

# *Taking Back Missed Opportunities Fairly: The Impact Of Organizational Corruption Towards Businesses In Malaysia*

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**Abstract** – Malaysia was once an emerging market in the 1980's before organizational corruption became widespread, up to the point that 50% of Malaysian organizations said that corruption has cost their businesses from getting financial opportunities fairly. In this research, an in-depth explanation on the definition of corruption, the types, dimensions, and models of corruption, the effects, causes and the ways to curb corruption shall be discussed, with a brief optimistic outlook of the Malaysian organization's future should they understand how to deal with corruption.

**Keywords** – *organizational corruption, businesses, corruption, organizational corruption towards businesses*

## I. INTRODUCTION

It was once upon a time in the 80's where Malaysia was regarded as the emerging "Tiger of South East Asia" for its rich natural resources and its potential to be as rich and be a business trendsetter just like South Korea or Singapore of today. However, what were the aspirations of Malaysians have dashed with the rampant corruption that is happening in this country from all aspects, blocking all other aspects of economical development, up until a point where it has gone very serious. In a survey done by Transparency International for its 2012 Bribe Payers Survey, Malaysia tops the bribery list with 50% of executives agree that corruption had cost these private companies lucrative contracts since their competitors all paid bribes (Ng, 2012). Singapore on the other hand, is the second-cleanest country in the survey after Japan with only 9% (Ng, 2012). The worse part is that according to Paul Low, president of the Malaysian chapter of the organization, he remarked that this survey showed "the attitude of private companies in Malaysia, indicating

that bribery in the public sector could be systemic and in a sense institutionalized" (Ng, 2012). So, what does this mean for the future of businesses if this unethical disease is left uncured? In this research paper, a more comprehensive outlook on corruption and various types of organizational corruption will be explained, as well as case studies from a neutral viewpoint to discover how organizations and governmental arms work hand-in-hand to either combat or welcome corruption in Malaysia.

## II. A DEFINITION OF CORRUPTION

The definitions of what constitutes corruption remains to be set into stone since there are confusing statements by scholars in political science, economics and businesses that are made with definitions regarding corruption and its related activities that differ across cultural and geological bounds (Donaldson, 1996, as cited in Kayes, 2006) and could go further as to define corruption as what the individual thinks about corruption (Davis and Ruhe, 2003, as cited in Kayes, 2006). Several definitions have been explained by many scholars as to what is corruption could be such as it equates to "the illegitimate use of power in organizations" which could be due to the various definitions of corruption and the growing power of the capitalist market (Kayes, 2006). In terms of governmental corruption, Calhoun (2011) has remarked that corruption is "the sale by government officials of government property for personal gain" and with these payments going towards various "import and export licenses, exchange controls, tax assessments, police protection, or loans", hence to put it simply, government officials engage in corruption just to gain more influence. Van Roy (1970, as cited in Calhoun, 2011) have defined corruption from an

evolutionist's point of view that corruption is "[t]he labeling by a community of particular practices as corrupt demonstrates public recognition of economic and social behavior out of kilter with common values", which could reflect upon corruption being fundamental and destabilizing at the same time in modern times. Looking from the perspective of white collared crimes, Coleman (1987, as cited in Grieger, 2005) has touched on corruption activities being done "on behalf of the organization" such as bribing and illegal price agreements and "against the organization" such as embezzlement and theft. In terms of a more general definition with respect to generalizing the key parties involved in organizational corruption, Ashford and Anand (2003, as cited in Grieger, 2005) defined it as "the misuse of authority for personal, subunit and/or organizational gain". Corruption could be explained as a "departure of norms" in terms of theodicy according to Kayes (2006) or by an ethical view that corruption is a "collective deviant, especially criminal behavior or evil action on behalf of and/or against the organization" (Grieger, 2005), but to summarize what is it, "corruption occurs when one party uses his/her position of authority or responsibility to circumvent or deviate from culturally embedded institutional rules for personal gain" (Calhoun, 2011).

### III. TYPES OF CORRUPTION

Now that the definition of corruption, which had been vague and confusing for some scholars to even understand, had been broken down into the simplest explanations with regards to knowing the "actors" involved in corruption, the categories of corruption shall be broken down into some highlighted categories.

#### a) Procedural, Schematic and Categorical Corruption

According to Aguilera and Vadera (2007), they have drawn upon the opportunity-motivation-justification model, which will be explained later on, to come up with three types of corruption based on this model: the procedural, schematic and categorical corruption. The procedural corruption stems from "either the lack of formalized procedures or formal 'rules' of business conduct in the organization, or from the violation of existing formal procedures, for personal gain" (Aguilera & Vadera, 2007). This means that when employees do not follow the certain rules and guidelines set by the company, then they

would have been considered committing procedural corruption, and this is likely due to certain employees expressing individualistic behavior to elevate their personal status within the company (Aguilera & Vadera, 2007). Meanwhile, the schematic corruption is a form of corruption that happens "when it is structured and present uniformly throughout the organization" (Luo, 2004, as cited in Aguilera & Vadera, 2007). This means that schematic corruption happens within multiple layers of an organization, and the normalization of corruption could happen, as in cases of the organizational environment requiring organizations to pay bribes to politicians for the organization's survival, and to be "part of the modus operandi" (Aguilera & Vadera, 2007). Finally, categorical corruption is defined as "the result of concentrated and delimited acts of corruption within the organization" (Aguilera & Vadera, 2007). What that means is that categorical corruptions occurs more frequently within subsidiaries of an un-centralized organization within a multinational corporation, and that the CEO of that corporation can rectify the problem within the foreign subsidiary before the issue gets out of control (Aguilera & Vadera, 2007).

#### b) Organization Of Corrupt Individuals (OCI) and Corrupt Organization (CO)

When Pinto, Leana and Pil (2008) came up with the types of corruption based upon the dimensions of beneficiary and collusion, they came up with two types of corruption, namely organization of corrupt individuals or OCI, and corrupt organization or CO. OCI is defined as an:

"emergent, bottom-up phenomenon (Kozlowski & Klein, 2000, as cited in Pinto, Leana & Pil, 2008) in which one or more mesolevel processes (House, Rousseau, & Thomas-Hunt, 1995, as cited in Pinto, Leana & Pil, 2008) facilitate the contagion (and sometimes the initiation as well) of personally corrupt behaviors that cross a critical threshold (Andersson & Pearson, 1999, as cited in Pinto, Leana & Pil, 2008) such that the organization can be characterized as corrupt".

Which means that OCI is influenced by a few "bad apples" in an organization that will follow corrupt practices, and when organizations hire more people that are found

to be “bad apples”, the effect of corruption will amplify (Pinto, Leana & Pil, 2008). Meanwhile, the definition of CO is as follows:

“A top-down phenomenon in which a group of organization members—typically, the dominant coalition, organizational elites, or top management team—undertake, directly or through their subordinates, collective and coordinated corrupt actions that primarily benefit the organization” (Pinto, Leana & Pil, 2008).

Which means that CO is basically is a collective understanding between the senior managers and the employees involve in committing corporate crimes, and usually it is the senior managers that will deny that corruption will take place, and instead blame the employees whenever an investigation into allegations of corrupt practices take place (Pinto, Leana & Pil, 2008).

#### IV. DIMENSIONS AND MODELS OF CORRUPTION

##### a) The Dimensions of Primary Beneficiary and Collusion Among Organizational Members.

Pinto, Leana and Pil (2008) has categorized OCI and CO based on the following dimensions, which is primary beneficiary and collusion or interaction between members of an organization. The party that benefits financially is the party that is the primary beneficiary. For example, in the OCI category, the individual that benefits from receiving bribes is the primary beneficiary, and the similar scenario can be applied in the CO category, where the organization itself will be the beneficiary due to the corrupt practices of the elite group within the organization (Pinto, Leana & Pil, 2008). Meanwhile, the collusion between organizational members is all about the communication between members of a group in carrying out corporate crimes, and does not consider individual contributions (Pinto, Leana & Pil, 2008). Members that fit the CO category need to convey these messages and relay with their leaders of that group in order for them to get away with corruption.

##### b) The Dimensions of Corruption Tendencies: Mad Fox, Errant Rabbit, Sick Bulldog, & Wild Puppy

According to Linus Osuagwu (2012), the

nature and degree of involvement of organizations getting involved into corruption can be determined based on the dimensions of corruption tendencies, that is the comparison between the intensity scale of corruption (magnitude of corrupt practices) and the hierarchical scale of corruption in the organization (pertaining to the number of levels, such as departmental level, group levels, etc.) Hence, four possible typologies of corruption tendencies are formed, and they are:

i). Mad fox (“i.e. business organizations having high intensity and more hierarchies of corruption”), meaning that the various levels of organization and the individuals are involved in corrupt practices (Luo, 2004, as cited in Osuagwu, 2012),

ii). Errant rabbit (“i.e. business organizations having low intensity and few hierarchies of corruption), meaning that corrupt practices in an organization is less (Luo, 2004, as cited in Osuagwu, 2012),

iii). Sick bulldog (“i.e. business organizations having low intensity and more hierarchies of corruption”), corruption is done on a low-profile basis and less intensity, however various members of the organization still practice corruption. (Luo, 2004, as cited in Osuagwu, 2012),

iv). Wild puppy (“i.e. business organizations having low intensity and few hierarchies of corruption”), the explanation is similar to that of the “errant rabbit” tendency, however the term “wild puppy” is due to the fact that corruption is rampant, yet narrow to a singular organizational hierarchy (Luo, 2004, as cited in Osuagwu, 2012).

c) The Opportunity-Motivation-Justification Model is “based on the notion that the opportunity for a crime, the motivation to act and the justification to rationalize these behaviors must come together for any crime to occur”, and this applies to white-collar crimes such as corruption (Aguilera & Vadera, 2007). Opportunity comes when the conditions are favorable depending on the type of authority, whether it is a legal-rational authority (follow the corporate rules), charismatic authority (authority that is looked up as largely extraordinary) or traditional authority (passed down, following the “right to rule” principle), making criminal actions possible, while motivation is largely dependent on cultural factors and the behavior of the person and what motivates the person, whether the person

is individualistic (for his or her own gains), collective (have a strong bond with the organization, helps them to grow financially), or relational (attached towards a smaller group within an organization), and finally justification is an act for those involve in crimes to legitimize their wrongdoings, and can be categorized into the following: rationalism (corruption is rationalized as not criminal since there are indirect victims), socialization (the need to commit a crime for the betterment of a group), and ritualism (“jumping the bandwagon”, following what other people do)(Aguilera & Vadera, 2007). By relating towards the procedural, schematic and categorical corruption, we can deduce that:

- i) Procedural corruption occurs when opportunity arises from legal-rational authority actions when individuals are individually motivated and justify their actions through rationalization.
- ii) Schematic corruption occurs when opportunity arises from charismatic authority actions when individuals are collectively motivated and justify their actions through socialization.
- iii) Categorical corruption occurs when opportunity arises from traditional authority actions when individuals are relationally motivated and justify their actions through ritualism.

#### V. CAUSES & MOTIVATIONS OF CORRUPTION

Now that the explanations of the types, dimensions, and models of corruption have been covered, this research will be focusing on what drives these organizations to engage themselves in corruption. The main reasons that every organization largely practice corrupt activities is because they are driven by personal and professional goals such as individualistic goals for promotion and the practicing of Machiavellianism without regards towards the intraspecific competition (among other employees). Besides, they are also influenced by external factors, such as the influence of the organization, or succumb to pressure by certain parties to carry out corrupt activities to satisfy industry performance regulations. There are some essential situational factors regarding the motivation for corruption such as the size of the bribe (how lucrative, valuable is the bribe), time pressure due to limited decisions were forced to be made, and the organization does not exactly

follow the business code of conduct due to its abstractness, ambiguity and not easy to be understood by the employees. Not only that, most organizations would have to get involved in corruption to have an unfair advantage over its competition, and would be the beneficiary of corruption based on the supply and demand of public-private deals with politicians as in the case of Mexico, where state governors would frequently deal with businesses wanting to quickly get governmental contracts in exchange for money, and the governor himself would have an advantage starting a business upon retirement.

#### VI. THE EFFECTS OF CORRUPTION

Corruption has caused certain effects throughout many organizations, which might be largely seen in a negative light. The first effect is that due to the rampant corruption phenomena in many organizations today, a “normalization” of corruption takes place among the employees. This normalization of corruption happens over a long period, where employees would have to adapt their practices and beliefs to fit with the organization’s goals to maximize profits or to be reputable in credit ratings, and it blurs the line between what is good and what is bad(Mauro, n.d; Moore et al, 2012; Grieger, 2005; Rodriguez et al, 2006; Gamboa-Cavazos et al, 2005; Anand et al, 2004; Spicer, n.d; Rabl, n.d; Rodriguez et al, 2006; Gould & Amaro-Reyes, 1983; Pinto et al, 2008; Ashford et al, 2008, Lange, 2008; Martin et al, 2008; Rosenblatt, 2012). This normalization would normally occur in scenarios pertaining to the schematic corruption category(Mauro, n.d; Moore et al, 2012; Grieger, 2005; Rodriguez et al, 2006; Gamboa-Cavazos et al, 2005; Anand et al, 2004; Spicer, n.d; Rabl, n.d; Rodriguez et al, 2006; Gould & Amaro-Reyes, 1983; Pinto et al, 2008; Ashford et al, 2008, Lange, 2008; Martin et al, 2008; Rosenblatt, 2012). Normalization would further deter anti-corruption efforts by various parties, as those within the organization would have ingrained the fact that it is alright to engage in corrupt business practices, and an example would be the wage arrears (reducing wages) of the 90’s in Russia, where organizations would have to cut costs due to various factors, such as overstaffing or reducing labor costs (Earle et al., n.d.). When corruption is done on a nationwide scale, and involving foreign organizations, foreign direct investment would be reduced as it is deterrent to welcoming international trades and economic growth, and foreign organizations would be prone to

corrupt business activities due to pressure in complying with local laws and cooperating with local organizations (Mauro, n.d; Moore et al, 2012; Grieger, 2005; Rodriguez et al, 2006; Gamboa-Cavazos et al, 2005; Anand et al, 2004; Spicer, n.d; Rabl, n.d; Rodriguez et al, 2006; Gould & Amaro-Reyes, 1983; Pinto et al, 2008; Ashford et al, 2008, Lange, 2008; Martin et al, 2008; Rosenblatt, 2012). As for the public-private business deals being made through corruption, it would have another effect as well, such as investors knowing that future corrupt deals with higher authorities is equivalent to tax, and the government expenditure composition might be reduced as these officials could hide the secret of receiving corrupt money (Mauro, n.d; Moore et al, 2012; Grieger, 2005; Rodriguez et al, 2006; Gamboa-Cavazos et al, 2005; Anand et al, 2004; Spicer, n.d; Rabl, n.d; Rodriguez et al, 2006; Gould & Amaro-Reyes, 1983; Pinto et al, 2008; Ashford et al, 2008, Lange, 2008; Martin et al, 2008; Rosenblatt, 2012).

#### VII. COMBATING CORRUPTION THROUGH VARIOUS WAYS

Corruption cannot be solved overnight, but with the cooperation of various parties in combating this phenomenon, it can be contained to a bare minimum. The cooperation between the government and business organizations would have to be done by implementing certain reforms such as social and legal reforms (bridging the gap between the rich and the poor and enforcing stricter anti-corruption laws) (Osugwu, 2012). The efforts by the government ministerial structure to curb corruption through structural reforms is not sufficient enough to stop it, as evident by the Kenyan government and legislators to not grant its own anti-corruption agency, the KACC to prosecute organizations and government officials according to their new constitution (Osugwu, 2012; Okoth, 2012). Besides, the business organizations should incorporate the need to not engage in corruption by incorporating some of the anti-corruption measures into their corporate culture, within the needs of the organization to achieve specified goals such as maximizing profit in a legitimate way (Osugwu, 2012). In the same way, the Malaysian government should give more autonomy and independent freedom for MACC to investigate corruption as well as to provide a corruption control framework for the monitoring of businesses obtaining government tenders, as well as commencing themselves in legal reform such as executing the Whistleblower's Act and signing

the Corporate Integrity Pledge (Lehmann, 2013, Business-Anti-Corruption.com, 2012).

#### VII. DISCUSSION

Based on the following analysis of the categories of corruption and the measures that organizations would have to take in order to deal with corruption, it is said that as a developing nation, Malaysia is still struggling with its growing pains as it deals with curbing most corrupt practices. Here, we could see the process of normalization and acceptance of corrupt practices happening in Malaysia, even having to pay bribes for minor offences to certain governmental officials just because of time constraints and the survivability. In the cases of business organizations dealing with public-private business deals, including obtaining governmental tenders, or for organizations to not be scrutinized under local regulatory laws, these organizations would have to had contacts within the public sector in order to get favors. This leads towards a case of favoritism. Even so, Malaysia's policy to give tenders based on ethnocentric policy, favoring the majority ethnic group, and/or nepotism at the highest level involving employers being relatives of influential politicians, together with favoritism involving politicians helping their entrepreneur friends in their business, as seen in Mexico, have caused Malaysian businesses with a genuine interest to boost their image and to maximize profits have been short-changed, and it is no surprise that Malaysia is on top of the bribery survey. In order for the government to seriously take a look at this problem, it needs to be apolitical and fair in not only implementing stricter policies on corruption, but to also assure business organizations that they are given a fair share of opportunities and equal advantages. As for the Malaysian organizations' role in not being short-changed, it needs to slowly take away the culture of corruption in their business, eventhough the practices have been actively done many years ago. The reality is, while it would be very hard for these organizations to even stay afloat and work hard to gain profits and to stabilize the business on firm ground, the confidence, trust and respect of their competitors and the general public would increase if these organizations lead the way for a more ethical business conduct that can be beneficial to discourage organizational corruption.

## IX. CONCLUSION

In conclusion, there is more work to be done when it comes to understanding corruption in Malaysia on a bigger scale than the aforementioned news about huge corrupt scandals being reported, but also changing the culture of Malaysia organizations in combating corruption. By understanding what constitutes corruption in organizations, organizational figureheads and the rest of the organizational structure can understand about their practices and go forth for a more ethical conduct, and to guide other employees in understanding the situation and to look for alternative ways to move the organization ahead.

## X. LIMITATIONS

This research only highlights the theory of corruption and how it relates generally towards the corruption practices with business organizations in Malaysia in terms of organizational and public-private categories. In a future research, we will be looking in depth of how these parties play a role in contributing towards corruption in Malaysia.

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