implement this new policy. Hence, the enforcement of HR controls can be decoupled from their design.

Executives might use other decoupling tactics to change both HR policy rules and the execution of those rules. For instance, Arya and Sun (2004) suggest that executives rely on weak corporate governance, lack of director independence, conflicts of interest, and conditions of reciprocity to engage in stock option repricing. In essence, the constant and continual repricing is akin to renegotiating and changing the rules of the game. Consequently, the repricing of stock options negates or eliminates executive risk and the control and incentive purposes associated with this type of executive compensation (Arya & Sun, 2004).

Given that the deployment of HR processes to include contract negotiation, compensation awards, and executive sanction or discipline rely on the decision making of directors, senior managers might employ decoupling tactics that interfere and obfuscate performance appraisal and evaluation. Indeed, research suggests that executives and organizations use impression management techniques to purposely distance policy from practice (Elsbach & Sutton, 1992). To date, one of the more prominent arguments is that CEOs purposefully acquire other firms to boost their firm's size, which they use as a surrogate for performance (Kroll et al., 1990). Research that is more contemporary appears to support this notion of impression management as a decoupling device. For instance, Offstein and Gnyawali (2005) suggest that CEOs inflate the volume of competitive moves that they launch to influence the performance appraisal process and to lobby for higher pay and greater rewards. In this situation, executive decoupling via impression management severely reduces transparency in an already complicated performance evaluation process. Such complexity and ambiguity surrounding executive performance make appraisal exceedingly difficult (Eisenhardt, 1989; Finkelstein & Hambrick, 1988). Further, executive evaluation is made even more challenging due to the time and information processing burdens placed on directors (Mace, 1971; Lorsch, 1989; Schaffer, 2002). Therefore, even if directors are stewards who genuinely want to fulfill their duties of monitoring, controlling, and advising executives, their assessments and evaluations are easily influenced and distorted by executives who decouple through impression management. Consequently, decoupling contributes to the cognitive constraints of directors who might desire to fulfill their fiduciary duties, but lack the amount or accuracy of information to do so. These decoupling processes help explain why corruption occurs even in the presence of watchful stewards. Under these decoupling circumstances, reaching Quadrant 4, where corruption is less likely to occur,

becomes particularly difficult to achieve.

COGNITIVE CONSTRAINTS

While, the preceding discussion is concerned with the impact of the E-culture and the decoupling it facilitates on executive corruption, we would suggest that cognitive constraints also play a role in the facilitation of fraudulent executive behavior. However, there are two major differences in the focus of our discussion here, relative to the foregoing. First, with regard to culture and decoupling, we are concerned with both executives and board members. With regard to cognitive constraints, our attention is centered solely on board members charged with executive oversight (via executive HRM) and the factors that interfere with their ability to accurately gauge executive behavior. Second, where there are direct effects of culture and decoupling on both HRM content and process, the impact of cognitive constraints on content is only an indirect one. That is, if board members are unable to assess definitively executive performance, they will not fulfill their crucial role in offering guidance and oversight, as they will be unaware of any necessary adjustments to policies and practices to redirect managerial behavior. The impact on HR process, however, is a direct one in that board members, due to their lack of reliable information, are unable to execute the mechanisms in place to guide the activity of the executive.

More specifically, there are mental and psychological factors that are likely to impede a director's ability to assess accurately what is occurring with regard to executive behavior. As such, board members might ignore or unknowingly support corrupt behavior, reinforcing the propensity of agent-oriented executives to engage in these activities. We turn now to an examination of those factors and their role in creating opportunities for corruption.

COGNITIVE CONSTRAINTS AND CORRUPTION

Organizational scientists dating back to Simon (1957) have been concerned with the complexity of organizations, and the bounded rationality within which organizational leaders must make decisions. The essence of this body of work is that decision makers in the organization are confronted with only limited information, and thus make choices without full knowledge of the courses of action available to them as well as the consequences of various alternatives. As such, organizational leaders will typically make decisions that do not maximize efficiency and effectiveness. Bounded rationality is particularly significant with regard to HRM decisions made by board members, as they are confronted with great complexity in observing and evaluating executive behavior (Finkelstein & Hambrick, 1988; Schaffer, 2002). The responsibilities of the executive are numerous and complex (Mintzberg, 1973), and the manner in which tasks are accomplished is difficult, if not impossible, to monitor (Eisenhardt, 1989; Mace, 1971; Lorsch, 1989; Schaffer, 2002). Further, there are no prescribed methods for accomplishing executive duties. There is, therefore, great ambiguity for board members in the HRM process of executive performance appraisal. Complicating the matter, board members are potentially faced with several forms of cognitive constraints that might interfere with legitimate evaluation. Among these limiting factors are accounting and financial illiteracy, time constraints, culturally induced faulty perceptions, escalating commitment, and groupthink. We address each of these cognitive constraints, and their impact on the executive performance appraisal process in turn. In each case, failure to assess accurately executive behaviors opens opportunities for corruption.

Perhaps the simplest explanation as to how board members overlook corruption is that they are inadequately aware of the financial and accounting indicators that executive behavior has gone awry. It has already been discussed that a majority of corporate governing boards are composed of interlocking members, many of whom are executives of other companies, so we would expect that board members would possess a high degree of financial savvy. However, Westphal and Zajac (1997) refer to the make-up of most boards as empathetic insiders, reluctant to monitor the executive or ill-informed outsiders without sufficient knowledge to provide oversight. Given recent evidence, it might be the case that there are a number of ill-informed insiders as well. Indeed, it has been recently reported that forty percent or less of all corporate directors of publicly held companies are financially competent enough to provide effective oversight (Lublin, 2004). Some board members have even admitted to the press that they have never understood off-balance sheet transactions. Further, there is little personal economic or regulatory incentive for these board members to enhance their understanding of the financials, as the major stock exchanges require that only audit committee members be financially literate and it is up to the board to decide what level of knowledge is sufficient to qualify as “literate.” The current paper, in hopes of contributing to the research literature, submits that such financial illiteracy on the part of a clear majority of board members is a fundamental governance problem that has been adequately addressed neither in extant governance research nor in our leading management textbooks. Such financial illiteracy is likely a leading factor in explaining how corrupt and costly activity can flourish, as well-intentioned directors are often poorly prepared to exercise the necessary financial oversight and control.

A second major factor posing a cognitive constraint for board members is the time constraints with which board members are confronted (Mace, 1971; Lorsch, 1989; Schaffer, 2002). Accurate performance appraisals require in-depth information about the activities of the individual being evaluated, involving first hand knowledge from observation, and the processing of this information. As such, executive appraisal is a time consuming task. However, in addition to their own career responsibilities, board members might serve on several corporate boards with responsibility for executive oversight in each position (Lorsch, 1989). As such, the time available to these board members for monitoring executive behavior is limited, constraining the efforts invested in the appraisal process and, thereby, the accuracy of the evaluation itself (Lorsch, 1989; Schaffer, 2002; Offstein & Gnyawali, 2005). It is likely, given these time constraints, that board members will look to short cut the evaluation process by relying on impressions of performance rather than actual performance, per se (Offstein & Gnyawali, 2005). At best, board members might rely on publicized indicators of performance for their appraisal. At worst, as previously discussed, impressions of performance might actually be manipulated by the executive, providing themselves full rein to engage in activities without close scrutiny. The appraisal process, in this case, has limited validity, less than vigilant board members are ignorant of executive behavior, and opportunities for corruption abound.

Similarly, a less obvious cognitive constraint might present itself through culturally influenced misperceptions of corrupt executive behavior. There is a strong case for a direct effect of culture as a facilitating factor for corruption; however, we would argue that there is also a significant indirect effect of culture on the cognitive ability of individuals involved in governance and, therefore, in control of HRM at the top of the organization. That is, the E-culture can influence

the perceptions of individuals, their interpretations of executive activity and behavior, and thereby their judgment of these variables as ethical or corrupt.

It is widely acknowledged that an individual's sense of reality is based on their perceptions of the behavior being witnessed, and perceptions might be biased in such a manner that two people observing the same action might evaluate and interpret it quite differently (Nicholson, 1998). Perception is not a "photographic representation," but rather a "partial, personal construction" (Krech, Crutchfield, & Ballachey, 1962, p. 20). Yet, it is upon this perception of reality that individuals make judgments and formulate reactions (Lewin, 1936). Among other factors that might bias an individual's perceptions are individual needs, often involving selective perception, and perhaps most pertinent to directors' perceptions, the situation, itself.

Directors engaging in HRM, appraise the performance of the executive within a context, which as previously asserted, is a very strong culture and situation. The collectivist norms prevalent in this culture induce the need to preserve its legitimacy and integrity. Further, executives evaluating other executives are likely to engage in social comparison, judging behaviors and activities of the executive relative to those in their comparison group (O'Reilly, Main, & Crystal, 1988). The elite culture and the commonalities among its members have established the norms and convergent expectations for appropriate conduct within the social context (Pfeffer, 1981b), and perceived similarity among insiders is very high. This being the case, interpersonal trust should be greatly enhanced (Kanter, 1977; Useem & Karabel, 1986). Thus, directors might assume, in the absence of evidence to the contrary, that executives are engaging in exactly, and only, those activities in which they should be engaged. Moreover, affirmation of the executive's value to the organization is also an indirect affirmation of the evaluating director's own human and social capital (Zajac & Westphal, 1995). It follows logically that the directors' perceptions of executive performance will be substantially biased in a positive direction. Indeed studies on performance appraisal have found consistent empirical support for upward bias in evaluations of similar individuals (e.g., Tsui & O'Reilly, 1989).

These potential misperceptions of behavior and biased evaluations increase the likelihood that corrupt activity will, for some time, go undetected. Failure to accurately assess performance and continued affirmation of the executive's conduct are facilitating factors for the occurrence and persistence of corruption. Rewards and positive feedback based on these appraisals are also factors that reinforce and perpetuate the E-culture.

In addition, when board members continue to make psychological investments in the executive, on top of financial investments, escalating commitment is a likely outgrowth. Typically, the escalation phenomenon is considered to be a continued investment of resources to a failing course of action (Staw, 1976; 1981). This perspective assumes that there is clear evidence that the project, or in this case, the behavior of the executive, is on a downward spiral. Assuming this stance, board members would intentionally and knowingly continue to support and to reward corrupt behavior.

Typically, however, the performance appraisal of the executive presents significant ambiguity as noted, with exact behaviors being difficult to ascertain. It is likely that directors might not have sufficient and clear information on which to base their HRM decisions. Bowen (1987) suggests

that the escalation phenomenon might not be commitment to an activity that is *known* to be failing, at all. Rather, individuals might continue to increase support because they are unaware of the failing status of the project. That is, feedback on the activity is equivocal. Bowen (1987) proposes that equivocal feedback and, therefore, misperceptions are more likely (a) when there are no clearly defined criteria against which to judge performance; (b) when there is an inability to establish credible criteria (most apt to occur in cognitively unstructured situations; Lewin, 1935); (c) when there is a failure to establish credible standards; or (d) when credible standards exist, but there is sufficient information to adequately judge performance against those criteria. All of these criteria are potential descriptors of HRM at the executive level. As such, board members are likely to continue to support executive activity because they have no unequivocally negative feedback. In other words, because of these cognitive constraints, it is not until corrupt behavior has been exposed as unequivocally corrupt that directors will reverse their supportive course of action. Thus, the cycle of E-culture perpetuation and corruption will not be broken until the damage has already been done. Executive HRM processes have been thwarted.

Tangential to the notion of escalating commitment, is the potential for groupthink to cognitively constrain and invalidate the appraisal process. Janis (1972) defines groupthink as a process of decision making engaged in by a cohesive group of individuals who fail to consider and evaluate all valid and relevant information before arriving at a conclusion. He describes groupthink as a type of thinking people engage in (a) when they belong to a tight-knit in-group; (b) when there are strong pressures for conformity that override the motivation to engage in critical analysis of information; and (c) when there is a failure to apply sound thinking and moral judgment resulting from in-group pressures.

Neck and Moorhead (1995) add three additional variables to their model of groupthink: closed leadership style, lack of methodical decision-making procedures, and time constraints. Time constraints have already been discussed as having a direct negative effect on the executive appraisal process. Here, however, we propose an indirect negative effect through the inducement of groupthink. While both time constraints and lack of methodical decision-making procedures are self-explanatory, closed leadership style is particularly pertinent to executive behavior and warrants further explanation. The authors argue that an effective leader of decision making relinquishes control to the group and acts only as a facilitator and advisor. Contrary to the characteristics of an effective leader, the attributes of closed leadership are lack of encouragement for group participation, lack of encouragement of divergent opinions, and a failure to emphasize the importance of the decision. Closed leaders attempt to manipulate the norms of the group and thereby influence member impressions and decision-making. These conditions delineated as conducive to groupthink are incredibly synonymous with those that exist within the strong E-culture as noted previously. Further, the characteristics of closed leadership resound with the foregoing discussions of executive behavior and impression management. As such, the likelihood of groupthink impeding the HRM appraisal process is quite high. Assuming the executive is successful in constraining the group's decision, the evaluation process is wholly invalidated, true executive behavior remains obscured, and the potential for corruption thrives. HRM at the top has failed.

DISCUSSION & CONCLUSION

Our purpose in this paper has been to stimulate research and thinking regarding executive sources of organizational corruption. According to agency theory, to prevent executive corruption interested stakeholders should institute either controls (e.g., governance) or incentives (e.g., variable pay plans) and, preferably, a combination of both. Still, and in spite of these recommendations, corruption continues to occur. Consequently, theory development should try to understand the why behind this phenomenon. To that end, we provide a conceptual model that helps explain the conditions under which executive-driven organizational corruption occurs even in the face of controls that are more stringent and variable pay plans that are more lavish. Admittedly, the model is a provocative one; however, we feel it to be an accurate and theoretically sound portrayal of the current corporate condition under agent-oriented leadership. While our model stops just short of suggesting that early identification or the remedying of executive directed organizational corruption is unworkable, it does argue that current solutions, controls, and incentives will not be sufficient to stem the corruption problem. Furthermore, our theory development would predict that expensive legislation aimed at controlling agent-oriented executives, such as the Sarbanes-Oxley Act, are not likely to prevent corrupt behavior from agents, but, instead, raise the cost of auditing and doing business for all others.

From a nomological perspective, our model of executive corruption is bolstered when aligned with the resource-based view of the firm. A vast amount of strategic management literature argues that firms can enjoy competitive benefits when they possess bundles of resources that are socially complex, path dependent, and causally ambiguous (Barney, 1991). The assumption behind this research is that important resources, including human capital (Coff, 1997; Pennings, Lee, & van Witteloostuijn, 1998), will inevitably be used for the good of the firm. We challenge this assumption. Grounded in our model, is the premise that the factors that contribute to a firm gaining and preserving a competitive advantage are the same factors that might also make the detection and resolution of organizational corruption difficult, if not impossible. While forces of social complexity, path dependency, and causal ambiguity provide a firm with competitive advantage, they can also create opportunities for organizational corruption, especially when exploited by an opportunistic agent.

Two other notable features of our model are emphasized here. First, the factors of E-culture, decoupling, and cognitive constraints are sometimes complementary and mutually reinforcing. For instance, the presence of an E-culture supports the use of executive decoupling. Alternatively, decoupling both contributes and benefits from the cognitive constraints of other executives, to include board members. These complementary and mutually reinforcing properties within the corporate governance system suggest that once corruption begins it will get stronger rather than wane, and can lead to a dramatic unraveling of an organization. A second, and important, characteristic of the model is that it represents an open system. That is, executives are not collared into a sequential or multiple hurdle approach in their effort to engage in corruption. Our framework depicts multiple and varied points of opportunity from which executives might choose to engage in corruption. An agent-oriented executive might readily influence, at any time, HRM content, process, or both. This also explains how a newly recruited executive could still engage in corruption despite not being involved in the design of HR content.

In general, HRM suggests that human behavior can be influenced via control or commitment mechanisms (Arthur, 1994). Interestingly, agency theorists suggest similar mechanisms. When behavior can be easily monitored and observed, controls should be used to align the agent's behavior with the principal's interests (Eisenhardt, 1989). When behavior cannot be easily monitored, Eisenhardt (1989) suggests other devices, such as incentive compensation, to align interests and increase organizational commitment from the agent. Such arguments are standard and well known in the research literature. What sets this conceptual model apart from others is that neither control nor commitment apparatuses will be sufficient to solve the corruption problem. The E-culture, decoupling, and cognitive constraints render controls ineffective and an agent-oriented executive will exploit their E-network and decoupling devices to ensure that their interests will be realized over that of the principal-owner and concerned stakeholders. Therefore, genuine commitment from an agent-oriented executive is untenable.

Further, agency theory, while recognizing highly self-interested behavior, simply does not come to grips with the subtle and creative ways in which executives can play outside of the rules of the game that are implicitly assumed to be followed and enforced. In other words, principal-agent theory, by the assumptions of its own formal structure, rules out the possibility of pervasive corporate corruption. The current paper goes beyond the agency theory model in an attempt to contribute to research on executive behavior by providing concepts, constructs, language, and plausible interrelationships between concepts to explain why and how executive corruption can occur. In contrast to the agency theory model, which comes close to denying the existence of corruption by assertion, our conceptual model helps explain and predict corruption even in the face of tighter governance controls, regulations that are more stringent, the creation of incentive-heavy executive pay contracts, the threat of stiff fiduciary penalties, and the possibility of litigation and criminal prosecution. Contrary to the principal-agent model, our framework proposes that creative executives can conceivably find new and innovative ways to play outside the rules, and corruption can actually increase under the use of increased control and incentive mechanisms. Our intent here is not to debase and declare useless agency theory. Rather, our goal is to acknowledge and attempt to meet the research imperative of Eisenhardt (1989) who remarked

The recommendation here is to use agency theory with complementary theories. Agency theory presents a partial view of the world that although it is valid, also ignores a good bit of the complexity of organizations. Additional perspectives can help to capture the greater complexity. (p. 71)

The logic of our conceptual model compels us to anticipate the persistence of corporate corruption in the foreseeable future. Faced with this distressing outlook, we consulted political theory for possible solutions. Given our free market system, we chose to examine mainstream political thought surrounding corruption in free and democratic societies. A central theme emerges from our review of the political literature. Notably, a system of checks and balances are the best remedies to prevent the abuse of power and spread of political corruption (Lowi & Ginsberg, 1998). However, checks and balances only work when there are true separation of powers (Thurber, 1996); hence, the existence of judicial, executive, and congressional political bodies in our national government. The presence of interlocking ties and the nature of the E-culture prevent a true separation of powers within a corporate context. Because corporate

corruption is such a systemic problem, as has been emphasized throughout our discussion, a starting point in addressing executive corruption might be to begin with the E-culture. This is not easily or readily done as elites can use their power to prevent the erosion of their ethos. Referring back to political theory, however, might inform us as to where to begin.

Political pluralism argues that active involvement of many and diverse constituencies will protect individual and group interests (Lowi & Ginsberg, 1998). Perhaps, borrowing from European (stakeholder) models of governance by including labor or lower level workers in the process might initiate a cultural shift. Alternatively, very few (accounting, finance, or management) academics sit on corporate boards despite their expertise. Initial calls to include respected and knowledgeable scholars on boards might also encourage a cultural change and act as an inhibitor to the cycle that facilitates and perpetuates corrupt activity. Indeed, there have been calls for more diversity among board members (e.g., Biggs, 1995). In addition, research on stakeholder activism (Ryan & Schneider, 2002) presents the possibility of a separation of powers. The assumption here is that active and powerful stakeholders (e.g., mutual funds, pension funds) can and will pursue the benefits of their many investors. However, consistently following the logic of this paper suggests that board and executive decoupling, posturing, and impression management can pose significant barriers to stakeholders in terms of recognition of on-going corruption at the top. Admittedly, these are difficult issues to tackle. Nonetheless, theory and research on political pluralism and political activism might offer a starting point for crafting improvement over the current state of affairs.

From an executive HRM standpoint, another logical intervention could be to raise the rigor of executive selection with the goal of selecting steward type executives while dismissing agent-oriented ones. Ironically, the selection rigor that is often done at lower levels within the organization such as personality tests, reference checks, general-mental ability tests, and integrity exams are yet to become fully mainstream at the upper echelons. Of course, even in the most vigilant screening of candidates, true agents would invariably misrepresent themselves (to avoid monitoring and control), and successfully navigate through the selection process. Due to the importance, discretion, and scope associated with the executive function, HRM should raise the level of rigor in the selection process to reduce the number of agent hires.

To test and gauge the mutuality and reciprocity of the relationships exhibited between the variables of E-culture, decoupling, and cognitive constraints will likely require in-depth qualitative and longitudinal research that accounts for the systemic and multilevel nature of the phenomenon of corporate corruption. We hope to contribute to research in this area by making clear that it is very unlikely that a less intensive research approach will be adequate for an understanding of corruption at the upper echelons. In addition, we believe that there is value in incorporating corporate governance with executive HRM. Whether governance is a subset of HRM or HRM is a function of governance is an open question. However, there appears to be theoretical, empirical, and, practical promise in more tightly linking these streams of literature. In addition, and unlike current perspectives that view HRM as an internal organizational responsibility, we call attention that, at least where executives are concerned, HRM is more of a shared duty involving interested parties within and outside the firm to include outside directors and institutional investors and shareholders. Because these parties are currently active in selecting, evaluating, compensating, and disciplining executives, future theory building should

account for their role and function in shaping the executive HRM function.

We need little reminder that the costs associated with executive corruption are immense and the impact far reaching. Thus, we can reasonably assert that further research along these lines is highly warranted. We have attempted to contribute to these efforts by providing researchers in HRM and strategic leadership with a conceptual model of how corruption occurs at the upper echelons. While we expose the substantive challenges that scholars and practitioners face in addressing this issue, we hope that we have provided a solid foundation for other researchers to build upon. The importance of continued and intensive research into the mitigation of corporate corruption is evident, as corruption has ramifications that reach beyond business to include public policy, rule of law, and ultimately our society as a whole.

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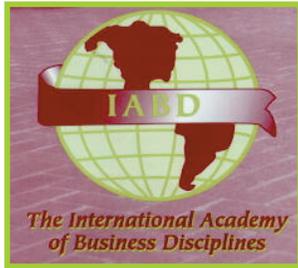
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