

Globalisierung und Multinationale Unternehmen

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Gastvortrag:

Fighting Corruption in Global Business

Stefan Schembera

Radboud Universiteit



CV - Stefan Schembera

Since Jan 2020: Assistant Professor, Responsible Organization, Radboud University, Netherlands

- 2015 - 2019: Post-Doc, UZH, Prof. Andreas Scherer
- 2016 - 2017: Research stay University of Queensland, Brisbane
- 2012 - 2017: Analyst at BHP Bruggen and Partner AG, Zurich
- 2010 - 2015: Doctorate in Business Administration, Chair Prof. Andreas Scherer, Project Assistant Accreditation, UZH
- 2013: Research stay University of Sydney
- 2008: CSR internship at Ernst & Young AG, Stuttgart
- 2005 - 2010: Diploma (M.A.) in Business Administration, University of Tübingen



Research interests:

Organizational legitimacy, organizational corruption, global governance, corporate social responsibility, responsible leadership



Agenda

- What is corruption?
- Fight corruption at multinational companies (MNCs)
 - Large firms
 - Small firms
- Fighting corruption in the global anti-corruption field

In between: Room for questions and discussion



What is corruption?





Corruption

→ One of the most insidious social phenomena

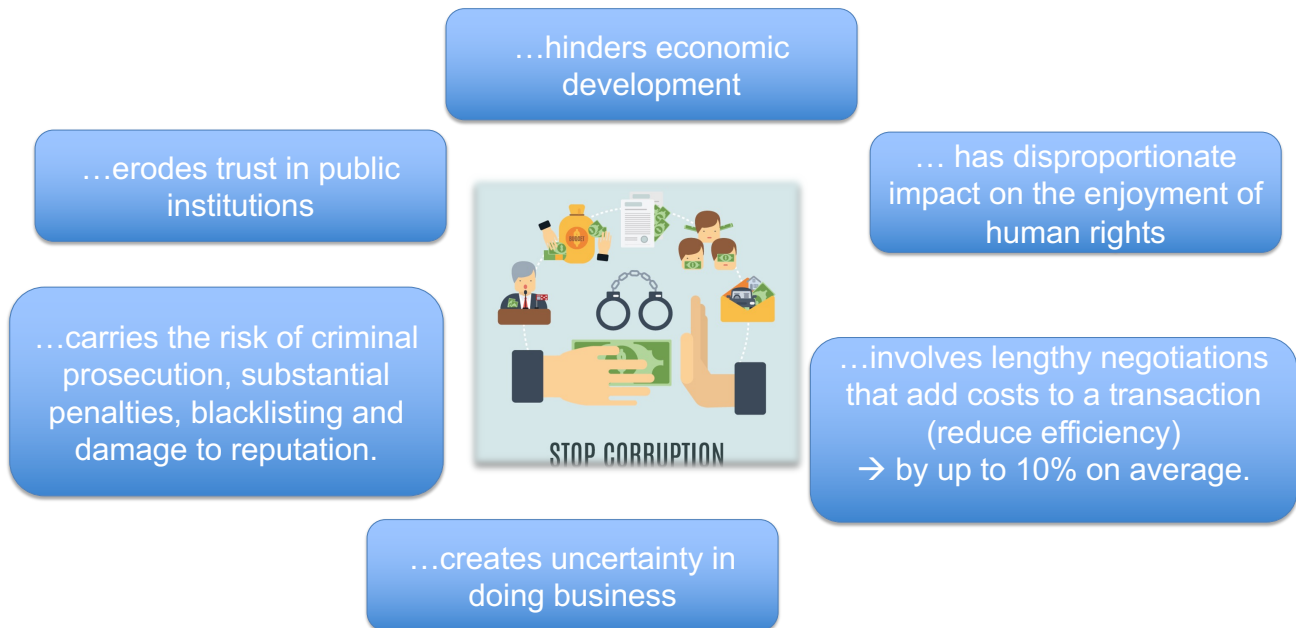
→ What actually counts as corruption is highly contested not only across but also within national boundaries

→ Exp: gift giving, tipping, lobbying ...

”Misuse of an organizational position or authority for personal gain or organizational (or sub-unit) gain, where misuse in turn refers to departures from accepted societal norms.”

(Anand et al., 2004, S. 40, vgl. Ashforth et al., 2008, S. 671)

Corruption...



Sources: Council of Europe (2021); Transparency International (2019): The Ignored Pandemic; OECD, CleanGovBiz, 2014)

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Fighting corruption at multinational companies (MNCs)

Insights are based on a research project by Stefan Schembera & Andreas Georg Scherer published in *Strategic Organization* (2018):

“Organizational strategies in the context of legitimacy loss: Radical versus gradual responses to disclosed corruption”

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What do these images have in common?



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(Fighting) corruption at LARGE firms

Systemic corruption

- „bad barrel” approach (Ashforth et al., 2008)
- MNCs supplying corruption to foreign government officials



Problem:

- Process of globalization multiplies risk and scope of corruption.
- Institutional expectations to fight corruption and the enforcement of anti-corruption laws are increasing.

→ Challenge for large multinational companies (MNCs) to maintain *legitimacy*

“Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some *socially constructed system* of norms, values, beliefs, and definitions.” (Suchman, 1995, p. 574)

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Research question

How and why do large organizations respond to the loss of legitimacy in the context of disclosed corruption?

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Decoupling

Creating differences between the formal structure and actual work activities ("policy-practice gap").

→ Radical departure from existing organizational theories

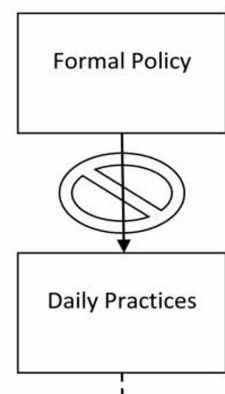
- Organizations try to signal trustworthiness, reliability and good intentions
- Organizations try to minimize reviews and evaluations by organization members and external stakeholders.

BUT: Strategy increasingly risky for the legitimacy of companies.

- Causes: Accountability trend; Commercialized media system; Economization of society (Bromley & Powell, 2012)



Policy-Practice Decoupling
Policies disconnected from daily practices



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Isomorphic Adaptation

- = Companies change (step by step) their organizational practices and adapt to social expectations (Deephouse, 1996; Scherer et al., 2013).
- BUT, in global context:
 - “Conforming to the myriad regulatory, cognitive, and normative institutional expectations coming from multiple and conflicting sources is [often] not feasible.” (Kostova et al., 2008, p. 1001)
- Conclusion:
 - In times of globalization, companies are highly complex and networked organizations: Achieving legitimacy through isomorphism is difficult, if not impossible.



Moral Reasoning

Moral Reasoning

Organization participates in open discourse with stakeholders or social groups to discuss the acceptance of their status quo and behavior.

→ Deliberation process (Scherer & Palazzo, 2007)

- Goal: Joint solution based on a solid argument and for the benefit of society ("pro-social logic", Suchman, 1995)
- Negotiate the status of legitimacy with each legitimating actor
 - Negotiation = political process of interaction, communication, and exchange
- Outstanding role of language in legitimation processes (Berger & Luckmann, 1967).



Relating corruption control elements and legitimacy strategies.

Type	Corruption Control Elements	Legitimacy strategies		
Social/cultural corruption controls	<p>Leadership support</p> <ul style="list-style-type: none"> SC: high-level personnel as overseer (see also: Pfarrer et al., 2008) CC: strategic integration and leadership support <p>Training</p> <ul style="list-style-type: none"> SC: effective communication CC: training See also OCC: self-controls <p>Whistle-blowing procedure</p> <ul style="list-style-type: none"> OCC: vigilance controls; concertive controls (horizontal surveillance by coworkers) CC: creation of a complaints procedure 	Moral reasoning	Isomorphic adaptation	Substantial influence
Administrative corruption controls	<p>Bureaucratic controls</p> <ul style="list-style-type: none"> OCC: formalized rules, policies (see also: Pfarrer et al., 2008), hierarchical and centralized structure, specialized positions SC: compliance standards and procedures; due care in delegating substantial discretionary authority <p>Alignment of incentives</p> <ul style="list-style-type: none"> OCC: incentive alignments CC: alignment of incentive structures (see also: Pfarrer et al., 2008) <p>Monitoring and follow-up</p> <ul style="list-style-type: none"> SC: monitoring, auditing, reporting; enforcement and disciplinary mechanisms; response upon detection OCC: punishment (measuring, monitoring and sanctions) CC: evaluation 			
Interactive corruption controls	<p>Collective Action</p> <ul style="list-style-type: none"> CC: quality of stakeholder relationships; level of participation in collaborative CC initiatives Beyond OCC and SC 			

- CC = Corporate Citizenship Assessment Tool (Baumann-Pauly and Scherer, 2013).
- OCC = Organizational Corruption Control Circumplex (Lange, 2008).
- SC = Sentencing Commission Guidelines (USSC, 2010).

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Siemens corruption scandal

- <https://www.youtube.com/watch?v=c5IYU-W9SA>

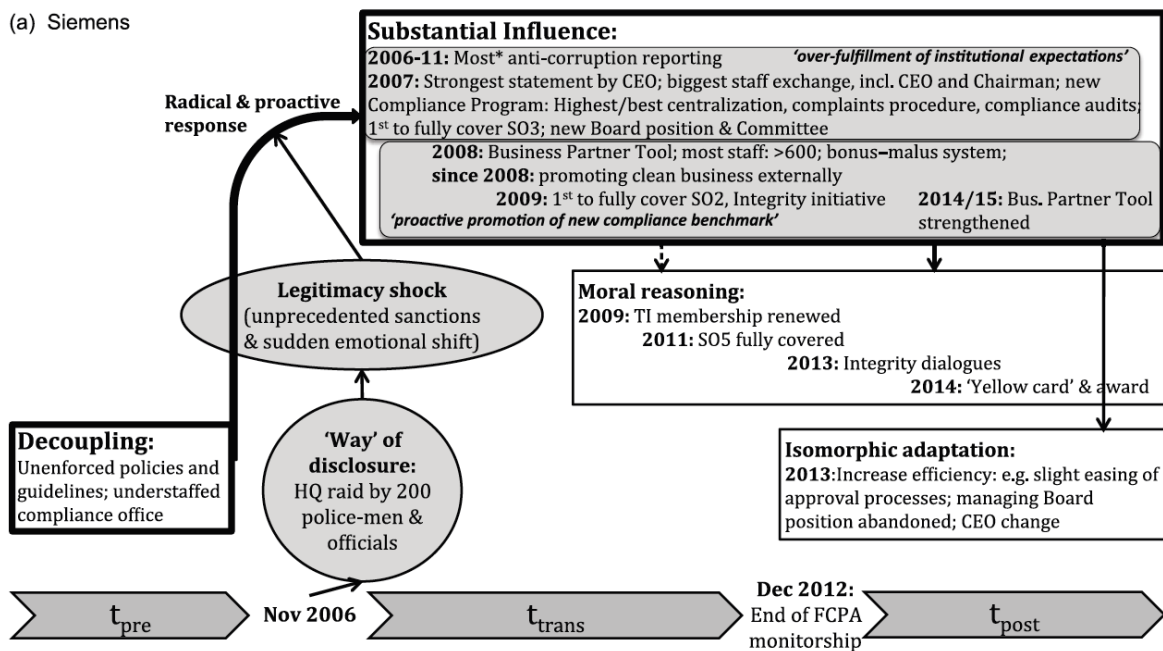


Siemens' staff Bribing and corruption scandal



SIEMENS

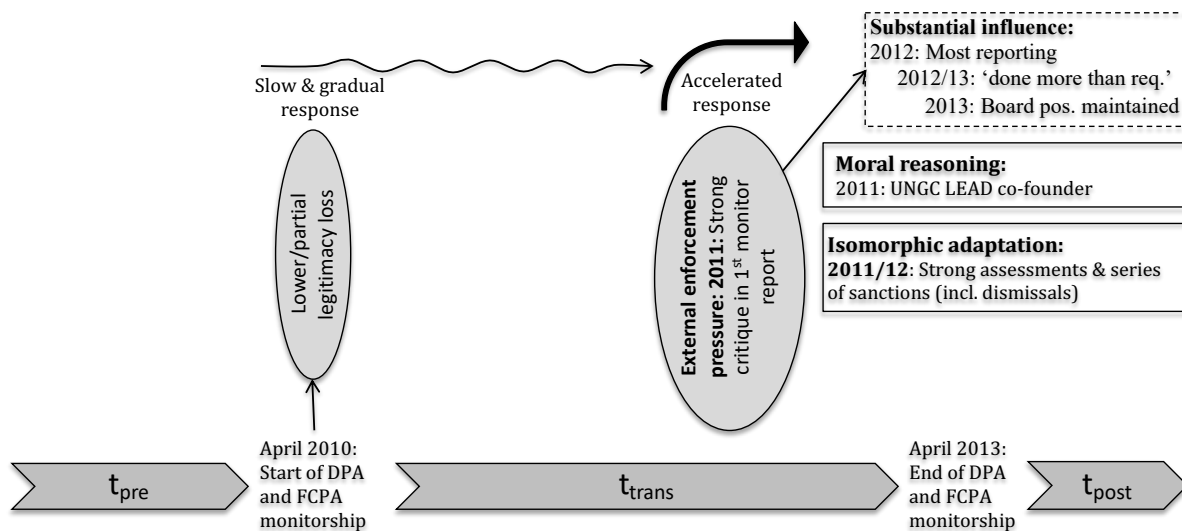
(a) Siemens



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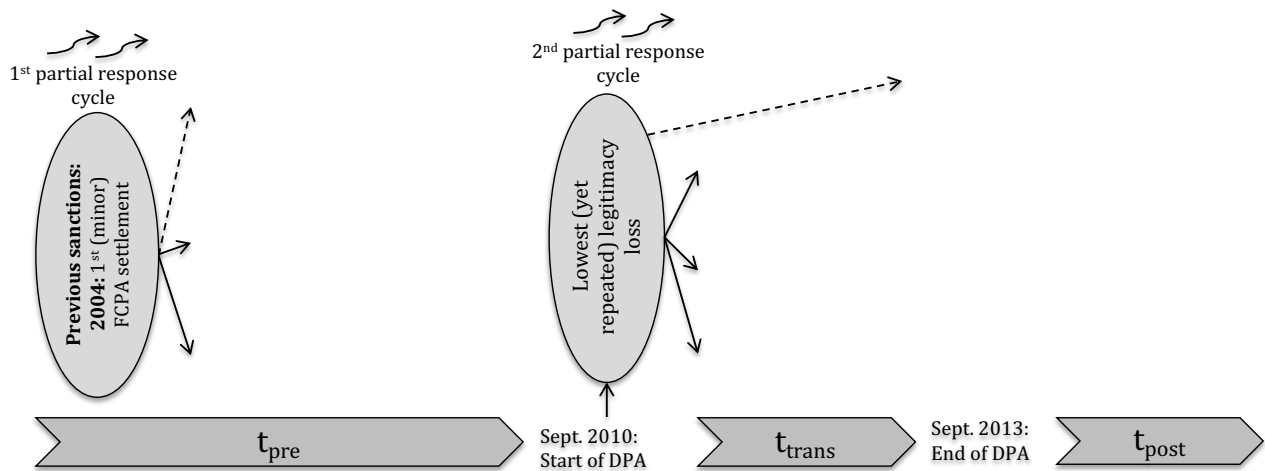


DAIMLER

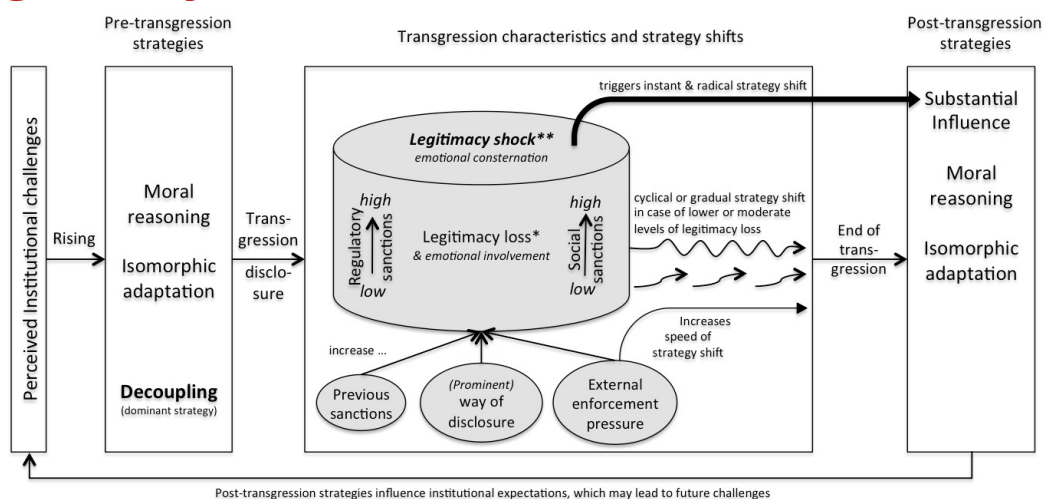


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Organizational strategies in the context of legitimacy loss



*The higher regulatory and social sanctions, the higher the resulting legitimacy loss. Lower or moderate levels of regulatory and social sanctions tend to affect mostly pragmatic legitimacy triggering predominantly rational considerations. Higher levels of regulatory and social sanctions increasingly affect moral and cognitive legitimacy triggering emotions in organizational responses.

**Organizational & personal emotional shock resulting from high levels of regulatory and social sanctions. All types of legitimacy (pragmatic, moral and cognitive) are affected.

Reflection - Part 1

- How do you evaluate the responses to corruption at the three LARGE multinational companies?
- Can you think of any corruption case involving SMALL organizations?



(Fighting) corruption at SMALL firms

Challenge of maintaining legitimacy for multinational corporations (MNCs)

- Large firms: Responded to anti-corruption demands due to the recent wave of scandals (Becker et al., 2012; Schembera & Scherer, 2017)
- Small and medium-sized enterprises (SMEs): Not yet exposed to such demands, i.e., they are not yet on the 'anti-corruption radar'
- They enjoy legitimacy while staying in the "dark".



Dark (= negative) side of legitimacy

→ *Legitimacy is taken-for-granted while negative consequences for society are not revealed*

Taken-for-granted legitimacy

- impedes organizational responsiveness to changing conditions (Jepperson, 1991; Suchman, 1995)
- fades out their awareness and sense of urgency of organizational problems → organizational failure (Hinings & Greenwood, 1988)

Negative effects of trust on

- performance (Langfred, 2004)
- corruption (Tonoyan, 2004; Tonoyan, Strohmeyer, Habib, & Perlitz, 2010)

Research question

Why do some firms remain under the radar and choose not to adopt AC practices, while others are on the radar and choose to adopt them?

Current research project by Stefan Schembera & Andreas Georg Scherer „FIGHTING CORRUPTION AT SMES: FROM VICIOUS TO VIRTUOUS CIRCLE“

Research puzzle

(1) CSR scholars: SMEs 'not inferior' than large firms

- Informal structures & intuitive operations → dynamic capabilities: advantage to manage CSR globally (Wickert, 2013).
- Manager-owner structure → Greater autonomy in governing small firms, including pursuit of intrinsic morality driven motives, (Berrone et al., 2010; Jenkins, 2006; Spence & Lozano, 2000).

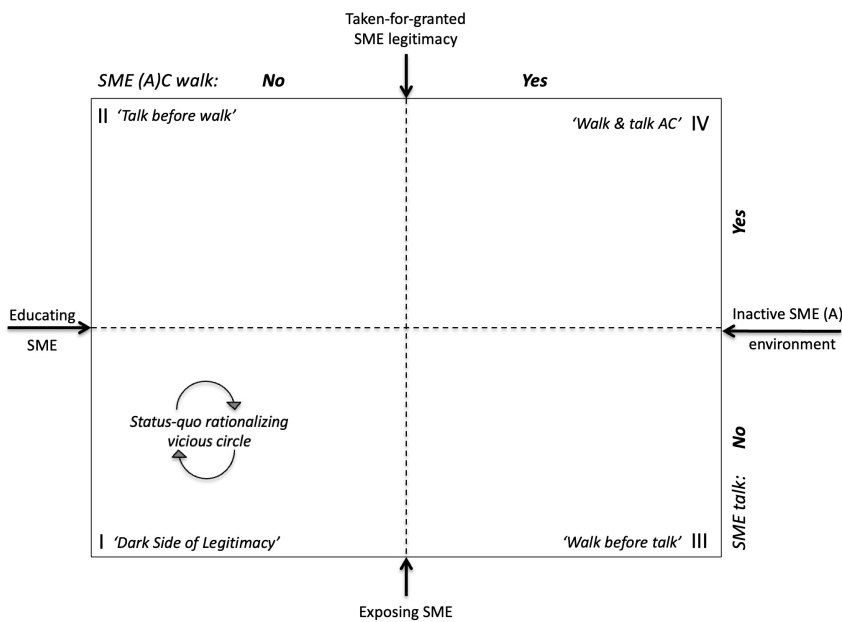
(2) Corruption scholars: SMEs face greater challenges

- SMEs mainly untroubled by scandals → Less pressure to respond to external expectations (Hauser & Kronthaler, 2013)
- Limited resources and bargaining power → Greater challenges to reject corrupt practices (Aterido et al., 2011; Bennedsen et al. 2009).
- Depend on collective actions to combine resources and increase bargaining power (Kingston, 2008; Pieth, 2012).

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Forces in the SME AC environment



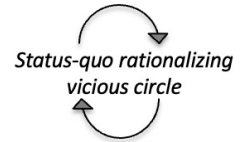
'Taken-for-granted SME legitimacy' and 'Inactive SME AC environment' forces typically seem to outweigh the forces of 'Educating SMEs' and 'Exposing SMEs'.

- Many SMEs tend to be located on the 'dark side of legitimacy' in quadrant I, in which they **neither talk nor walk AC**
- helplessly exposed to corrupt demands.

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Status-quo rationalizing vicious circle



SME legitimacy myths

- 'We are too small to matter'
- 'We are (like) a close family and trust each other'
- 'If everybody else does it ...'
- 'Compliance is too costly'

How then would SMEs be able to break out of such a vicious circle?

Spiraling down into corruption

- 'Bad behavior attracts more customers'
- 'AC is a competitive disadvantage'

(Swiss SME 1, 2016)

"If others know that you as a company are open for something [corrupt], then you also get more inquiries in this regard. There are always people who say you have to go to the [Swiss SME 1 owner-manager], who could 'help with this and that'. And then this gets around in the industry."

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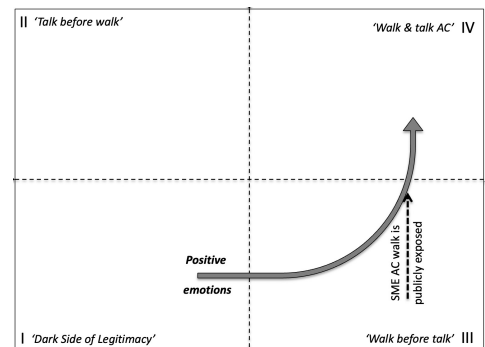
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Enabling track

Positive emotional proactivity

- Acting with passion or pro-social logic:



After the revolution of 2011, we were searching around for something good to do for our country and our companies. And we are happy that we joined that base initiative, because it was right here for us as a step [comprehensive elaboration on the companies AC efforts, challenges, achievements and way forward]. When I think about this problem, I have so much passion (laughter from audience and speaker), so just tell me stop (laughter and applause from audience).

- Willingness to learn

Egypt SME, 2016

Public exposure of SME AC proactivity

- SMEs call for AC action and reform
- External acknowledgement and support of SME proactivity

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Pressure track

Negative emotional self-exposure

- ‘Sarcastic portrayal of SME AC field’ & ‘anger reflected in own AC engagement’

“The fight against bribery is mere hypocrisy ...
“You can’t do [business] without bribes”

German SME Vietz, 2010

I hate people that bulls**t. Okay? It’s bulls**t to sit here and say: “My number one goal is to reduce poverty.”
My number one goal is to make money, okay? An outcome of that goal is to be a good corporate citizen. And an outcome of that goal is to create employment, and by creating employment, we reduce poverty.

Australian SME, 2017

Provoked institutional reaction

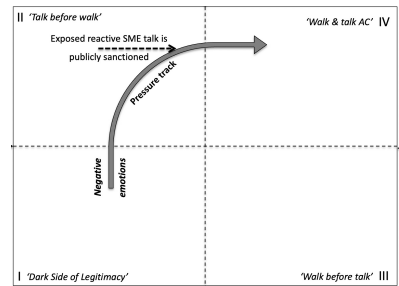
- Regulatory pressure: “50,000 euros penalty for medium-sized company Vietz” (Handelsblatt, September 28, 2011)
- Social pressure: Vietz triggered “national attention” (Handelsblatt, 2011); Siemens demanded official response

Increasing AC walk after exposure

- *Partly inconclusive evidence regarding self-exposed SMEs*
- *hop-on effect*

→ *Provoked institutional reaction to negative emotional self-exposure*

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AC institutionalization virtuous circle



Demystifying SME AC

- ‘Small things matter’
- ‘Formal processes can be helpful’
- ‘SMEs can say no to corruption’
- ‘Compliance can be cheap’
 - “Compliance is a very big word, for [something, which is actually] real craftsmanship, and common sense.” (Swiss SME W1)

Institutionalizing SME AC

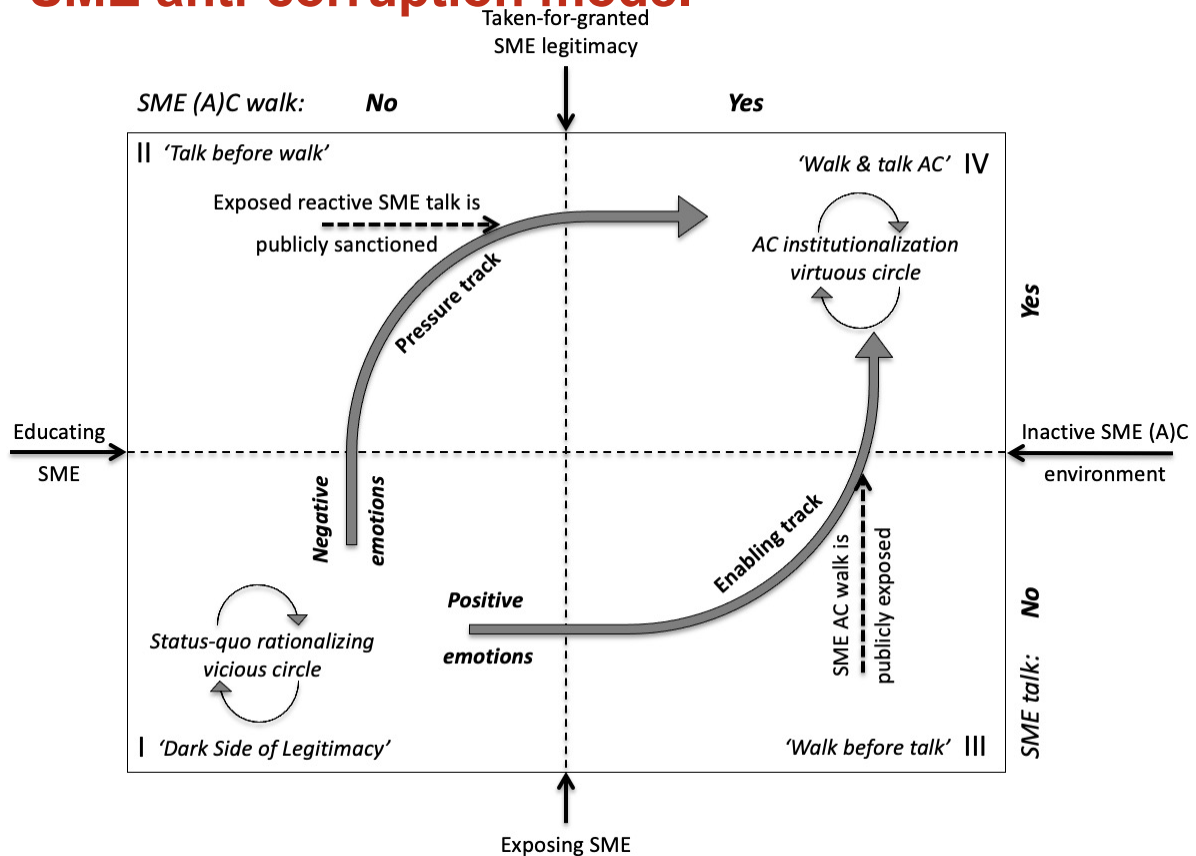
- AC regulation for SMEs has to be balanced and mindful
- SMEs need to be embedded and visible in AC networks
- Perceiving benefits of AC

One of the very big shipping lines sent us a questionnaire about AC and this stuff, and they are very happy that our company is dealing with them, that we are doing this AC [work].

Egypt SME, 2016



SME anti-corruption model



Conclusion

Implications for managing corruption, and CSR more generally, at SMEs

- SME's not necessarily 'walk the walk' (Wickert, Scherer & Spence, 2016); hands-off approach in certain transnational context → Promote both integrity AND compliance at both MNCs and SMEs

Emotions are crucial to break out of the dark side of legitimacy

- → Overcoming the negative consequences of taken-for-grantedness (Jepperson, 1991; Suchman, 1995) and path dependence (Sydow, 2009)
 - likely to sustain if emotions interact with institutional dynamics

Different tracks for getting engaged in the fight against corruption

- Implications for the literature on the microfoundations of institutions (Creed et al., 2014; Jarvis, 2017; Reinecke & Ansari, 2021; Voronov & Vince, 2012)

Reflection - Part 2

- LARGE firms tend to focus on compliance (close coupling of policies and practices) in the fight against corruption
- SMALL firms are often not engaged at all in the fight against corruption
 - How can the global problem of corruption best be governed?



Fighting corruption in the global anti-corruption field

- Insights based on a research project by Stefan Schembera, Patrick Haack and Andreas Georg Scherer forthcoming in *Organization Science*:
“From compliance to progress: A sensemaking perspective on the governance of corruption”

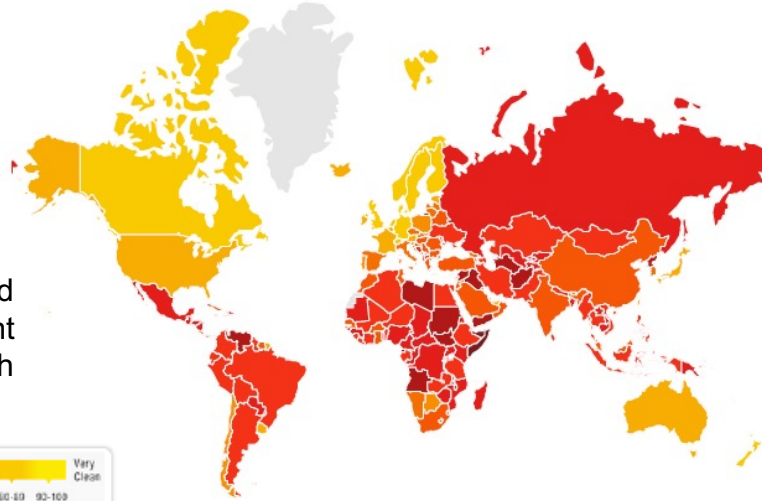


Heterogeneous corruption risks and challenges

CORRUPTION PERCEPTIONS INDEX 2017

Endorsement of anti-corruption regulation has fallen short of effectively preventing or stopping corruption

Underlying causes of corruption and effects of policies cannot be analyzed and predicted with sufficient certainty → difficult to reach intended ends.



35 (Source: Transparency International, CPI 2017)

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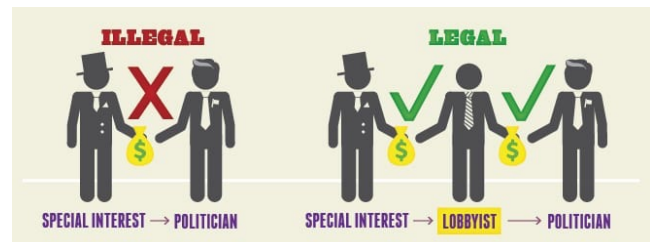


Compliance and achievement in the governance of corruption

→ **Compliance-achievement trade-off:**

Remedying the decoupling of policies and practices (compliance) tends to jeopardize efforts to remedy the decoupling of means and ends (goal achievement).

(Wijen, 2014)



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Sensemaking perspective on governing corruption

- Procedural lens: Ongoing process study
 - focus on specific mechanisms “fueling” the dynamics of decoupling and decoupling trade-offs.
- *Sensemaking*:
 - social process through which actors interpret phenomena and develop a shared understanding of the world as a meaningful place
 - shaped by communicative interaction and recurrent practices of storytelling (Weick, 1995).
 - Here: Set of diverse actors with different interests and worldviews who continuously rationalize and lend meaning to certain policies, practices, means and ends

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Western local context

- “West” (i.e., Western Europe and North America):
 - Reliance on contracts, rational planning, and top-down-enforcement of bureaucratic rules
 - Restriction of individual liberties is only acceptable when embedded in a binding legal system of formally and materially justified norms and procedures (Weber, 1980).

→ normally does not allow for deviations or pragmatic modifications from what is planned, regulated, or contracted.



Eastern local context

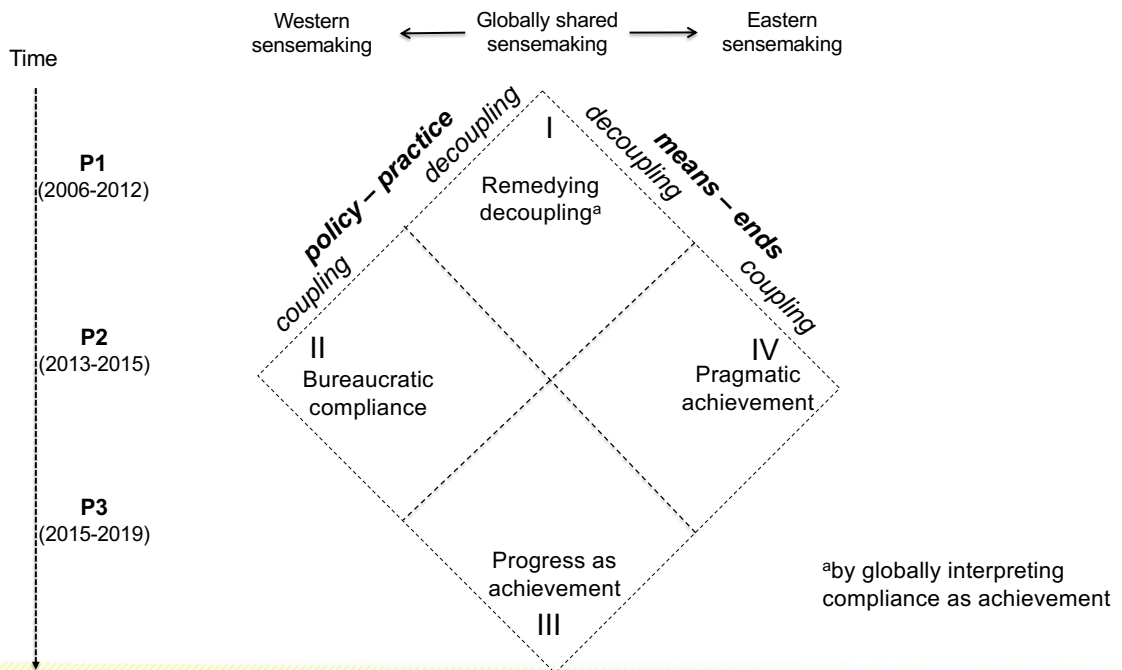
- «East» (i.e., Asia):
 - focus on individual duties (rather than rights) vis-à-vis the collective (local community, family, or clan structure)
 - implicit, informal social structures and practices
 - continuous consultation and improvisation to serve the collective
 - concepts of individual rights, rule of law, ... only imported from the West (Mauzy, 1997: 215)
- May involve sidestepping formal rules, contracts, or authorities that stand in the way.



Research question

Does sensemaking about compliance and achievement in the governance of corruption across different institutional contexts change over time – and if so in what ways and why?

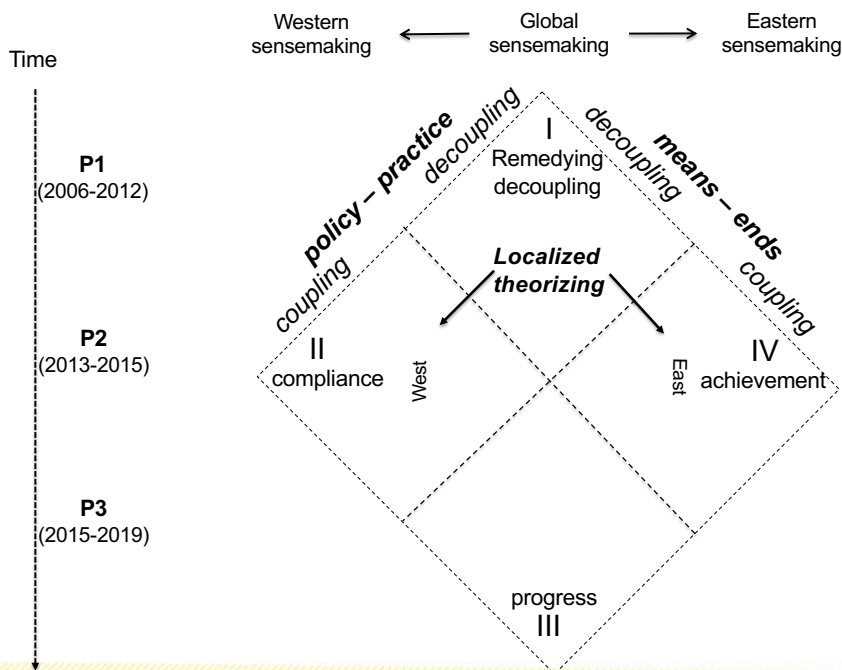
Making sense of compliance and achievement in the governance of corruption



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Localized theorizing



Compliance not achieved globally; corruption still widespread...

West: lack of alternatives to closely coupling policies with practices despite persisting global non-compliance and experienced non-achievements

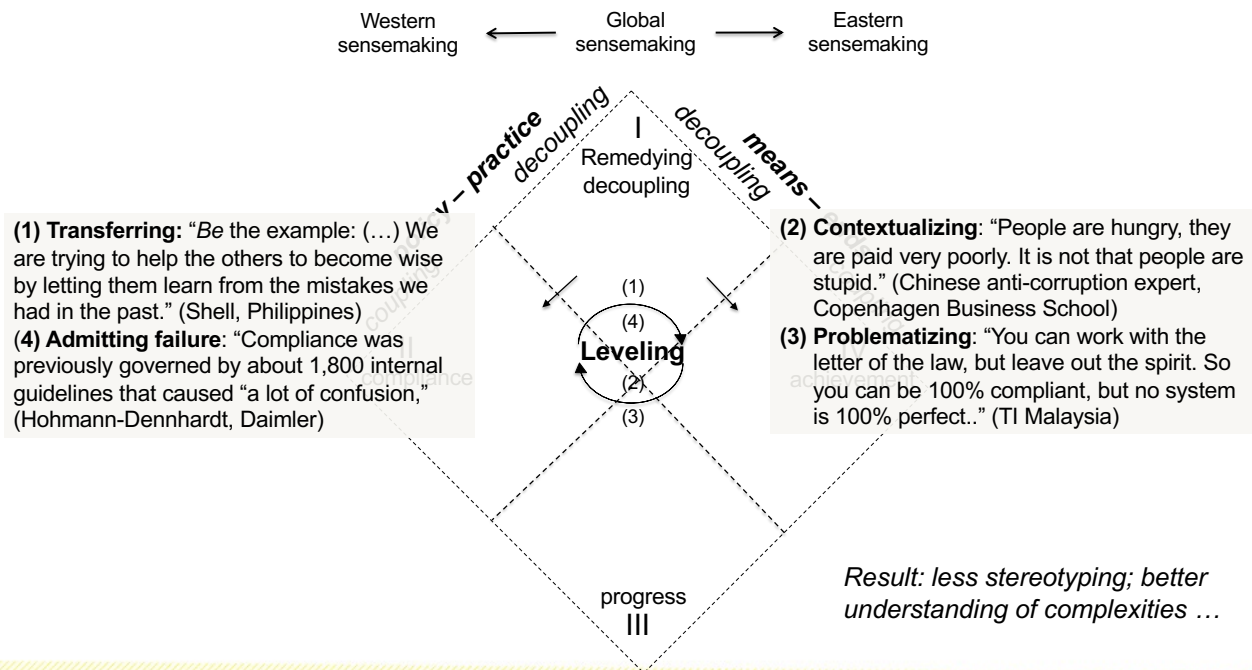
East: less exposure to institutional pressure & corruption to be solved in conjunction with other grand challenges such as poverty, hunger, health and wellbeing

→ compliance-achievement trade-off

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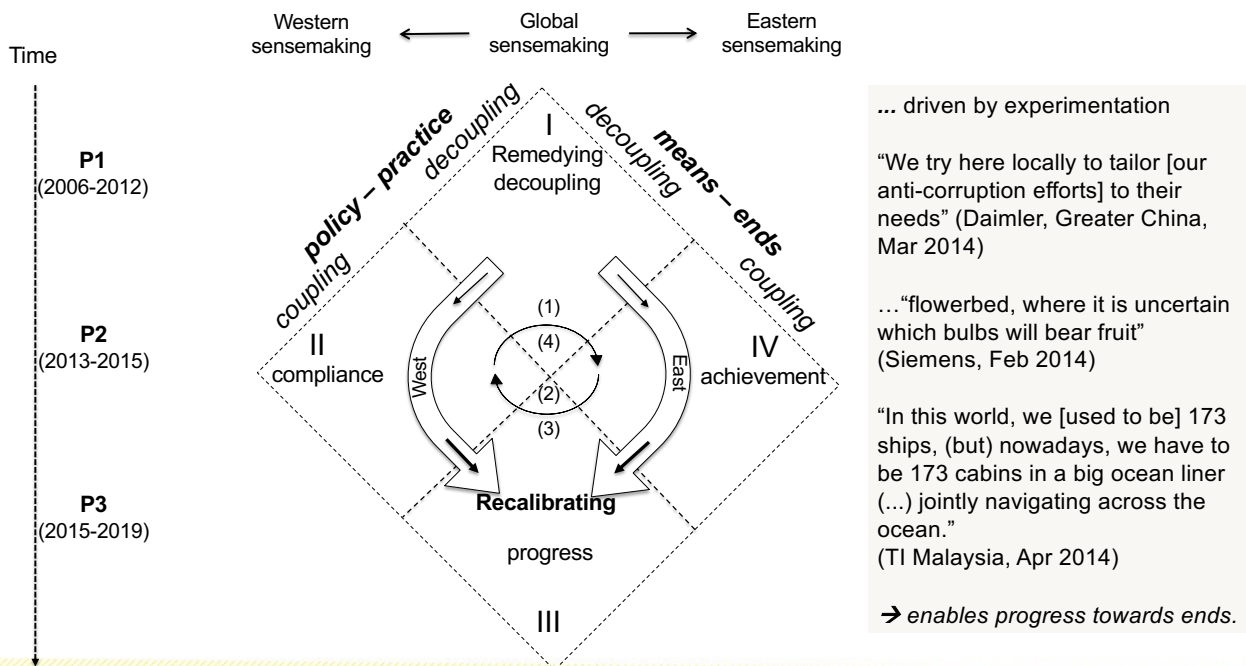
Leveling



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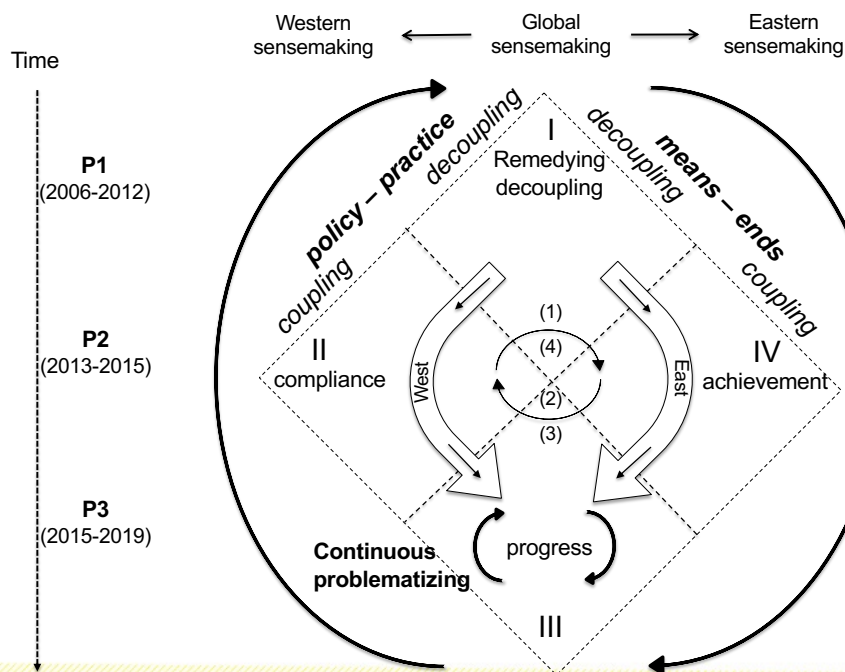
Recalibrating



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Public criticizing



... ensures that the meaning of policy, practice, means and ends is continuously negotiated over time.

“It is very important for issues at the international level to just keep the fire burning, to keep the issues on the agenda of international institutions.”

(Siemens HQ, AC workshop, Switzerland)

→ Roadblocks are used to maintain attention and motivation
→ conducive for sustaining local sensemaking processes

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Contributions of our sensemaking perspective on governing corruption

No single actor may ever be able to *silently* (i.e., isolated from other actors) predict the perfect governance measure to achieve certain ends

- Open and flexible perspective on governance
 - adds to the deliberative governance literature, which focuses on reason and evidence-based communicative interactions ([Chambers, 2003](#); [Dryzek and Pickering, 2017](#))
- Open-ended sensemaking (through *localized theorizing*, *leveling*, *recalibrating* and *continuous problematizing*): necessary complement to strategic forces
 - enables people to become more open by interacting “at eye level”
- Close coupling not (the only/inevitable) long-run equilibrium as also policies and ends will change over time
 - Workable equilibria via sensemaking and negotiations



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