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A Review of Organizations' Cultural Controls on Corrupt Behavior

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Abstract

This paper critically reviews existing studies on culture controls, one of the elements of Malmi and Brown's (2008) management control systems (MCS) package, and explore its effects on mitigating employees' corrupt behavior. Cultural control is considered a means to shape shared norms, beliefs, values, attitudes, and ways of behaving in an organization. This paper is organized around three forms of cultural control, namely the code of conduct, the tone from the top, and peers' behavior of Malmi and Brown's (2008) MCS package. The overall picture that emerges from this review is that much more can be learned about the effects of cultural controls on corrupt behavior. While theories and empirical studies abound around the effects of cultural controls on unethical behavior, empirical evidence on its effects on corrupt behavior is still limited. A conceptual model of cultural controls on corrupt behavior is proposed, and potential avenues for future research are also discussed.

Keywords: Codes of Conduct; Cultural Controls; Peers' Behavior; Tone from the Top

1. Introduction

The objectives of this paper are to critically review prior literature on cultural controls and to explore their impacts on employees' corrupt behavior. The concept of cultural controls, which consist of codes of conduct, the tone from the top, and peers' behavior, was based on one of the elements of Malmi and Brown's (2008) management control systems (MCS) package. Cultural control describes the norms, beliefs and values which tend to be shared by organizational members to influence their behavior (Malmi & Brown, 2008). Culture, though it can exist beyond the context of an organization, is considered part of management control systems (MCS) when used to regulate employee behavior (Malmi & Brown, 2008).

The role of culture as part of MCS has been widely known over the past four decades. A study by French et al. (1960) was one of the early studies that recognized the importance of culture, especially with respect to budgetary participation. More studies examine the role of culture on MCS practices (e.g., Birnberg & Snodgrass, 1988; Merchant, Chow & Wu, 1995; Henri, 2006; Shields et al., 1991) to the organization's accounting practices (e.g., Dent, 1991; Gray & Vint, 1995). Ouchi (1977;1979) argues that culture can provide an interactive element to the control system and facilitate its operation under certain circumstances.

Regarding employee behavior, an organization's ethical culture is considered one of the important explaining factors (Trevino & Youngblood, 1990). Studies examining the role of ethical culture on unethical employee behavior have become an important topic and have received scholarly attention (e.g. Kaptein, 2008; Kish-Gephart, Harrison & Treviño, 2010; Peterson, 2002; Trevino, Butterfield & McCabe, 1998). Therefore, it becomes sensible to note cultural control's importance in countering employees' unethical behavior.

Cultural control, as illustrated above, is manifested in many forms. Malmi & Brown (2008) argue that cultural control is a broad and subtle type of control. Managers attempt to establish or maintain cultural control in many ways. It could be through words or by example (Merchant & Van der Stede, 2007). In this study, I reviewed three methods to establish cultural control: the code of conduct, the tone from the top, and peers' behavior on corrupt behavior. I choose these three types of cultural controls because these three represent components of cultural control. Derived from previous works, Malmi & Brown (2008) conclude that there are three components of cultural control: (i) value-based control, (ii) clan-based control, and (iii) symbol-based control.

Value-based control is a set of values and directions that senior directors communicate formally and reinforce systematically to impact their subordinates' behaviors (Simons, 1994). In the case of this review, the code of conduct represents value-based control. According to Schein (2010), symbol-based control is a visible expression that an organization uses to shape a particular type of culture. For example, a uniform worn by a pilot or flight steward creates a culture of professionalism. A symbol could also mean something that has meaning beyond its inherent essence (Dandridge, Mitroff & Joyce, 1980). It can be in the form of action done by the executives (Hambrick & Lovelace, 2018). In this review, the tone from the top represents symbol-based control. Lastly, clan-based control refers to the informal socialization mechanisms that take place and that facilitate shared values and beliefs among organizational members (Malmi & Brown, 2008). In this review, peers' behavior represents clan-based control.

There are prior reviews of the cultural control literature. For example, the effectiveness of business code in influencing employee behavior (Kaptein & Schwartz, 2008) and the importance of leaders' behavioral integrity to their followers (Davis & Rothstein, 2006; Simons et al., 2015). Despite those significant reviews, it is important to understand cultural control on corrupt behavior. Corrupt behavior has similarities with unethical and dishonest behavior in the sense of violation of rules and norms (Modesto & Pilati, 2020). Yet it prescribes a more specific nature of the act, that is, the misuse of power for illegal personal gain (Andersson & Heywood, 2009). In addition, in corrupt behavior, the illegal gain is acquired at the expense of other people (Rose-Ackerman, 1997). These unique attributes of corrupt behavior make it a very specific phenomenon compared to unethical or dishonest behavior.

Corrupt behavior is a concerning issue for organizations. According to the 2022 PricewaterhouseCoopers' Global Economic Crime and Fraud survey (PwC, 2022), 52% of big companies around the world experienced fraud during the past two years. Among reported fraud cases, 20% had a financial impact of more than US$50 million. A World Bank's enterprise survey (World Bank, 2017) revealed that in some countries, almost 51% of all corporations experience at least one bribe payment request each year. In addition, corruption can also distort markets, undermine fair competition, inflate organizational costs, and detriment societal impact (UNODC, 2013). Therefore, reviewing an organization's cultural controls' role in corrupt behavior is imperative.

The remainder of this review is organized as follows. Section 2 explains the method of this review. Section 3 to 5 describe the findings of this review. Section 6 proposes a model of cultural controls on corrupt behavior. Section 7 suggests a future research agenda and conclusion. Section 8 provides concluding remarks and practical implications of the study.

2. Method

This study reviewed published papers on the topic of cultural control and corrupt behavior. This study uses the terms codes of conduct, peers influence, the tone from the top and corrupt behavior to represent cultural controls. Close related terms such as ethics codes, peer pressure, and leadership tone were also used. This study specifically defines corrupt behavior since the term corrupt behavior can be interpreted as universal misconduct or unethical behavior. Corrupt behavior has one characteristic that differentiates it from unethical or dishonest action: the abuse of power (Modesto & Pilati, 2020). Therefore, for this review, corrupt behavior is defined as specific to corruption-related behavior, such that it involves the misuse of power for private gain (Andersson & Heywood, 2009).[1]

Andersson and Heywood's (2009) definition describes a more generic nature of various behaviors that can be understood as corrupt. I took caution that the act of corruption can be in many forms and in many different contexts. Therefore, for this review, I limit the scope to private sector corruption, which includes commercial bribery and kickbacks, extortion and solicitation, collusion, embezzlement to corporate fraud and insider trading (Kim, 2014; Transparency International, 2009). That said, only empirical papers addressing cultural controls (codes of conduct, tone from the top, and peers' influence) and corrupt behavior were selected for inclusion in this review. Further inclusion criterion is that papers must be published in peer-reviewed journals in management accounting journals and/or other relevant journals where cultural control is a core topic and the context is related to corrupt behavior. I relied on Google Scholar since it collates papers across the database. Table 1 reports the protocol for the literature review method.

[1] A more widely used definition of corruption is from Transparency International (2018) that is the abuse of entrusted power for private gain. Despite its extensive used, it has been criticized (for the discussion see in Modesto & Pilati, 2020).

Table 1. Literature Review Protocol

Step	***Operation***
1.	The objective of the literature review: To review the existing literature on the role of cultural controls on corrupt behavior.
2.	Construct operationalization: • Cultural control based on Malmi & Brown (2008). • Corrupt behavior based on Andersson & Heywood (2009).
3.	Keywords search relied on Google Scholar: • Codes of conduct; Ethics code • Peers influence; Peers pressure • Tone from the top; Leadership tone • Corrupt behavior; Corruption
4.	Criteria for inclusion: Empirical papers published in peer-reviews academic journals where the core topic is cultural control and the context is related to corrupt behavior.
5.	Critically review the articles.
6.	Mapping the findings.
7.	Identify knowledge and insights and set future research agenda.

3. Codes of Conduct as a Corporate Governance Tool to Prevent Corrupt Behavior

A code of conduct, also referred to as a corporate code of ethics (Cressey & Moore, 1983) or an integrity code (Petrick & Quinn, 1997), is essentially a formal written document consisting of moral standards used to guide employee and/or corporate behavior (Schwartz, 2004). Code of conduct as one of the management control techniques provides behavioral prescriptions on how management and employees behave and treat each other, use company assets, and how they should act toward external stakeholders (Kaptein & Schwartz, 2008).

Code of conduct has long been a feature for many organizations. Previous studies indicate that code of conduct has been used in business organizations for almost a hundred years (Graves, 1924; Taeusch, 1932). However, studies show that code of conduct development, especially in the United States (U.S.), tends to be cyclical and reactive, responding to corporate misconduct (Benson, 1989; Cressey & Moore, 1983; Helin & Sandström, 2007; Henderson, 1982). For example, the development of the Foreign Corrupt Practices Act was induced due to the global bribery scandals in the 1970s, known as the Lockheed bribery scandals (Badua, 2015). When highly publicized financial scandals rose in the early 2000s involving such as Enron and WorldCom, code of conduct was once again highlighted as part of corporate management tools and was reinforced through the Sarbanes-Oxley Act (SOX) (Babri, Davidson & Helin, 2021).

Despite the burgeoning promotion of code of conduct as part of corporate governance, the amount of empirical evidence on the effectiveness of code of conduct is scant (Cowton & Thomson, 2000; Somers, 2001). Furthermore, in a more specific context: corrupt behavior, the evidence on the impact of code of conduct is even more limited. Regardless of the lack of study on the effectiveness of code of conduct, Kaptein & Schwartz (2008) conducted a review of 79 empirical studies that examine the effectiveness of business code in a different business context. The study suggests that the effectiveness of business code to regulate employee behavior is mixed: 35% have found the relationship is strong, 16% have found the relationship is weak, 33% of studies found no relationship, and 14% have found mixed results. The variation of the results was argued due to the variance of the definition of a business code and different research methods.

Some studies have been conducted on the prevalence of business codes used by companies throughout the world. In the United States, more than 90 percent of big corporations have a code of conduct (Schwartz, 2002). In a more recent study, 95 percent of both Fortune US 100 and Fortune Global 100 companies have a code of conduct (Sharbatoghlie, Mosleh & Shokatian, 2013). A similarly high prevalence of codes of conduct is also found in Canada. A survey by KPMG (2000) revealed that 85 percent of big companies have ethics codes. Without noting its effectiveness, the prevalence of codes of conduct is presumably prompted by external parties (i.e., stakeholders, government law, professional associations, and special interest groups). For example, Organization for Economic Co-operation and Development (OECD) mandates its 40 member countries to sign the

OECD Anti-Bribery Convention, which recommends its members have codes of conduct that endorse anti-corruption practices.

We can view massive endorsement of code of conduct from the way companies make reasoning about it. Some scholars argue that altruistic reasons enhance organizations' reasoning to have codes of conduct. For example, having codes of conduct is the right thing to do (L'Etang, 1992), or it is a way to demonstrate and manage organizations' moral responsibility for ethical problems (Logsdon & Wood, 2005). In addition, some studies suggest that having codes of conduct is economically beneficial to the company in terms of reputation (Bowie, 1979), relaxes taxing controls and regulations by the authorities (Clark, 1980), and decrease legal fines in case of transgressions (Pitt & Groskaufmanis, 1990).

For this study, I limit this review to studies that examine the association between code of conduct and corrupt behavior. As predicted, we found a paucity of empirical studies on the role of code of conduct and corrupt behavior. Yet, from this scarce amount of empirical studies, the result on the effectiveness of code of conduct to deter corrupt behavior is somewhat mixed. Some studies have found that code of conduct has a positive influence (e.g., Hegarty & Sims, 1979; McKinney & Moore, 2008; McKinney, Emerson & Neubert, 2010). Others have found weak or no effect (e.g., Brief et al., 1996; Cleek & Leonard, 1998; Sheffet, 1995; Snell, Chak & Chu, 1999).

Hegarty & Sims (1979) was one of the early empirical studies that examined the effect of code of conduct on participants' decisions to pay a kickback or not. The research employed a laboratory experiment and found that participants with code of conduct display more ethical behavior than participants with no code of conduct. Their findings suggest that code of conduct had a deterring influence on corrupt behavior. More recent studies find a positive effect of code of conduct in preventing corrupt behavior (McKinney & Moore, 2008; McKinney et al., 2010; Valentine & Johnson, 2005). McKinney & Moore (2008) employed a survey of 1.210 U.S business professionals on the issue of international bribery. Their study finds that business professionals in firms having code of conduct were less likely to accept international bribery. McKinney et al. (2010) found similar results. Their survey study of 3.111 business professionals found that professionals working at firms with a written code of ethics were less accepting of bribery activities than those working at firms with no written code of ethics. Similarly, Valentine & Johnson (2005) find that code of conduct positively correlates with employees' beliefs that incorruptibility is an important individual virtue.

Among the limited studies that examine the association between code of conduct and corrupt behavior, more studies found weak or no association at all. For example, Brief et al. (1996) found that code of conduct has no significant role in fraudulent financial reporting. Cleek & Leonard (1998) concluded that code of conduct cannot influence individuals' ethical decision-making. Snell et al. (1999) found a weak effect of code of conduct on employees' corrupt behaviors, similar to Sheffet (1995) that find only 6.8 percent of 324 surveyed firms reported lesser use of bribes in their sales and marketing activities. More recent studies find no significant association between code of conduct and ethical behavior (Marnburg, 2000; Snell & Herndon, 2000).

Some studies provide insight into why codes of conduct might not be an effective tool to curb corrupt behavior. For example, Ladd (1985) posits that code of conduct does not influence employees' behavior because bad employees, who essentially need it the most, will not adhere to it, while the rest of the good employees do not need it because they already know what they should do. Most managers in companies without code of conduct believe that it is unnecessary because it only duplicates the practices, policies and corporate value systems that are already in place (Merchant & Van der Stede, 2007). In addition, abstractly formulated codes can hinder their effectiveness because of the inability to provide clear and concrete guidelines (Kaptein, 2004; Kaptein & Wempe, 1998). Other argumentations on the weak role of codes of conduct to deter corrupt behavior are that they are poorly worded (Cleek & Leonard, 1998), were not well communicated in organizations (Weeks & Nantel, 1992), and that employees have not accepted them as part of their culture (i.e., forced code compliance) (McKendall, DeMarr & Jones-Rikkers, 2002).

Furthermore, some scholars critique codes of conduct as mere window dressing that aims to provide a superficial image of good and compliance (Trevino & Nelson, 2021; White & Montgomery, 1980). A prior study found that one-quarter of the codes of conduct studied were dormant, whereby employees perceived the code of conduct as simply public relations and not something to be taken seriously (Landekich, 1989). Besides, contrary to the argument of economic benefit, some studies also suggest that code of conduct makes stakeholders more suspicious and distrustful and therefore costs more than it should have yielded (Hess, McWhorter & Fort, 2006).

Regardless of the lack of evidence on the effectiveness of code of conduct in curbing employees' corrupt behavior, it is still placed as one of the management control techniques employed by many organizations (Kaptein & Schwartz, 2008) to respond to corrupt-fraud-related issues. Since many organizations still believe in the power of the code of conduct, previous studies suggest how to improve the code of conduct's effectiveness. For example, a prior study suggests that employees should be directly involved in the code of conduct creation process to have more sense of ownership over the code (Messmer, 2003). Another study points out the importance of ethical climate as a key determinant of good corporate governance where code of conduct can be effective.

Improving a supportive work environment where code of conduct can be effective is essential (Verschoor, 2002). That can be through ensuring the ethical corporate culture and proper tone from the top. In this regard, Adam & Rachman-Moore (2004) argue that the influence of managers setting a good example is more effective than ethics training. Many large companies, such as Enron, Siemens, and British Aerospace Company, not only did they have codes of conduct, but also had a comprehensive ethics policy, including the provision of ethics training, yet their corruption and bribery scandals made apparent that they were not immune to corporate misconduct (McNulty, 2006). Mounting evidence of corporate corruption scandals shows that it is more than just because of bad apples, but also that organizational ethical climate plays an imperative role in encouraging corrupt behavior (Trevino, Weaver & Reynolds, 2006).

The term ethical climate was first introduced by Victor & Cullen (1987). According to them, ethical climate refers to "the shared perception of what is correct behavior and how ethical situations should be handled in an organization" (Victor & Cullen, 1987, p.51). Global Business Ethics Survey 2020 (ECI, 2020) suggests that a company's ethical climate is central to decreasing employee misconduct. Formal ethics programs, such as written code of conduct or ethics training, play imperative roles, but they must be part of the company's ethical climate. In line with this finding, previous studies highlight the role of ethical climate on employees' unethical behavior, such as organizational misconduct (Andreoli & Lefkowitz, 2009), stealing (Martin & Cullen, 2006), unethical sales (Schwepker & Good, 2007) and corruption (Webb, 2012).

Taken together, despite vast conceptual studies of codes of conduct, empirical evidence on the effect of codes of conduct as control systems on corrupt behavior is limited. From these limited studies, evidence on code of conduct's role in preventing corrupt behavior is mixed. Regardless of its equivocal effectiveness, the prevalence of organizations employing code of conduct is considered high. Code of conduct is still regarded as essential to prevent corrupt behavior. While large companies adopting codes of conduct s is a positive direction, it is certainly insufficient. To make better use of code of conduct, an organization should consider establishing a supportive ethical climate.

4. Tone from the Top

Another highlight of cultural controls in this review is the tone from the top. Much of the literature coins the importance of tone from the top as part of an organization's control system and to establish an ethical culture within an organization. Merchant & Van der Stede (2007) argue that tone from the top is a powerful form of cultural control because it can provide guidance for employees in ambiguous and/or unexpected situations. When establishing or promoting an organization's ethical climate, it is believed that top management can have the largest impact on the greatest number of employees. Within the organization, top management is often in the position to control many outcomes, from strategies, and allocation of resources, to promotion. What top management incentivize communicates the values they want to convey. Therefore, the standard set by the top management can act as guidance for employees so that they act in ways to achieve aspiring rewards from the top management (Brown & Mitchel, 2010). Formally, the International Federation of Accountants (IFAC) defines tone from the top as:

> *"the standard set by the organization's leadership whereby performance is measured; the culture within which the members of the organization operate; the tone set by senior management; irrespective of management's documented strategy and policies, it is the force that drives individual professionals; the "unseen hand" that directs activities regardless of management's proximity to the action; and a commitment to the quality of care clients receive."*
>
> *(IFAC, 2007, p.8)*

The importance of tone from the top to prevent fraud and corrupt behavior has been long recognized. One of the recommendations from the National Commission on Fraudulent Financial Reporting report in the 1980s stated that to encourage ethical behavior, top management needs to establish a culture within its organizations. If an ethical tone from the top is not observed, it might affect the overall control procedures to prevent fraud in organizations (Hermanson, Ivancevich & Ivancevich, 2008). Further, the regulatory body contends that an organization's leadership must display an appropriate tone because it can shape the strength of the engagement team's work (IFAC, 2007).

Interestingly, the role of tone from the top in propagating fraud within organizations also has been a concern of many professional organizations. For example, in the Occupational Fraud 2022: A Report to the Nations, the Association of Certified Fraud Examiners (ACFE) reports that the trends of executive management committed to financial statement fraud increased significantly in a decade from 56% in 2012 to 62% in 2022 (ACFE, 2022). Concern regarding the emphasis on commercial goals (i.e., firm profitability) by the top management is also being criticized (Baker, 2005).

Evidence from high-profile corruption scandals also shows the involvement of CEOs in corporate fraud is rampant. Some of the convicted infamous CEOs for such crimes are the former CEO of Tyco, Kozlowski, who was convicted for crimes related to stock fraud and unauthorized bonuses which caused Tyco to lose US$100 billion in market value, and Enron's former CEO, Jeff Skilling, who was sentenced to 24 years imprisonment for fraud and other financial crimes related to Enron scandal. Tourish & Vatcha (2005) describe how leaders at Enron created an internal culture through charismatic leadership, conformity, and penalizing dissent. As top management, they all contributed to shaping their company's values and culture.

In more recent bribery scandals: Siemens in 2008 and Glencore in 2022, it was made clear that bribery was built into the corporate culture and was perpetrated and perpetuated by the tone from the top (Dempsey & Sheppard, 2022; Schubert & Miller, 2008). Top management fosters corrupt behavior without engaging in the behavior themselves. Rather, they do so by giving rewards, condoning non-conformers, or ignoring corrupt behavior (Ashforth & Anand, 2003; Brief, Buttram & Dukerich, 2001). Top management is responsible for setting the tone from the top, and a role of their personal values are a determinant factor in guiding whether the tone is positive or negative (Soltani, 2014). In line with this argument, Reed et al. (2011) argued that top management's values, beliefs and actions significantly influence an organization's culture and ethical climate of an organization and the behaviors of organizational members.

In accounting literature, the concept of tone from the top is largely used in the context of internal control for financial reporting and auditing to prevent fraudulent financial reporting (Hermanson et al., 2008; Lamberton, Mihalek & Smith, 2005). While there is much theoretical discussion on the role of tone from the top or leadership tone to encouraging and/or discouraging corrupt behavior (e.g., Giurge et al., 2021; Grojean et al., 2004; Kish-Gephart et al., 2010; Manz et al., 2008; Pearce, Manz & Sims, 2008), only a handful of empirical studies have probed tone from the top on corrupt behavior. In this review, we found no consistent pattern of results on the role of tone from the top as corrupt behavior control. Prior studies have found positive, negative, and no association between tone from the top and corrupt behavior.

Some studies find that tone from the top influences corrupt behavior. For example, Law (2011) finds that an ethical tone from the top is positively associated with the absence of fraud. That is when senior management embraces strong ethical culture, an ethical environment is created and that helps reinforce employees' ethical behavior. Similar evidence is reported by Felo & Solieri (2021), who find that whatever sets the tone from the top influences employees' corrupt behaviors. In line with this finding, Huberts et al. (2007) find that ethical leadership significantly affects the frequency of corruption. They argue that employees perceive top management as the significant actors in their organizational lives; therefore, it is more likely for them to imitate the behaviors set by the top management.

Based on archival data, Davidson et al. (2015) also find that CEOs' personal values are associated with corporate culture. Based on the observation of 109 firms involved in accounting fraud, they find that materialistic CEOs, who focus on a wealth-possession-image, are associated with a corporate culture that delineates a lax control system which increases the risk of corporate fraud. Further, Bushman et al. (2018) find that materialistic CEOs influence corporate culture which is manifested in subordinates' behaviors. They find that materialistic CEOs influence the non-CEO executives to aggressively exploited insider trading opportunities during financial crises.

Researchers have proposed a potential explanation of how tone from the top affects employees' corrupt behavior. The Social Learning Theory (SLT) suggests that employees model and emulate the behavior of their managers or supervisors (Bandura & Walters 1977). According to SLT, top management serve as a role model for the employees and lead by the example they set. Top management can be role models because they have power, competence, a high level of status within the organizational structure, and own behavioral information; as such, employees rely on them as a source of information on appropriate behavior (Wo, Ambrose & Schminke, 2015).

Management literature highlights the effect of tone from the top on establishing organizational climate. Hambrick & Mason (1984) propose Upper Echelon Theory (UET) to explain that top management's personal and psychological characteristics affect their strategic choices and thus consequently affect the organization led by them. According to UET, whatever tone set by top management provides a climate that influences employees' judgment and decision-making. Hambrick & Finkelstein (1987) propose the concept of executive discretion. Due to this discretion, executives can exercise their power to control the organization through staffing, reward and measurement systems, and culture (Bower, 1972; Burgelman, 1983). Cobb (1980) argues that the power of top management over their subordinates is due to the subordinates' perception of attributed organizational authority. This perception develops through work socialization and maintains through supervisory and organizational practices (DeRue & Ashford, 2010). Moreover, Cobb (1980) argues that subordinates rely on top management due to their expertise and reward power. Expertise is related to top management's capability relative to their subordinates and reward power is related to the top management's power to give rewards to their subordinates.

Leadership and organizational literature point out the role of reciprocity in the relationship between executives and subordinates, for example, Leader-Member Exchange Theory (LMX) and Transactional Leadership Theory (TLT). According to LMX, leaders develop dynamic exchange relationships with their subordinates, making them feel obliged to reciprocate (Sparrowe & Liden, 1997). The quality of this relationship matters in determining the strength of leaders' influence on their subordinates. In addition, subsequent studies find that communication frequency is important in determining the relationship quality between leaders and followers. Intense communication affects leaders' influence on their subordinates (e.g., Baker & Ganster, 1985; Fairhurst & Chandler, 1989; Liden, Sparrowe and Wayne, 1997). Similarly, Weierter (1997) notes that leaders need to establish a ritualization process in which leaders need to display a routine message to their followers to maintain the expected relationship between leaders and followers. The characteristic of the transactional nature between leaders and subordinates is further explained in Transactional Leadership Theory (TLT) (Burns, 1978). Under TLT, the relationship between leaders and subordinates is a series of exchange gratification designed to maximize organizational and individual gains. According to TLT, leaders influence their subordinates through contingent rewards, negative feedback, or corrective training.

Contrary to a previous study supporting the effect of tone from the top on employees' corrupt behaviors, Rose et al. (2021) demonstrate a negative association between tone from the top with corrupt behavior. Using an experimental study with controllers and MBA students as participants, Rose et al. (2021) find that a positive tone from the top, in which they operationalize a kind attitude toward employees and a non-aggressive target on earning, influences financial executives to choose misreporting earning. They argue that a positive tone from the top is more likely to push managers down a slippery slope, that is, gradual and incremental transgression of minor corrupt behavior to major ones that lead individuals to regard their corrupt behavior as ethical. This finding supports the notion of the unintended negative consequence of positive social exchange between top management and their subordinates (Umphress & Bingham, 2011). To be more specific, positive feelings that emerge from the interaction between top management and employees can result in employees with a strong attachment to their supervisor engaging in unethical behaviors. Some empirical evidence supports this conception. For example, as long as the employees believe that their efforts will be reciprocated, they would not mind engaging in corrupt behavior (Umphress, Bingham & Mitchell, 2010). Similarly, to look good in the eyes of the supervisors, employees may be more willing to engage in unethical behavior (Lee et al., 2019).

In addition, some studies find no association between tone from the top with employees' corrupt behavior. For example, Said et al. (2018) find that despite the top management's display of ethical leadership, it does not significantly influence employee fraud. They argue that individual factors (i.e., religiosity and ethical values) are more prevailing than organizational factors (i.e., ethical leadership) in employee fraud mitigation. In a sales setting, Ewelt-Knauer et al. (2022) also find that tone from the top has no effect on employee corrupt behavior. They argue that corporate rules and peers' behavior override the effect of tone from the top.

Collectively, these studies suggest that the role of tone from the top as a cultural control to mitigate corrupt behavior is equivocal. The role of tone from the top is inevitably crucial, but other factors might restrain or sustain its effect. Top management not only should embrace ethical values, but they should be seen to be ethical. They should aim to create an ethical example and communicate their commitment to do the right thing, which leads to the firm's ethical culture. When an ethical culture permeates the organization, it can assist employees against corrupt behavior.

5. Peers' Behavior

When corporate corruption happens, such as with Enron and Siemens, some point fingers at bad apples, but the growing evidence shows that corporate corruption is not a result of one single individual; rather, it requires cooperation among employees (Coleman & Ramos, 1998; Tourish & Vatcha, 2005). The notion of a bad barrel connotes that the risk that encourages people to engage in corrupt behavior is because it is accepted, stimulated, or expected within the environment.

Research has demonstrated that peers' effects play a major role in determining an individual's ethical behavior; that is, the more individuals observe peers engaging in unethical behavior, the more likely they engage in similar behavior (e.g., Keith, Pettijohn & Burnett, 2003; Jones & Kavanagh, 1996; McCabe & Trevino, 1993). Much of this research focuses on the effect of peers' behavior in predicting unethical behavior in general (i.e., not specified to corrupt behavior). There is only a handful of empirical evidence that examines the social norm to capture the effect of group dynamics on corrupt behavior (e.g., Abbink et al., 2018; Bicchieri & Xiao, 2009; Dong, Dulleck & Torgler, 2012; Köbis et al., 2015).

Peers' corrupt behavior can influence an individual who observes such behavior in many ways (Gino, Gu & Zhong, 2009). Individuals who are exposed to the corrupt behavior of others might revise their estimate of the likelihood of being caught (Becker, 1968). The economics approach suggests that when enforcement and supervision resources are limited, as more people engage in corrupt behavior, the probability of detection and punishment tends to decrease because the resources are thinly spread over a large number of corrupt people. Alternatively, observing others' corrupt behaviors can change an individual's understanding about what is the norm related to corruption (Bicchieri, 2005; Bicchieri & Xiao, 2009; Cialdini & Trost, 1998). Under Social Norm Theory, when individuals perceive others as their in-group members and observe their corrupt behavior, they are more likely to engage in corrupt behavior.

The notion of an in -group is prominent in understanding the social-norm mechanism under which corrupt behavior is permeated. As Bichieri (2005) noted, the crucial element of social norms is the identification of the reference network; that is, “the range of people who we care about when making particular decisions.” That said, the assumption that everyone who works in the same place belongs to the same peer group should be interpreted carefully. An individual has supervisors, subordinates, or workmates; they all work in the same place but have different levels of interaction and influence. A study finds that peer presence is more effective in constraining dishonest behavior compared to isolated work environments regardless of the level of supervision, suggesting that despite working in the same environment, the level of influence between workmates (peer) and supervisors are different (Pascual-Ezama et al., 2015).

The Social Learning Theory (SLT) (Bandura & Walters 1977) provides an explanation of how this social-norm mechanism works. SLT posits that individuals learn particular behavior through observation, direct experience, and modeling. When individuals observe others, it will form an idea of what behaviors are performed; this information will be used later as a guide for action. When observed-particular behavior is rewarded, it will reinforce individuals to imitate such behavior (Trevino & Ball, 1992). Therefore, according to SLT, people emulate corrupt behavior through observing their peers in their environment, especially if such behavior is reinforced or rewarded by their peers.

The Social Identity Theory (SIT) also provides a theoretical lens to explain the social-norm mechanism. According to SIT, individuals define themselves in relation to their social groups to achieve and maintain a positive social identity (Tajfel, 1978; Tajfel & Turner, 2004). To be self-identified with a particular group, an individual needs to be aware, recognize and build emotional significance to that particular group (O’Fallon & Butterfield, 2012). The social identification process also involves categorization, which is based on a variety of characteristics, such as organizational membership, status, religion and age (Tsui et al., 1992) as well as depersonalization, which is when an individual begins to act and think in sync with the groups’ norms and values (Tajfel & Turner, 2004). That said, according to SIT, when peers’ corrupt behavior is rampant, it will lead an individual to conclude that corrupt behavior is the norm of the group, which increases individuals’ likelihood of engaging in corrupt behavior.

While theories abound, the empirical evidence on the effects of peers’ behavior on corrupt behavior context is limited. Under these limited studies, some use archival data to investigate the peers’ effect on corrupt behavior (i.e., Dong et al., 2012). Some other use experiments studies (e.g., Abbink et al., 2018; Barr & Serra, 2010; Fisman & Miguel, 2007; Köbis et al., 2015).[2] Those studies provide rather unequivocal results that peers' behavior affects individuals' corrupt behaviors.

Fisman & Miguel (2007) explore the effect of corruption norms on diplomats' parking behavior in the United Nations Headquarters in New York through a natural experiment. They find that diplomats originating from high-corrupt countries significantly display more unpaid parking violations than those from less-corrupt countries. Similarly, Barr & Serra (2010) find that students from high-corrupt countries tend to bribe more in an experimental bribery game than students from less-corrupt countries. Further, they find that the time spent in the U.K, which is a presumably less corrupt country, is associated with the decline in students' bribery. These studies indicate the stickiness in the effect of social norms on individuals' corrupt behaviors.

Subsequent studies examine the effect of peers' behavior in a controlled experiment. For example, Köbis et al. (2015) find that providing participants with information about a low frequency of bribery among peers reduces individuals' propensity to bribe. This particular study suggests that peers' behavior can serve as a cultural control to mitigate bribery. As an extension of such findings, Köbis et al. (2022) examine the effectiveness of peers' behavior nudges in reducing corruption in the field. They distributed a poster containing a message about the decreasing levels of bribery in one of the South African towns. They find that this social nudge about the decreasing trends of people paying bribes can reduce the levels of bribe acceptance among participants who act in the role of public officials. However, the social nudge does not affect the participants acting as citizens.

In parallel, Abbink et al. (2018), in a controlled lab experiment, found that managers who interact with public official from a group with mostly corrupt officials offered twice as many bribes as opposed to managers who interact with officials from mostly honest official. Further, they find the

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[2] Some of these studies did not directly investigate peers' effects but used social norms to capture the values of the norms of participants' upbringing (i.e., cultural or home-country norms). Arguably, we can categorize these studies to explain the peers' effect in a sense that individuals might perceive their cultural or home-country background as a reference for their behaviors; that people in participants' home country serve as their reference group.

effect of a corrupt partner on an individual's corrupt behavior is robust with the possibility of being fined. These studies suggest that individuals are sensitive to the information about their reference networks' behaviors. Interestingly, these two studies emphasize the possible range of individuals' reference networks, which could be translated to individuals' peers or associated business partners. Arguably, the mechanism under which the individuals' reference network can be different from one to another. Suppose the reference network is the peers (i.e., individuals who have the same status/ position or come from the same organization), then the salient of the in-group norm is important. While if the reference network is the associated business partner, such as in Abbink et al. (2018) and Köbis et al. (2022), the norm of the other-group can play a more crucial role in influencing individuals' corrupt (honest) behavior.

Some studies also examine the effect of peers' behavior using a survey method. For example, Chappell & Piquero (2004). In their survey study of 499 police officers, they find those police officers who think that accepting gifts from the public or business is normative (i.e., not a corrupt act) perceive their peers' attitudes to be similar to their own. Similar evidence by Zhao et al. (2019). They conducted two studies: a survey and an experiment to examine the role of perceived corruption norms in individuals' corrupt behaviors. In their first survey study of 706 college students in China, they found that individuals' corrupt behavior intention is influenced by their perceived corruption norm that prevails in their environment. Their second experiment study affirms their first study. With 161 participants from college students in China, they found that individuals perceived corruption norm can influence their corrupt intention. Table 2 summarizes the studies that examine cultural controls on corrupt behavior.

6. Cultural Controls Model on Corrupt Behavior

This paper reviews cultural controls on corrupt behavior. The review comprises the use of formal (i.e. code of conduct) and informal (i.e., tone from the top and peers' behavior) types of cultural controls. In contrast to formal control, informal control systems control employees' behavior through non-explicit measures. For example, tone from the top and peers' behavior as cultural control employs the use of shared values, beliefs and norms to direct employees' behavior (Ouchi, 1980). Informal cultural control operates subtly through observation and reading signals relayed by top management and/or peers.

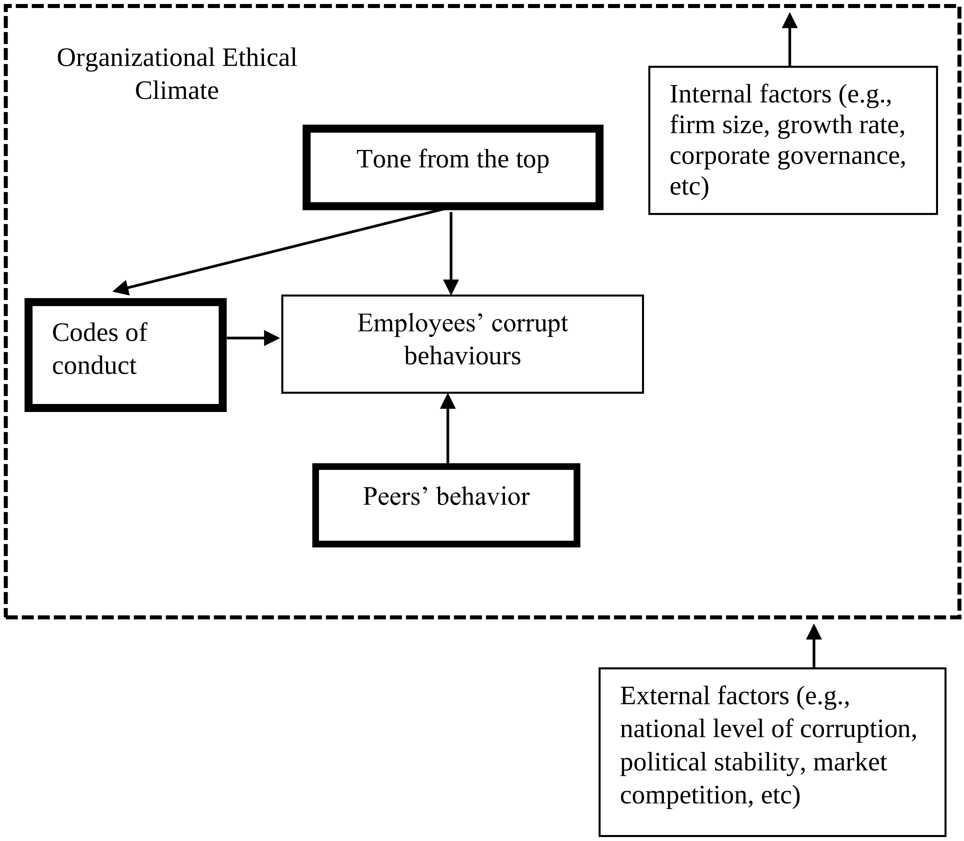
Formal cultural control (i.e., codes of conduct) requires the development of specific rules for specific situations; otherwise, if it is too general, it might hinder its effectiveness. As noted in this review, the tone from the top influences codes of conduct. A positive tone from the top ensures codes of conduct are implemented and sets a good example to the employees. On the contrary, informal cultural controls (i.e., tone from the top and peers' behavior) do not require specific rules. Informal cultural controls propagate implicit values, norms and beliefs regarding how one should act, how the organization works, and what it expects.

As noted in this review, the degree to which cultural controls can be effective varies significantly across organizations. There are internal and external factors that play a part in the effectiveness of cultural control. Based on the review, we portrayed the cultural control model on corrupt behavior on Figure 1.

The organization's cultural controls model should be viewed in relation to external factors. The external factors beyond the scope of the organization could be in terms of political stability (Lederman, Loayza & Soares, 2005; Shleifer & Vishny, 1993), the rule of law (Dong & Tongler, 2011; Treisman, 2000), the national level of corruption (Beck et al., 2005), or market environment (Ades & Di Tella, 1999; Clarke & Xu, 2004; Wu, 2009). The cultural controls model comprising code of conduct, tone from the top and peers' behaviors are instruments to direct employees' behavior and therefore are expected to bring positive organizational effects.

In this model, the extent to which cultural controls can mitigate corrupt behavior depends on the potential influence of each cultural control to influence employees' corrupt behavior. As suggested in this review that organization's ethical climate can influence the relationship between cultural controls and employees' behavior. In addition, organizational characteristics may also influence the relationship and the results. For example, some studies found that firm size is associated with greater bribery activity (Nguyen, 2020; Wu, 2009), and that growth rate and corporate governance are also important determinants of firms' bribery activities (Wu, 2009). External factors such as market competition and corrupt legal systems are found to affect firms' bribery activities (Gao, 2010, 2011; Wu, 2009).

Figure 1. The Effects of Cultural Controls Model on Corrupt Behavior



7. Avenues for Future Research

This study reviews the extant cultural controls research related to corrupt behavior. Corrupt behavior has a unique attribute that differentiates it from unethical behavior in general, that is, the misuse of power for illegal personal gain acquired by sacrificing other people. Our understanding of how cultural controls mitigates corrupt behavior is still limited. The summary of past research in the management accounting context regarding cultural controls and corrupt behavior provided in this paper shows that research in this area is still limited. In this review, I identify potential avenues for further research.

First, as documented in this review, studies on the effectiveness of codes of conduct in mitigating employees' corrupt behavior are equivocal.

Despite the complexity of examining the effectiveness of codes of conduct on corrupt behavior, employing a longitudinal study in multiple companies before and after codes of conduct is one way to move forward. Further, if these companies have already implemented their codes of conduct, we can test whether the codes of conduct revision can improve its effectiveness. As the organization and business environment change constantly, the ideal codes of conduct should be changed to reflect those changes. Since corrupt behavior can manifest in many forms and ways, codes of conduct should be updated to include any potential dynamics. In addition, previous research has also indicated that the choice of word matter makes codes of conduct more salient. For example, using a negative tone may provide clearer direction than a language with a positive tone (Schwartz, 2002). It would be worthwhile to explore more in-depth whether such a concept can improve the effect of codes of conduct on corrupt behavior. A recent study by Ferdiansah et al. (2022) has found that the use of ethical commitment reminders can be used as an effective management control tool to deter unethical behaviors such as misreporting. Future studies can replicate this study in the context related to employees' corrupt behavior.

Second, regarding the role of tone from the top in mitigating corrupt behavior, previous research indicates mixed results. A causal relationship between tone from the top and corrupt behavior is also unclear. There is a need for additional management accounting research examining the effect of tone from the top on employees' corrupt behavior. As noted in this review, there are some potential mechanisms under which tone from the top works to influence employees' behavior. Further studies may investigate more in-depth the underlying mechanisms of the effect of tone from the top for it to be effective, to be more specific: how and when tone from the top could influence employees' corrupt behavior. In addition, previous research indicates that employees' personalities influenced their response to a positive tone from the top (Taylor & Pattie, 2014; Van Gils et al., 2015). Thus, an interesting avenue for future research would be the examination of employees/subordinates' factors (e.g., personality, characteristics, etc.) that have the potential to alter the effect of tone from the top on corrupt behavior. Given the limited experimental study on the effect of tone from the top on corrupt behavior, we encourage future research to employ the experimental method. One of the advantages of an experiment is that it allows the researcher to address a concern about endogeneity and establish causality.

Finally, as noted in this review, we should understand the underlying reference network (i.e., in-group vs. other-group) to understand how peers' behavior works. Future studies could investigate whether different reference networks influence an individual's decision to engage in corruption. We also need to know more about other factors that would increase the effect of peers' behavior. For example, whether the frequency of communication or physical proximity could make the effect of peers' behavior more salient. Future research can explore whether the use of mutual monitoring control can mitigate corrupt behavior (Towry, 2003; Hannan, Towry & Zhang, 2013).

8. Concluding Remarks

Corrupt behavior is a concerning issue for organizations. It negatively affects organizations by preventing fair competition and inflating organizational costs. This review identifies three cultural controls that can be employed in an organization to mitigate corrupt behavior, namely codes of conduct, the tone from the top, and peers' behavior. Through this review, each cultural control is discussed in a way that can be exercised to curb corrupt behavior.

This review also provides several practical implications for organizations. First, this study finds that the degree to which cultural controls can be effective varies across organizations. There are internal and external factors that influence the effectiveness of cultural control. Importantly, because these internal and external factors are dynamics, an organization should continuously adapt its cultural control to respond to these changes. For instance, organizations should continually review and update their codes of conduct and ensure that they reflect the potential internal and external factors changes.

Second, this review suggests that each cultural control is crucial. However, it cannot serve as a standalone control mechanism. For example, the tone from the top would be effective if the tops embraced ethical values in their practice. Organizational leaders should portray ethical standards and communicate their commitment to generating organizational ethical culture. Third, this study suggests that peers' behavior influences corrupt behavior. Actions from peers create perceptions that drive employees' behavior and may affect the organization's norm positively or negatively. Therefore, organizations should consider putting proper rewards to encourage ethical behavior and punishment to reduce corrupt behavior.

Table 2. Studies that examine cultural controls on corrupt behavior.

Study	***Method***	***Sample***	***Key findings***	***Type of cultural control***
Abbink et al. (2018)	Experiment	426 students.	Participants who were interacting with a partner from a corrupt group were offered twice as many bribes as opposed to when interacting with an honest group.	Group norm
Barr & Serra (2010)	Experiment I	195 students (Oxford University).	Individuals who grow up in societies where corruption is prevalent are more likely to act corruptly than individuals who grow up in societies where corruption is rare.	Social norm
	Experiment II	90 students (Oxford University).	Individuals' propensities to engage in bribery reflect the values and social norms that prevail in the societies in which they grew up, but time spent in the U.K (presumably a less corrupt country) is associated with the decline in propensities to engage in bribery.	
Brief et al. (1996)	Experiment	657 executives & 580 controllers.	No significant relationship between codes of conduct and financial reporting fraud.	Codes of conduct

Bushman et al. (2018)	Archival	284 Banks observations from 1992-2013 (from CRSP database); 445 executives observations (Various federal, state and country databases).	Materialistic CEOs influence non-CEO executives to aggressively exploited insider training opportunities around government intervention during financial crises.	Tone from the top
Chappell & Piquero (2004)	Survey	499 police officers.	Police officers perceive their peers' attitude to be similar to their own (i.e., accepting gifts from the public or business is considered to be normative).	Peers' attitude
Cleek & Leonard (1998)	Experiment	150 business students.	Codes of ethics are not influential in determining a person's ethical decision-making behavior.	Code of ethics
Davidson et al. (2015)	Archival	109 firms (data source from the Securities and Exchange Commission Accounting and Auditing Enforcement Releases (SEC AAER).	Materialistic CEOs are associated with a corporate culture that delineates lax control systems (weak board monitoring, increase equity-based incentives and increase risk of fraud).	Tone from the top
Dong et al. (2012)	Archival	European Value Survey 1999/2000; World Value Survey; International Country Risk Guide (ICRG).	The higher the perceived corruption of other persons, the higher the justifiability of corruption.	Social forces

Ewelt Knauer et al. (2022)	Survey	93 sales employees.	Corporate rules have a significant negative effect on employee corrupt-performance-related behavior.	Corporate rules
			Tone from the top does not affect employee corrupt-performance-related behavior.	Tone from the top
Felo & Solieri (2021)	Experiment	65 participants.	Tone from the top impacts employees' corrupt behavior.	Tone from the top
Finn et al. (1988)	Survey	332 Certified Public Accountants.	When top management discourages unethical behavior, the employees' perceived ethical problems are reduced.	Tone from the top
Fisman & Miguel (2007)	Natural experiment	Diplomats from 149 countries stationing at United Nations Headquarters in New York.	Diplomats originating from highly corrupt countries accumulated significantly more unpaid parking violations.	Social norm
Hegarty & Sims (1979)	Experiment	165 graduate business students.	Organizational ethics policies significantly reduced the kickback bribe.	Code of ethics
Huberts et al. (2007)	Survey	2.130 police officers in The Netherlands.	Ethical leadership (role modelling, strictness, openness) has a significant effect on the frequency with which corruption occurs.	Tone from the top

Köbis et al. (2022)	Field experiment	311 participants (from the population of Manguzi, South Africa).	Poster contains a message about the decreasing trends of people paying bribes can reduce the level of bribe acceptance among participants who act in the role of public officials, but not to participants who act in the role of citizens.	Social norm
Köbis et al., (2015)	Experiments	Study 1: 66 students.	Individuals' corrupt behavior is influenced by how most people in their environment behave corruptly.	Group norm
		Study 2: 119 students.	When individuals perceive that corrupt behavior is rampant, the more likely they engage in corrupt behavior.	
		Study III: 259 participants (subject pool: Amazon M. Turk).	When participants received a short prompt indicating a low frequency of corrupt behavior, the level of corruption decreased drastically.	
Law (2011)	Survey	253 Chief Financial Officers (CFO).	An ethical tone from the top is positively associated with the absence of fraud.	Tone from the top
Marnbug (2000)	Survey	449 professionals of private Norwegian business.	No significant association between ethical codes and ethical behavior.	Ethical codes

McKinney & Moore (2008)	Survey	1.210 businesspersons.	Business firms having a written ethics code were significantly less likely to accept international bribery. Respondents working for firms with a code of ethics than those respondents working for firms without found that paying bribes was unacceptable.	Code of ethics
McKinney, Emerson & Neubert (2010)	Survey	3.111 business professionals.	Business professionals working at firms with a written code of ethics were less acceptable with bribery activities than those working at firms with no written code of ethics.	Code of ethics
Patelli & Pedrini (2015)	Thematic analysis (of CEO Letters)	522 firms' observations.	Leadership traits that shape tone from the top are associated with unethical accounting practices.	Tone from the top
Rabl (2011)	Experiment	196 business & non-business students.	More or less abstraction of business code has no effect on preventing corruption.	Business code.
Rich et al. (1990)	Survey	590 controllers of manufacturing organizations.	No evidence that a code of conduct helps individuals to assess fraud risk.	Code of conduct
Rose et al. (2021)	Experiment I	65 controllers and 69 MBA students.	Positive tone from the top influences financial executives to choose to misreport earnings.	Tone from the top

	Experiment II	78 auditors from Big 4 accounting firms.	Fraud risk assessment will be higher when the tone is negative relative to when the tone is positive.	
Said et al. (2018)	Survey	101 Royal custom officers (Malaysia).	Ethical leadership does not significantly influence employee fraud.	Tone from the top
Sheffet (1995)	Survey	324 Chief legal counsels of Fortune 500.	6.8 percent of the surveyed firms which had codes of conduct reported lesser use and amount of bribes for their sales and marketing activities.	Codes of conduct (Foreign Practice Corrupt Practices Act)
Snell & Herndon (2000)	Survey	171 public companies listed on the Hong Kong stock exchange & 31 trade/professional associations.	Respondents did not perceive ethical codes to impact their organizations.	Ethical codes
Snell, Chack & Chi (1999)	Survey	171 companies & 31 trade/professional associations.	Codes of conduct had a weak positive impact on employees' corrupt behavior.	Codes of conduct
	Interview	32 managers from 16 companies.	Codes of conduct had a weak positive impact on employees' corrupt behavior.	Codes of conduct
Somers (2001)	Survey	613 management accountants in the U.S.	Management accountants perceived less wrongdoing in organizations with corporate codes.	Corporate codes

Valentine & Johnson (2005)	Survey	145 respondents from public & private industries in the U.S.	Codes of ethics have a positive relationship with employees' beliefs that incorruptibility is an important individual virtue.	Codes of ethics
Zhao et al. (2019)	Survey	706 college students from universities in China.	Individuals' corrupt intention is influenced by the perceived corruption norm that prevails in their environment.	Social norm.
	Experiment	161 college students from universities in China.	Individuals perceived corruption norm can influence their corrupt intention.	

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