

Do Competitive Environments Lead to the Rise and Spread of Unethical Behavior? Parallels from Enron

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ABSTRACT. While top-down descriptors have received much attention in explaining corruption, we develop a grassroots model to describe structural factors that may influence the emergence and spread of an individual's (un)ethical behavior within organizations. We begin with a discussion of the economics justification of the benefits of competition, a rationale used by firms to adopt structural aides such as the 'stacking' practice that was implemented at Enron. We discuss and develop an individual-level theory of planned behavior, then extend it to the dyadic level in an internally competitive organization, and finally extend the dyadic model to the social network. We apply social network theory to predict favorable and unfavorable conditions for the emergence and diffusion of an intraorganizational instance of unethical behavior and find that network conditions

favoring the suppression of the emergence of unethical behavior also promote its diffusion. For illustrative purposes, we utilize examples from Enron's internally competitive structure to embed our arguments in a real world context and bring reality to our theorizing. Implications for both researchers and managers are discussed.

KEY WORDS: social network, Enron, theory of planned behavior, grassroots model, spread of unethical behavior, diffusion, corruption

Introduction

The case of Enron remains an enigma to management theorists interested in preventing the emergence and spread of unethical behavior in competitively oriented organizations. Although Enron repeatedly won awards as America's most innovative company and best place to work (Bryce, 2003; Cruver, 2002; Swartz and Watkins, 2003), the overriding question as to how it also emerged as a corrupt organization has been addressed only in part. While much attention has been paid to top-down influence processes of the firm's corrupt executives

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(Kulik, 2005; Sims and Brinkmann, 2003) and toward prevention of fraudulent practices at the organizational level (Benston and Hartgraves, 2002; Deakin and Konzleemann, 2004; Ronen, 2002), relatively little attention has been paid to a theoretical explanation of the emergence and spread of unethical behavior across Enron's lower levels. Moving away from individualistic explanations that only a few 'bad apples' (Trevino and Youngblood, 1990) were the cause of Enron's corruption, Mills (2003) and others (Kulik, 2005; Sims and Brinkmann, 2003; Windsor, 2004) have pointed to the organization's culture, as set by Enron's leadership, as a driving force toward unethical behavior. For example, using Schein's (1992) primary mechanisms of leadership influence, Sims and Brinkmann (2003) proposed that Enron's leadership encouraged an unethical culture through top-down processes. However, Schein (1992) also allowed for the emergence of grassroots-level processes that may have complementary, or countervailing, effects on an organization's predominant culture, a perspective that is lacking in the present literature.

From a theoretical standpoint, with the exception of Ashforth and Anand (2003), existing individual-level models of (un)ethical decision making (e.g., Brass et al., 1998; Dubinsky and Loken, 1989; Ferrell and Gresham, 1985; Hunt and Vitell, 1986; Jones, 1991; Rest, 1986; Trevino, 1986) lack a unifying middle-range theory and ignore the possible consequences of ethical and unethical behavior (Trevino et al., 2006). As for Ashforth and Anand's (2003) interesting theory of rationalization, institutionalization, and socialization as factors leading to normalized corruption, their work differs from the current work in a number of important ways. First, Ashforth and Anand (2003) focused on 'morally intense' (Jones, 1991) types of corruption (which are, by definition, studies strictly issue-related, and not individual and contextual factors, as considered in this paper), with the large majority of their examples existing in the domain of illegal behavior; our study instead focuses on behavior in the domain of ethics. Second, Ashforth and Anand (2003) considered corruption at the group level of analysis; our multi-level study begins at the individual level and proceeds outward to the level of the organizational network. Third, Ashforth and Anand (2003) looked downstream from the antecedents of unethical behavior as

studied by Brass et al. (1998) and toward the normalization of corruption. In contrast, this study focuses on the antecedents to and the spread of unethical behavior, after the behavior has emerged and before it has become normalized. Finally, we investigate a specific, all-too-common case of an organization that includes intraorganizational competition as a component of its structure (Kohn, 1992). For example, Pfeffer and Sutton (2006) discussed the suggestion of McKinsey consultants Michaels et al. (2001; entitled *The War for Talent*) as follows:

A couple of years ago, one of us gave a speech at a renowned (but declining) high-technology firm that used a forced-ranking system. They called it a stacking system. Managers were required to rank 20 percent of employees as A players, 70 percent as Bs, and 10 percent as Cs. Just as *The War for Talent* advises, they gave the lion's share of rewards to As, modest rewards to Bs, and fired the Cs. But in an anonymous poll, the firm's top 100 or so executives were asked which company practices made it difficult to turn knowledge into action. The stacking system was voted as the worst culprit. This is not just one company's experience. A survey of more than 200 human resource professionals... found that... more than half of the companies [surveyed] used forced ranking (p. 107).

Despite its widespread application in several firms, Pfeffer and Sutton argued that this commonly used stacking policy is both ineffective and inefficient (Pfeffer and Sutton, 2006). Further, we argue that it may also inevitably result in organization-wide corruption. Thus, our paper both complements extant literature on a theoretical level by addressing the intermediate area between the emergence and normalization of unethical behavior, and provides practical advice to human resources professionals who might be using or considering a stacking policy or other structural aids to promote an internally competitive environment within their organizations. We chose the Enron case as the particular inspiration for our theoretical developments because the numerous publications on Enron at both upper and lower levels provide us with a uniquely detailed, inside view of individual and group behavior of an organization that has employed a stacking practice; also, we feel that a more holistic picture of the antecedents of Enron's failure must be provided.

We essentially argue herein that Enron's initial success and ultimate failure arose, at least in part, from individual-level intraorganizational competition, which was allowed to flourish due to its executives' incorrect application of the free-market, perfect-competition formula (not unlike the free markets proposed by Coase (1966) and Ken Lay at the organizational level of analysis). Subsequently generalizing under the condition of intraorganizational competition, we propose a grassroots-level process model of the spread of unethical behavior that is rooted in Ajzen's (1985) theory of planned behavior. Following Ajzen's theory, the driving forces behind the model – i.e., what causes the emergence of corruption to materialize – are posited to be need for survival, (lack of) leadership, self-categorization, and individual-level mechanisms of (un)ethical decision making.

This paper contributes to the literature in three ways. First, it helps to establish a more holistic view of widespread unethical behavior by complementing the downward processes already described in the ethics literature with a horizontal process that may be prevalent in competitive organizations. Second, it extracts the generalizable nature of these processes and provides a definition of 'widespread unethical behavior' that is ethics-domain oriented and may be used to empirically study, identify, and prevent the emergence and diffusion of unethical behavior in competitive organizations. Third, it re-visits the ethical social network theory of Brass et al. (1998) and highlights the danger of focusing on the prevention of an unethical behavior event within the network without regard to how that behavior might quickly spread throughout the entire social network. In effect, our paper proposes filling a missing link between Brass et al.'s (1998) emergence of unethical behavior and Ashforth and Anand's (2003) organizational corruption with our 'widespread unethical behavior.'

The remainder of this paper is organized into four parts. Part I sets the stage of how economics arguments can justify the expectation of efficiency in structurally competitive systems. In Part II, we explain the contextual factors existing in this internally competitive organization by applying insights from organizational behavior research. Starting at the individual level, and contrary to the economic view put forward in Part I, we discuss how internal competition could set the

stage for the diffusion of 'widespread unethical behavior.' In Part III, we elucidate on the diffusion of unethical behavior and conclude that internal competition may also establish conditions for the spread of unethical behavior across social networks. In Part IV, we discuss the significance, limitations, and practical implications of our model.

Competition, economic theory, and Enron

General equilibrium theory and Pareto efficiency

To economists, general equilibrium (GE) explains why perfect competition is important. The conditions required for GE are that labor, capital, and goods markets must be 'cleared' in such a way that supply is just equal to demand (Stiglitz, 1993). One important condition under which GE is expected to be efficient is Pareto efficiency – that condition in the economy in which, if one individual were to become 'better' off, it would only be at the expense of another or others being 'worse' off. Thus, perfect competition, under the classical economic assumptions of many sellers, homogeneous products, perfect mobility of resources, and all participants (sellers and buyers) having perfect knowledge (Blaug, 2001), was considered as a desirable and beneficial environmental condition precisely because of the dual advantages it offered: Individual differences between participants could be ignored (assumed homogeneous) for a situation where high levels of efficiency can be said to exist. This pervasive view that 'competition is an efficient social state' among economists has been integrated with the obviously true idea that 'corruption is inefficient' to formulate a widely accepted presumption that competition 'kills' corruption. This presumption, which has been challenged only recently (Bliss and Di Tella, 1997, entitled "Does Competition Kill Corruption?"), also implies that perfect competition kills corruption completely because corruption, as well as the emergence of unethical behavior, constitutes a departure away from efficiency. Of course, ideas such as general equilibrium, Pareto efficiency, and perfect competition do not perfectly exist in any real environment. However, by way of the "good approximation assumption" (Blaug, 2001, p. 40), they need not be; the nearer to perfect competition, the more efficient

and therefore less corrupt/unethical an industry's environment is expected to be.

Coase's applications to the real world

Ronald Coase was never a proponent of so-called "blackboard economics" (Coase, 1964, p. 195) in which economists would derive public policy from the analysis of the ideal, but unrealistic, economic conditions discussed above. Indeed, criticism of economists' "disregard for what happens concretely in the real world" (Coase, 1998, p. 72) could be viewed as Coase's lifelong mission. When recommending regulation policies to the government, Coase favored a pragmatic approach involving an expectation of industry conduct to actually implementable alternative regulations based on an in-depth study of an existing industry. For example, in considering what the broadcasting industry's regulation policy should be, Coase (1966) struck a middle ground between strict regulation (the *status quo* at the time) and *laissez-faire* deregulation (considered an unrealistic alternative):

Radio frequencies should be disposed of to the highest bidder because it would ... tend to allocate these frequencies to those who could use them most efficiently, ... [and] prevent the unjustifiable enrichment of those (commonly wealthy) private individuals ... and would facilitate changes in the use of radio frequencies when this seemed called for (p. 444).

Coase (1966) expected that the bidding process would be closer to the Pareto-efficient condition and would thus result in higher efficiency and less unethical behavior. His suggestions of allowing for regulated competition were implemented first in the trading of pollution permits and next in the bidding and trading of radio and cell phone frequencies, apparently with success (Fusaro and Miller, 2002), resulting in a general global trend toward the formation of free markets in previously heavily regulated industries. Ken Lay, with a Ph. D. in economics, was certainly familiar with this global trend, as he worked to extend and intensify the deregulation-through-trading alternative first proposed by Coase to a number of industries that Enron competed in.

Enron's adaptation of free-market economics

Kenneth Lay "believed in the power of markets" (Fusaro and Miller, 2002, p. 44), and he applied this belief to the derivation of a formula of success for Enron (Swartz and Watkins, 2003, p. 77):

First, buy a few key assets, like a major gas pipeline (in the future the company might buy an electric utility, or, further into the future, nothing more than the option to use an asset). Then set up a trading business to expand the new market. In step three, market dominance is achieved – superior knowledge of and contacts in the market make that inevitable. Finally, when the market is crowded with imitators and gross margins shrink, you sell all the assets, and emerge as a pure trading company, smart enough to take advantage of market fluctuations because your company was smart enough to see them coming – or because you've been able to move the market yourself through the size and quantity of your trades.

Although it was Lay's formula, Fusaro and Miller (2002) speculated that it may have been Skilling's consulting experience in which a successful formula was developed in a "guinea pig" (Fusaro and Miller, 2002, p. 54) company, then replicated to solve similar problems in many other companies. Enron applied the above formula to natural gas, electricity, water, fiber-optic cable, and other markets (Bryce, 2003; Swartz and Watkins, 2003; Fusaro and Miller, 2002), often after Kenneth Lay and/or other Enron executives convinced governments to allow Enron to form trading markets through deregulation. Their 'sell' to convince governments to deregulate was that the ensuing competition would decrease consumer prices. Since Enron was a highly competitive company, it was expected to win much of the deregulated business, while the public also 'won' by experiencing lower costs through increased efficiency. Note, however, that these markets were not as 'free' as Coase's semi-regulatory systems, since in setting up markets where none had existed, Enron had a distinct advantage in setting up the rules of trading to favor its traders, so that the ensuing competition was far from 'perfect.'

The idea that Enron manipulated deregulation while selling the benefits of more competition to government officials and customers is well documented (Bryce, 2003; Swartz, Fusaro and Miller,

2002; Watkins, 2003). However, what has been overlooked by the current Enron-related literature is the strong parallel between Enron's external formula for success and its internal organizational structure. Internally, Enron set up a free-market type of competition between its own employees, implementing at its core what Pfeffer and Sutton (2006) termed a stacking practice. Enron selected aggressive, mostly top-tier MBA graduates from Ivy-League schools in the United States, retained its high-performing employees through a combination of performance-based bonus pay and a performance-based forced-distribution appraisal system (Bryce, 2003; Cruver, 2002; Fusaro and Miller, 2002; Swartz and Watkins, 2003; Windsor, 2004), and expelled poorly performing employees every six months by the same appraisal system. According to Cruver (2002), individuals with performance rated in the lower 15% were moved to an isolated common area with other so-called poor performers and given a few weeks to find another job within Enron. However, finding another job was a difficult task, since the expelled employees had been stigmatized as poor performers. Consequently, most were usually released from the company after a few weeks of fruitless search. Thus, high-potential employees were set up to compete with each other in a free-market fashion, with low performers forced out every 6 months, and only non-low performers surviving. According to the economic theory discussed above, the internal competitive situation would have predicted a highly (Pareto-) efficient organization with few social loafers. But of course this application makes an important assumption – that the positive association between heightened competition and efficiency holds at the individual, grassroots level in the same way economists have applied it at the organizational level. The Enron debacle suggests that this assumption is not met and that efficiency does not result from competition-promoting practices such as the stacking practice. We contend that rather than efficiency, widespread and inefficient unethical behavior resulted to the extent that the company collapsed virtually from its own configuration. The firm's appraisal system caused political power struggles, with lower-level employees finding any way possible to find management-level supporters and peer allies; thus, the system was certainly not effective in separating high from low performers; it was

instead one that rewarded effective politicians at the cost of efficiency.

However, political behavior is undoubtedly a common occurrence, even among organizations that are not corrupt. The question remains as to how intense internal competition at the individual level of the organization led to widespread unethical behavior, especially when it was constructed with the aid of the country's best minds and consultants, consisted of graduates from the country's best business schools, and followed seemingly beneficial human resource management procedures. We propose that corruption may have emerged at Enron and elsewhere, not merely from bad apples or bad barrels, but from good barrels of good apples by competitive interactions between individuals inside the organization. Specifically, we predict that losers in the system tend to adopt the behaviors of the winners at the dyadic level to survive, with the winners at least sometimes succeeding by making unethical decisions. To develop our model, we turn to the theory of planned behavior first at the individual, then at the dyadic level of analysis.

Theory development

One model that may shed light onto the spread of unethical behavior is the highly regarded theoretical framework – the theory of planned behavior (Ajzen, 1985, 1989, 1991). The theory of planned behavior (TPB) has been used successfully in a number of contexts that examined behavioral intentions and behaviors. Researchers have used the TPB to examine behaviors such as college course selection (Randall, 1994), marijuana use (Conner and McMillan, 1999), episodic volunteer work (Harrison, 1995), workplace selection (Giles and Rea, 1999), pollution reduction preferences (Cordano and Frieze, 2000), and use of public transportation (Heath and Gifford, 2002). Surprisingly, given the close parallel to many of the ethical decision models mentioned previously (e.g., Rest, 1986), the TPB has received little attention in the ethical decision-making literature (e.g., Banerjee et al., 1998; Chang, 1998; Flannery and May, 2000; Lin and Ding, 2003; Randall and Gibson, 1991). None of these studies examined the TPB model in its entirety, falling short at behavioral intentions. Given Weber and

Gillespie's (1998) recent study demonstrating a significant difference between intentions and actual behavior, this link becomes important to examine, not only to validate past research, but also to guide future research in ethical decision making.

One reason for the discrepancy between intentions and behavior has been most notably recognized by Ajzen himself (Ajzen et al., 2004). In this particular study, Ajzen et al. (2004) examined the participants' willingness to contribute money to a scholarship fund in hypothetical and real payment referenda. The results showed that individuals were more likely to indicate a higher willingness to contribute in the hypothetical situation than in the real payment referendum, and Ajzen et al. (2004) attributed this to a hypothetical bias. Accordingly, those individuals displaying a discrepancy between intentions and behavior were stated to have misaligned beliefs toward the two aforementioned situations. To overcome this bias, an individual's beliefs in the two situations must become congruent; however, as individuals tend to be biased toward estimating their engagement in a socially desirable behavior, frequent inconsistencies are observed between intentions and actions across many domains (Ajzen et al., 2004). Therefore, to eliminate this bias, there must be a component that enables an individual to change his/her beliefs, attitudes, intentions, or behavior.

One way to examine such changes would be to incorporate moderators into the theory of planned behavior model. For example, Conner et al. (2000) demonstrated temporal intention stability as a moderator between intention and performance. In this case, however, stability may be low, yet other influences may strengthen the link between intention and behavior. Thus, apart from methodological issues (Weber and Gillespie, 1998) and potential biases, we believe TPB to be both a useful theory and applicable as a starting place in the development of a model regarding the spread of unethical behavior in an internally competitive environment.

The theory of planned behavior

The theory of planned behavior (TPB) has developed its roots from the theory of reasoned action (Ajzen and Fishbein, 1980; Fishbein and Ajzen,

1975). The theory of reasoned action, as its name implies, assumes that individuals are rational, that they make use of all available information, and that they evaluate the possible implications of their action before they decide to engage or not engage in a particular decision (Ajzen, 1985). The TPB is useful in the development of our corruption theory because it emphasizes that behavior is often preceded by intent and that values are important in the development of intent. It seems unlikely that Enron employees were acting solely in reaction to rewards/punishments because many lower-level employees exhibited unethical behavior even when not rewarded with career-related success, such as sending flowers to whomever they wanted to while charging Enron for the expense, and staying in the best hotels and eating in the best restaurants on business trips while charging Enron the full cost (Cruver, 2002).

According to Ajzen (1989, 1991) behavioral intentions are a function of three components: attitude toward a behavior, subjective norms, and perceived behavioral control. The TPB model that we will apply to the competitive situation, with 'locus of control' added as a moderator, is depicted in Figure 1; each element of the model will be discussed in turn.

Intentions

Behavioral intentions have been defined as the subjective probability that an individual will engage in a specified behavior (Fishbein and Ajzen, 1975). Intentions comprise all the motivation factors that affect a behavior and indicate how much effort an

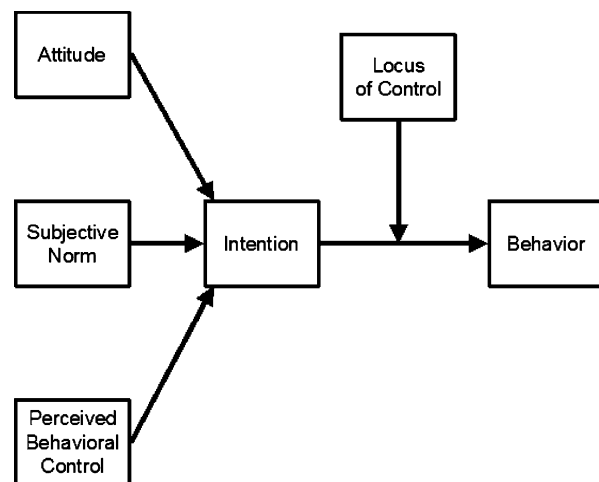


Figure 1. The theory of planned behavior.

individual will exert to perform a behavior. According to Ajzen (1991), intentions are considerably accurate in predicting behavior. Consequently, the theory predicts that the stronger an individual's intent to perform a behavior, the more likely the individual will engage in that behavior. In the context of this paper and ethical decision making in general, we would expect that the stronger an individual's intent to behave ethically, the greater the likelihood he or she will engage in ethical behavior.

Attitude toward the behavior

This factor refers to the individual's positive or negative assessment of engaging in the behavior. An individual's attitude is a multiplicative component consisting of the individual's strength of belief associated with the behavior and the individual's subjective evaluation or weighted importance of the beliefs attribute (Fishbein and Ajzen, 1975). The theory predicts that as the individual perceives the behavior as favorable, he or she will more likely intend to perform the behavior (Fishbein and Ajzen, 1975). As a result, we would expect that as the individual perceives that behaving ethically is highly favorable, the individual would more likely intend to behave ethically.

Subjective norms

These norms refer to the individual's perception of the social pressures to engage or not engage in the behavior. In particular, it encompasses an individual's perception of whether or not to engage in the behavior as seen from his or her significant others. As a result, the theory predicts that if the individual perceives that his or her significant others would encourage such behavior, the individual will more likely intend to engage in the behavior. Therefore, if the individual believes that his or her significant others would encourage him or her to behave ethically, it is more likely the individual will intend to behave ethically.

Perceived behavioral control

The final component and the key determinant that differentiates the theory of reasoned action from the theory of planned behavior, perceived behavioral control refers to the individual's perceptions of the ease or difficulty of performing the behavior. In the theory of reasoned action (Ajzen and Fishbein, 1980;

Fishbein and Ajzen, 1975), an individual is assumed to have a greater control over internal and external factors, whereas the theory of planned behavior (Ajzen, 1985, 1989) does not make this assumption. The TPB states that there may be individual and contextual factors beyond the control of an individual. As a result, the theory of planned behavior predicts that the greater an individual perceives that he or she has control, the more likely the individual will intend to engage in the behavior. Thus, as the perception of an individual's control increases, the more likely he or she will intend to behave ethically.

A missing moderator: locus of control

Weber and Gillespie (1998) examined the link between behavioral intentions and behavior and found that what an individual intends to do may not be what an individual actually does. Further they stated, "although social psychologists (including Ajzen, Fishbein, and others) predict a linkage, their findings admittedly present weak to moderate correlation" (Weber and Gillespie, 1998, p. 462). As a result, one would expect that there might be factors that strengthen this relationship.

One factor that has been examined is the perceived behavioral control variable mentioned above. Ajzen (1991) states that past theory and intuition suggest that there is an interaction between intent and control. However, in seven studies reviewed by Ajzen (1991), only one obtained a marginally significant ($p < .10$) interaction between intent and control on an individual's behavior (Schifter and Ajzen, 1985). Although recent research tends to suggest that there may be a significant interaction between behavioral intentions and perceived behavioral control (Conner and McMillan, 1999; Heath and Gifford, 2002), overall, the interaction remains skeptical, leading Heath and Gifford (2002) to suggest that significance may depend on the situation in question. As a result, it may be time to examine other factors that would strengthen the relationship between intentions and behavior. One potential variable may be that of locus of control.

Locus of control (Rotter, 1966) refers to the degree in which individuals believe that they exercise control over their own lives. 'Internals' believe they have complete control over the outcomes, and

the outcomes were achieved due to their own effort. 'External' individuals, on the other hand, believe that outcomes are produced by factors outside their control, such as fate, luck, or destiny. At first glance, locus of control seems to be very similar to the perceived control element suggested by Ajzen. However, Ajzen (1991) strongly states that these two types of controls differ greatly. The major difference between these two variables is that perceived behavioral control is a state variable (i.e., can vary across situations and actions), whereas locus of control is a trait variable (i.e., remains stable across situations and actions). Thus, as Ajzen (1991, p. 183) stated, "a person may believe that, in general, her outcomes are determined by her own behavior (internal locus of control), yet at the same time she may also believe that her chances of becoming a commercial airplane pilot are very slim (low perceived behavioral control)."

In the ethical decision-making literature, empirical evidence examining locus of control as a moderating variable has produced mixed results. In their study, Banerjee et al. (1998) found that locus of control did not significantly affect the relationship between ethical behavior intention and moral judgment, attitude and personal normative beliefs. However, three other studies provided support for the variable. Cherry and Fraedrich (2000) confirmed the existing moderating effects of locus of control on the decision-making process. Similarly, Chiu (2003) found that locus of control significantly moderated the relationship between ethical judgment and whistleblowing intention. Finally, Lin and Ding (2003) found that the influence of perceived behavioral control on ethical behavioral intentions was greater for internals, but this relationship did not hold up between attitude and behavioral intentions, as well as between personal values and behavioral intentions. Relating the evidence of support above regarding individuals with an internal locus of control to the relationship between behavioral intentions and behavior, we expect that the relationship between intentions and behavior will be stronger for 'internal' individuals than 'external' individuals.

In summary, the TPB predicts that an individual's behavior is based on his or her intentions, especially for individuals with high levels of locus of control. Intentions are derived from an individual's attitude toward a behavior considered (favorable behaviors

are chosen over unfavorable ones), subjective norms (behaviors that are encouraged by significant others are chosen over those that are not encouraged), and perceived behavioral control (easier-to-perform behaviors are chosen over those that are more difficult). Below, we discuss what kind of behavior the TPB would predict for Enron employees, and in general employees in a highly internally competitive organization.

The TPB and Enron employees

Enron's employees were selected for their aggressiveness (Cruver, 2002; Swartz and Watkins, 2003). A propensity for the trait of aggressiveness, we believe, is positively correlated with an individual's locus of control; specifically, highly aggressive individuals may perceive their environments as highly controllable – otherwise, why would such individuals be aggressive? Thus, at Enron, we expect the link between intention and behavior to have been unusually strong. In fact, Enron may actually provide a unique opportunity to observe the TPB in action since its aggressive survivors may have possessed higher locus-of-control trait levels than an alternative organization that might have been randomly selected for analysis.

The TPB predicts that the problem facing an Enron employee with regard to how to survive was to discover what inputs from the situation (attitude, subjective norm, and perceived behavioral control) led to successful behavior in relation to others. In terms of attitude toward a more competitive behavior compared to a less competitive behavior, Enron employees might initially choose the less competitive behavior, given that they are 'good apples' at the start of their employment; ethical behavior may appear more favorable. However, behavior derived from observing the behavior of favored others in the organization may instead cause the individual to choose a more competitive behavior. If the more competitive actions are also unethical, and the less competitive ones ethical, the conflict between attitude and subjective norms may create an ethical dilemma within an organizational culture that values increasingly competitive action. But this dilemma may be resolved in favor of the more competitive and unethical choice because

perceived behavioral control, the third antecedent to intent in the TPB, predicts that behaviors will be chosen that are easier to perform, and aggressive, competitive behavior that has become a social norm would certainly be easier to perform. For example, an individual could attempt to impress her management by finding a *bona fide* profitable project after spending many extra hours on research to discover it; making a project appear more favorable by manipulating the numbers would certainly require less effort in comparison.

It is interesting to note that, with regard to subjective norms, employees were apparently selective in their assessments of the situation. For example, Cruver (2002, p. 42) noted that Enron's core values, summarized in the acronym RICE (respect, integrity, communication, excellence), was "drummed into [his] head during the first day's orientation," printed on Enron letterhead, the basis for awards that were shown on "Enron TV" in the elevator and other locations within Enron (Cruver, 2002, p. 51), and on posters that could be seen as one drove up levels of Enron's parking garage. Yet behavior at Enron routinely violated its core values. For example, deal estimates were allegedly inflated to meet individual bonus targets (Cruver, 2002; see p. 78), employees had no respect for peers who had received a poor evaluation, and human resources executives allegedly filled out supposedly randomly distributed surveys to win Fortune Magazine's 'Best Place to Work' award (see Swartz and Watkins, 2003, p. 135). Clearly, individuals at Enron were paying more attention to their coworkers' behavior than Enron's internally and externally advertised core values. By our application of the TPB, we argue that employees may have given priority to the intentions of winners in conflict episodes in an effort to survive. To support this argument, we require a dyadic extension of the model depicted in Figure 1 to explain the emergence of unethical decision making.

Planned behavior: a dyadic extension

Suppose two individuals are asked to present a plan of action with regard to some deal that an organization (for example, Enron) plans to make in the near future. Their proposals are presented in a

meeting in front of their superiors and team members, who must together decide which action to take. One individual (say, individual B) presents an honest proposal with, say, a breakeven point in five years and a return on investment of 10%. Individual A, an aggressive individual who has discovered the presentation of Individual B, puts a priority on organizational survival. A's presentation offers better estimated returns on investment (say, 30%) and a shorter breakeven point (say, 6 months) through inflated returns by way of the application of unrealistic economic assumptions and unrealistic price curves (Cruver, 2002, see p. 78). The process of making the presentation and the ensuing conflict during the meeting might be mapped according to Figure 2.

Each individual enters into the conflict with a preconceived attitude, subjective norm, and perceived behavioral control that develops into an intention. In a competitive setting, the intention is to win the conflict in a distributive (win-lose) fashion so that the other individual loses. Under a stacking policy, winning or losing the conflict may mean the difference between surviving in and being expelled from the organization. Note that the conflict may either be task-related or relationship-related (Jehn, 1995) in that individuals might disagree over task, in which case the winner would receive a higher performance evaluation, or they might have a personal disagreement, in which case the individuals are engaging in office politics. Regardless of the type of conflict, at this critical juncture, each individual may perceive a high level of behavioral control because

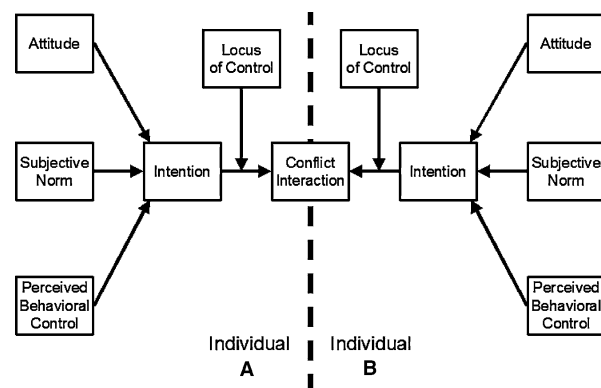


Figure 2. The theory of planned behavior extended to a dyadic-level conflict.

one's behavior would certainly have a direct effect on the resolution of the conflict.

During the meeting, suppose individual A dominated discussion by interrupting individual B in an increasingly louder voice, and turned the discussion into a criticism of non-task related personal deficiencies of individual B in order to conceal the technical and factual deficiencies of individual A's inflated estimates (in other words, A wins the 'competition' through unethical behavior). The conflict is then resolved and the groups and managers decide to adopt the work procedure proposed by A rather than that of B: A is more likely to become the winner and B the loser, even if the decision maker sees through A's unrealistic estimate, since in this organizational culture, aggression is highly valued. The loser is now in a dangerous situation. If this result were to cause a blemish on her otherwise excellent performance appraisal, then B would find herself in the lower 50th percentile of the organization's performance distribution; a second such blemish would place the individual's performance at the 25th percentile, and a third such blemish at the 12.5th percentile. A stacking practice similar to that enforced at Enron would have therefore removed B from the company with a poor performance rating after only three such consecutive losses in six months; she would have been put 'on notice' after only one such loss (Fusaro and Miller, 2002).

The economic theory discussed above, extended to the individual level, would predict a benefit to the

organization in terms of efficiency, as conflict would serve to eliminate social loafers and poor decision makers. However, the stacking practice resulted in unintended consequences at Enron, as well as many other organizations as discussed by Pfeffer and Sutton (2006). We propose that one unintended consequence of the stacking policy was that the intention of the loser is quickly altered by the behavior of the winner.

Proposition 1: In an internally competitive organization, competitors sometimes adopt the attitudes, behaviors, and perceptions of behavioral control of the winner after each competitive interaction.

Note that this proposition does not predict adoption of the winner in every case, but merely allows for a non-zero probability of adoption in an internal environment where competitive events occur frequently. In terms of our model, the chain of causation is reversed for the loser according to Figure 3, as the loser quickly adopts the winner's behavior before entering the next conflict.

Thus, perceptions of the winner's attitude (overt aggressiveness), behavior (cheating, lying, etc.), and perceived behavioral control (for any deal, numbers can easily be manipulated to make it look desirable) are adopted by the loser: Individual B either develops the characteristics necessary to win the next proposal at the next meeting or is soon removed from the organization.

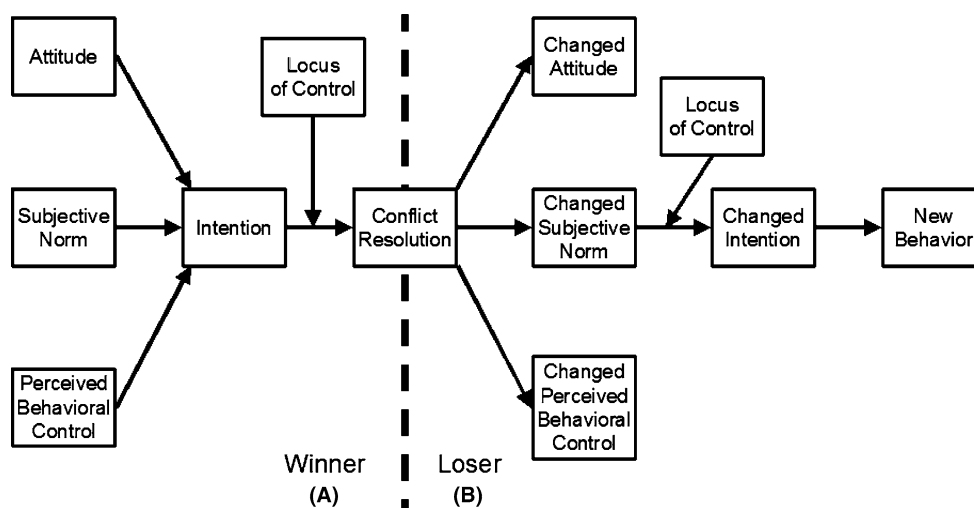


Figure 3. The theory of planned behavior and the distributive resolution of dyad-level conflict.

At this critical point in our theoretical development, there are several theoretical grounds from which a switch in causal direction as shown in Figure 3 is justified. We outline a basic argument from three such grounds. Although these three theories are given cursory treatment, after even this brief discussion, a prediction in causal direction reversal of the terms in the TPB becomes obvious. First, Vroom's (1964) expectancy theory states that an individual's motivation comprises an interactive combination of expectancy (the individual believes that the effort put forth will achieve a desired performance accomplishment), instrumentality (the individual believes that the performance will lead to desirable outcomes), and valence (the extent to which the individual values the outcomes). In other words, an individual will be motivated to behave if it leads to a valued work-related outcome. Therefore, an individual will be more likely to adopt the unethical behavior of others (i.e., winners) if he/she believes that such behavior will lead to acceptable performance (i.e., the individual performs better than others), if the performance will be rewarded (i.e., the individual keeps his or her job), and the individual values the outcome (i.e., the individual values being employed in the organization).

A second theory that places emphasis on the outcome is equity theory (Adams, 1965). According to this theory, individuals tend to compare themselves with their coworkers. In the process of comparing, if an individual believes that there is a discrepancy (either positive or negative) in their outcomes to others' outcomes, perceived inequity ensues. When such an event occurs, the theory posits that an individual will be motivated to remove any distress and re-establish a sense of equity by changing the inputs. In the context of behavior, if an ethical individual (B in Figure 2), on the verge of losing her job, compares herself with an individual who is being rewarded for unethical behavior (i.e., his or her job is safe), the theory posits that one way to restore equity would be to alter the inputs by adopting the unethical behavior of the other individual.

Third, relative deprivation theory (Crosby, 1976; Runciman, 1966), which posits a change in individual behavior, may also provide justification for causal reversal of the loser in the TPB terms. Relative deprivation occurs when an individual perceives

a discrepancy between the actual level of satisfaction of his/her needs and the individual's desired level of satisfaction, where the actual level of satisfaction falls below the desired level of satisfaction. When this occurs, the individual may feel as if he or she has been unjustly deprived of some desired thing, resulting in feelings of anger, resentment, grievance, moral outrage, envy, or low self-worth. According to the research conducted by Kaplan and his colleagues (Kaplan, 1980; Stiles et al., 2000) relative deprivation may also lead to negative self-feelings. These negative self-feelings, in turn, result in socially unacceptable behaviors (i.e., unethical behavior) as a way for the individual to restore self-esteem. However, for relative deprivation to occur, three preconditions must be met on behalf of the individual. First, the individual must perceive that other individuals have the desired good or opportunity (X). Second, the individual must want X. Third, the individual must feel entitled to X. Therefore, if: (1) an ethical individual (B in Figure 2), on the verge of becoming unemployed, perceives that an unethical individual is not in jeopardy of losing her job; (2) the individual wants to remain employed; and, (3) the individual feels as if she should remain employed for being ethical, feelings such as resentment, frustration, and moral outrage may occur. If this is the case, the individual may choose to behave unethically, to restore employment status and thus ensure ensuing positive self-feelings. Of course, not all individuals would conform to winner A's behavior, but under a stacking practice, such non-conformists would soon be removed from the organization. After several years of what amounts to 15% layoffs every six months, survivors might adopt a win-at-all-costs attitude as an organizational cultural norm, with a host of unethical subjective norms emerging through frequent repetitions of the process illustrated in Figure 3, and thus fostering the conditions required for the emergence of corruption (Ashforth and Anand, 2003).

There is anecdotal evidence that corruption at Enron might be understood in this way. For example, team members proposed thinner walls for a new natural gas pipeline as a 'creative' way of cutting costs (Katzenbach and Smith, 1993) to meet their cost-saving goals, and this was hailed by Katzenbach and Smith (1993) as a positive example of teamwork. However, poorly maintained pipelines having

even the standard, thicker walls led to increased losses by gas leakage, a costly and dangerous problem that had emerged elsewhere at Enron with thicker-walled pipes (Bryce, 2003). One can only imagine that the combination of both poorly maintained and thinner-walled pipes would sharply increase losses through gas leakage, yet this concern was not discussed in Katzenbach and Smith's (1993) example of effective teamwork. We can integrate this example into the context of our model as follows: Individual (A) who originally proposed this solution (thinner-walled pipes) was the winner in at least one intragroup conflict event. Supposing there existed a 'loser' of the conflict event who opposed this solution because of the increased leakage that might result, and/or the increased maintenance cost required. Our theory predicts that this loser would have adopted the behavior of the winner before entering into a subsequent conflict. To avoid another loss, the former 'loser' might propose connecting the pipes with cheaper brass hardware (in terms of cost, but having properties of less corrosion resistance and mechanical strength), as also discussed by Katzenbach and Smith (1993), rather than the much more expensive hardware made from stainless steel. Objections to the increased corrosiveness and loss of strength of the brass compared to stainless steel would lose in the same way the loser (now winner) had lost the previous conflict. After a number of interactions of this sort, the end product might be a pipeline that is significantly cheaper to construct, but would require considerably higher maintenance costs; since Enron also saved costs from infrequent maintenance (doubtless the result of intra-team conflict among maintenance management teams elsewhere within Enron), disaster would inevitably result.

A definition of organizational corruption

We need a definition that is rooted in the domain of ethics and separate from the 'corruption' that may also be illegal and is discussed under the domain of legal compliances. The dyadic model in Figure 3 is certainly not isolated from the organization. Rather, the two individuals are embedded in a social network as identified by Brass, Butterfield, and Skaggs

(1998) as "a set of actors and the set of ties representing some relationship – or lack of relationship – between actors" (p. 4). Over time, repeated winners are promoted up through the system. Those managers responsible for monitoring the ethics of behavior within the organization were eventually tainted as well as many of these managers were themselves successful by learned unethical behavior, so that a majority of the social network may have initially acted ethically, while a minority of areas (what Schein, 1992, might term a counterculture) adopted some unethical practices. According to Schein (1992), however, a counterculture only emerges if behavior at the lower levels of an organization differs from that of the organization's leaders (or vice versa). In the Enron case, it may have been that Enron's leaders' behaviors were congruent with the behaviors of those in a minority of lower-level areas in the social network, so that at some critical point culture and countercultures reversed, resulting in *ethical* behavior as the minority counterculture rather than the norm. This description leads us to an interesting working definition of widespread unethical behavior at the organizational level:

Definition: Widespread unethical behavior is the simultaneous emergence of congruent, systematic unethical behavior among leaders and followers to the extent that systematic ethical behavior is relegated to a minority, counterculture status in the organization's social network.

In other words, widespread unethical behavior is the diffusion of unethical behavior among the majority of leaders and followers. How, then, can unethical behavior be prevented from becoming widespread? We address this question next in a social network context.

The diffusion of unethical behavior

We have thus far described how unethical practices might be transferred between individuals in a highly internally competitive organization, and we have arrived at a working definition of widespread unethical behavior. Now we consider, given the highly internally competitive organization, how and when we might expect to observe the emergence of widespread

unethical behavior, and what might be done to avoid its emergence. To this end, we extend social network theory to explain (1) why internal competition increases the likelihood of the emergence of organizational corruption (and less efficiency) compared to less competitive configurations and (2) the general conditions under which unethical practices spread from the dyadic level to the organizational level (we argue that the emergence of organizational corruption depends on structure & relationship types). We employ social network theory to show that the proliferation of unethical practices is rarely uniformly distributed across an organization, but that some parts of a network can be more unethical than others. Widespread unethical behavior emerges when the areas in the social network that have adopted unethical practices influence the ethically practicing areas rather than *vice versa*. In our extension of social network theory, we treat organizational corruption as a dependent variable to the antecedents identified by Brass et al. (1998) – heretofore referred to as BBS. More specifically, given that organizational, individual, and issue-related factors are constant in a highly competitive social network, we answer the question: How do types of relationships (strength, status, multiplexity, and asymmetry) and the structure of relationships (density, cliques, structural holes, and centrality) predict the likelihood of the emergence and diffusion of widespread unethical behavior?

Types of relationships

Strong and weak relationships

Casual, one-time interaction relationships are described as weak, while frequent, emotionally intense, intimate relationships are characterized as strong (BBS; Granovetter, 1973). In a competitive environment, where losers in a dyadic conflict may have adopted successful methods, the process may have reduced the strength of the relationship between winners and losers. Individuals in such a work environment must have only been able to maintain stronger relationships with close allies, but only to a reserved extent as violations of close relationships (i.e., the formation of negative relationships) are expected to a certain extent over the long term for the sake of survival in the organization. However, while relationships may appear weaker in a stacking-

practice climate, individuals interact frequently to compete, so that frequent intra-team collaboration may lead to a high frequency of interactions. Such relationships – high-frequency interactions but weak in all other respects – might be termed ‘shallow.’

Proposition 2a: An internally, intensively competitive organization will cause shallower relationships throughout the associated social network as compared to an organization that is less intensive in its internal competition structure.

Thus, one reason that internal competition leads to the emergence of widespread unethical behavior might be the existence of shallow relationships. Corruption might emerge independent of the level of competition and instead merely on the degree of shallowness of relationships in the social network:

Proposition 2b: The more shallow the relationships in an organization’s social network, the greater the possibility of the emergence of widespread unethical behavior.

Propositions 2a and 2b are congruent with BBS’ proposition regarding the connection between strength of relationship and constraints on unethical behavior in that stronger relationships increased such constraints. Considering the propositions *in toto* offer at least one explanation as to why internal competition might be associated with the emergence of organizational corruption: Internal competition may lead to the formation of shallower relationships than otherwise, which in turn leads to reduced constraints on unethical behavior. If unethical practices were to emerge as a result, they would diffuse throughout the organizational network through frequent competitive interactions as described above. However, organizations exhibiting relationships in a social network that are *weaker* (i.e., shallow) may simultaneously have *lower* constraints on ethical behavior, but is expected to be *less* likely to emerge with widespread unethical behavior, since it is the frequent interaction element that allows unethical behavior to diffuse throughout the organization.

Multiplex relationships

After Burt (1983), this is the extent to which interacting individuals relate to each other in multiple

ways, such as friend, coworker, and neighbor. BBS proposed that, because costs increase when relationships are broken at high levels of relationship multiplexity, constraints on unethical behavior should be increased by increasing multiplexity, assuming that unethical behavior results in broken relationships. Given our internally competitive organization and Proposition 2a above in which shallow relationships are expected to be prevalent, we should also expect individuals to blur the boundaries between different types of relationships with the same individual. For example, coworkers who are also friends may strive to increase their chances for organizational survival by taking advantage of their mutual friendship. For instance, two coworkers who are also friends may conspire to give each other positive performance evaluations, even if they are both poor organizational performers, to avoid being selected out of the system. Thus, a second reason that internal competition leads to the emergence of organizational corruption might be the emergence of multiplex relationships that remain shallow: any relationship stronger than shallow would constrain unethical behavior as proposed in BBS, while anything less than multiplex might result in a higher association between an individual's survival and performance.

Proposition 3: The more relationships that are both shallow and multiplex in an organization's social network, the greater the possibility of the emergence of widespread unethical behavior.

Numerous anecdotal examples exist from personal experiences at Enron. For example, Swartz and Watkins (2003) recounted the story of when Watkins went on a ski trip with other Enron executives. Watkins had a number of friends on the trip with whom she interacted, but it was most important whom she talked with, or more precisely, whom she was seen talking with as she understood personal relationships with those in power to be directly associated with her own organizational survival. Similarly, Cruver (2002), in his work at lower levels of the organization, made a pact with a friend to give each other positive performance appraisals.

Asymmetric relationships

Individuals in an internally competitive organization may try to extend their organizational survival if they

can form asymmetric relationships with networked others in which others are more emotionally and socially involved, and of lower status, than a focus individual. Indeed, survival in such an organization may be reduced to a game of asymmetric relationship formation, with financial performance a secondary consideration. Not only might unethical behavior be expected to increase with increasing magnitude and frequency of asymmetry (BBS), but after an unethical act, we expect the loser to more strongly and quickly adopt the unethical behavior (or at least the associated values) of the winner as per Figure 3 in an effort to reduce the asymmetry or avoid it altogether in the future.

Proposition 4: The greater asymmetries between individuals in an organization's social network, the greater the possibility of the emergence of widespread unethical behavior.

Structure of relationships

With regard to structural relationships, BBS discussed the concepts of surveillance and reputation in relation to a growing organization, noting that larger organizations are not necessarily more susceptible to the emergence of unethical behavior, since in a larger organization a higher reputation may be at stake and more organizational members might imply more frequent surveillance. Thus, the structure of relationships must be considered, rather than merely organizational size, when examining constraints on unethical behavior. Similarly, the emergence of widespread unethical behavior may be independent of organizational size to a certain extent, because structural characteristics may limit or enhance the spread of unethical practices and their ensuing diffusion. With regard to the likelihood of the emergence of corruption within a network structure, then, one must consider structural characteristics in relation to whether said characteristics are expected to enhance or inhibit the spread of unethical behavior, rather than surveillance and reputation as discussed by BBS with respect to unethical behavior.

Structural holes

After Burt (1992), structural holes are thought to be the absence of links between network members. More broadly, structural holes might be considered as areas in which individuals or small groups are connected to

the overall network only sparsely and weakly. For example, a regional sales manager may manage a small group of sales personnel, but work out of her home and communicate with the rest of the organization mostly via email as long as the group's performance levels meet targets. Or, certainly a small sales office located in a foreign country would exist as a structural hole. BBS proposed that because individuals in structural holes tend to isolate individuals from monitoring and result in a reduced concern for their reputation within the network, opportunities for unethical behavior should increase with an increased number of structural holes. In terms of the spread of an unethical behavior into a structural hole, however, we expect an opposite relationship. Structural holes may stand in the way of the diffusion of unethical behavior and the emergence of organizational corruption because, as unethical behavior spreads and encounters an ethical counterbehavior in a structural hole, to continue spreading in that direction in the social network, it must move around the structural hole or considerably slow its propagation through the hole. Conversely, if an unethical behavior has emerged within and then diffused throughout a structural hole, the opportunity for the spreading of the unethical practice to the larger network will be significantly reduced.

Proposition 5a: The fewer structural holes among individuals in an organization's social network, the greater the possibility of the emergence, and subsequent diffusion, of widespread unethical behavior.

When considered in conjunction with structural holes and ethical behavior as proposed by BBS, we might expect the following from structural extremes: (1) in a social network consisting of numerous isolated structures, one will be more likely to find unethical behavior somewhere in the organization, but not widespread; while (2) in a social network consisting of few or no isolated structures, one will be less likely to find unethical behavior somewhere in the organization, but the likelihood of diffusion may be high. This suggests that a moderate number of structural holes might be optimal to reduce the possibility of an unethical act across the organization while at the same time reducing the extent of the spread of an unethical practice if it did in fact emerge. With regard to the internally competitive

organization, frequent competitive interactions should reduce the number of structural holes, while other network factors (i.e., the types of relationships as discussed above) may serve to promote the unethical act.

Proposition 5b: An internally, intensively competitive organization will reduce the number of structural holes throughout the associated social network as compared to an organization that is less intensive in its internal competition structure.

In this case, we see that an internally highly competitive organization may be a particularly corrupt organization as compared to those arranged less competitively.

Closeness centrality

This refers to the extent to which all network members are directly connected across the entire organization. For example, it is commonly known that closeness centrality is reduced in a functional structure (the so-called "functional chimneys" problem). BBS theorized that increased closeness centrality would increase surveillance and stake in reputation, resulting in increased constraints on unethical behavior. In contrast, the emergence of organizational corruption may increase in likelihood with an increase in closeness centrality because a highly central structure would allow for the quick spread of unethical practices from one end of the network to the other once an unethical practice emerges.

Proposition 6a: Increased closeness centrality among individuals in an organization's social network leads to a greater possibility of the emergence of widespread unethical behavior.

With regard to a highly internally competitive organization, we expect it to exhibit high levels of closeness centrality for two reasons. First, individuals may transfer within the organization more frequently as a survival strategy or as required by poor performance evaluations, yet such individuals may not completely sever ties with former coworkers. For example, after Watkins transferred out of Andrew Fastow's division at Enron (at least one reason for the transfer was for her survival in the

organization), she still communicated with him and other individuals in that division (Swartz and Watkins, 2003). Second, competition may broaden the extent of competitive interaction. For example, at Enron, traders competed against each other not only to determine who was the 'best' trader, but also against others in the organization with regard to who made the biggest deal. Those with the biggest deals – traders or otherwise – were promoted to executive positions within Enron.

Proposition 6b: An internally, intensively competitive organization will exhibit increased closeness centrality throughout the associated social network as compared to an organization that is less intensive in its internal competition structure.

Thus, as with structural holes, what benefits the organization in terms of increasing constraints on ethical behavior also promotes the emergence of widespread unethical behavior after the occurrence of an unethical act.

Density

This is simply the (average) number of network links per person across the social network associated with an organization. Because surveillance is high in a high-density network, BBS argued that under such a condition constraints toward unethical behavior should likewise be high. Concerning the emergence of widespread unethical behavior, we again argue an opposing relationship, that the likelihood of the emergence of organizational corruption is increased on increasing density, because unethical practices, once they emerge, will spread faster and more extensively across a more dense network.

Proposition 7: Increased density among individuals in an organization's social network leads to a greater possibility of the emergence, of widespread unethical behavior.

Discussion

Our study proposes that, when designing an organization and fostering its related social network, both the probability of the execution of an unethical practice and the spread of that practice must be considered. If only one or the other is emphasized,

the resulting organizational structure may lead to a social network at high risk of either the frequent, sporadic emergence of unethical practices, or at a high risk of the widespread diffusion of unethical behavior once an unethical practice occurs (even though that unethical practice is less likely to occur).

Furthermore, we have offered a unique grassroots explanation as to why unethical behavior at Enron so easily and quickly became widespread despite the extensive hiring of well-meaning (but high locus of control) individuals throughout the organization. We further contend that highly internally competitive organizations (arriving at this state by a stacking practice or otherwise) may become easily corrupted because the social network properties were near optimal for the diffusion of unethical practices. Our study explains that, once unethical practices began to appear inside such an organization, there is little to structurally obstruct their rapid and widespread use across the social network.

Limitations

Our theory is limited in several ways. First, the model is built on the assumption that the situation at Enron can be generalized to the case of any highly internally competitive organization. However, Kohn (1992) speculated that it is because organization-designed intraorganizational competition, what he termed structural competition, is so pervasive that it is taken for granted by researchers. Brown et al. (1998, p. 95) applied an empirical analysis to Kohn's definition of structural competition among salespeople and found that individuals set high goals when "a combination of recruiting competitive salespeople and developing management practices that foster a competitive organizational climate," goal setting was higher than otherwise. But this situation, as described by Brown et al. (1998) is exactly the situation described herein across Enron's entire organizational structure. We differ from Brown et al. (1998), who focused only on sales forces, and with Kohn (1992) who observed that such a practice was pervasive among sales departments, in that we predict such high goal setting will be accompanied with the proliferation of unethical practices, and that this hiring practice may also have been applied across many departments and many organizations, rather than just to sales departments.

A second potential limitation of this paper may be that our theory development based on the TPB may not be the best way; other theories might be more appropriate. The internal culture of Enron might alternatively be viewed as a microcosm of the macrocosm, and hence an alternative argument made that external societal goals and values have created hyper norms that have led to induced factor conditions within competitive organizations. An alternative model could be built from behavioral modification and goal-setting theory in which individuals work according to the maximization of their rewards: Societal Norms – High Achievement – Organizational Culture – Behavior – Positive or Negative Reinforcement – Perpetuation or Extinction of Behavior. But this model operates only under the assumption that individuals value goals under conditions in which values cannot change. The key question as to which model to apply, then, is whether (ethical) values can change. Our TPB-based theory, then, can be seen as a more general theory because it takes into account the generally accepted idea that to at least some extent one's individual personal ethics/values influence one's behavior.

Research implications

Researchers interested in studying the diffusion of unethical behavior might apply the theory developed herein as a framework for empirical analysis. The presence/absence of widespread unethical behavior certainly could be used as a dependent variable in an empirical study, measured, for example, by a survey questionnaire sent randomly to organizational members spread throughout a social network. Once a social network has been mapped for a given organization at multiple points in time, with corresponding survey samples representing the presence of unethical behavior, a detailed picture of how unethical practices emerge and are shared among organizational members might be obtained. The challenge will be the establishment of the social network, so moderately sized organizations may need to be studied as a proxy for larger, more complex organizations. Thus, our theory provides the possibility of a behavioral scientific approach to preventing the diffusion of unethical behavior in internally competitive organizations. Such empirical studies might help determine,

for example, whether the deliberate design of an internally competitive organization is efficient under any structural conditions.

Managerial implications

This study has implications for cross-functional teams, as it suggests that there may be a downside to selecting competitive, win-at-all-costs individuals to be members of such teams. Such individuals may in fact promote the emergence of corruption through the spread of unethical practices that he may have adopted as a result of competitive interactions with other win-at-all-cost individuals in his own work group.

Furthermore, organization designers might formulate a strategy toward corruption prevention, as corruption is difficult to reverse (Ashforth and Anand, 2003; Nielsen, 2003), and the early states of the diffusion of an unethical behavior may pose as the last best opportunity to prevent the development of corruption. One tactic may be the deliberate placement of a counterculture with either new hires at the grassroots level with high ethical standards, or ethical leadership (or both) as discussed by Trevino et al. (2000). Obviously, leadership that exhibits ethical behavior can stop the emergence of widespread unethical behavior, even if structural holes exhibiting unethical practices exist. But this study argues that the congruence of unethical practices at the leadership level and at lower levels of the organization only needs to be prevented, so that either ethical leadership or the formation of an ethical counterculture at the lower levels of the organization can prevent the emergence of widespread unethical behavior. In the latter case, only the task of removing unethical practices from structural holes is left, while in the former case unethical leaders should also be removed before unethical practices proliferate. Perhaps the properties of the social network within an organization can be controlled by management to at times prevent the emergence, and at other times to prevent the diffusion of unethical behavior. Of note, however, is the modern managerial tendency to promote horizontal communication at all levels of the organization; at the very least, the modern manager should be aware that this type of structure allows for the emergence of widespread

unethical behavior when an internal mechanism, such as a stacking practice, is also present. Perhaps managers should demand evidence (Pfeffer and Sutton, 2006) of increased efficiency and effectiveness, as well as widespread ethical behavior, before a stacking policy is widely implemented or continued in organizations that they manage.

Another strategy that managers might attempt is the selective hiring of low locus-of-control employees, as the APB predicts a weakened relationship between planned and actual behavior. Alternatively, employees could perhaps be trained to adhere to a low locus of control when it comes to ethical behavior in that the adherence to the organization's code of ethics is not negotiable and must be strictly followed. By either method (selection or training), reversing the locus of control could weaken the influence of winners on losers in competitive interactions.

Conclusion

This study indicates that there are limits to the benefits of competition in organizations. While this statement may appear obvious, current literature is moving in the other direction. For example, Zhang (1997) applied mathematical proof and simulation to show that deliberately restricting capital allocation between division managers reduced inefficiencies resulting from moral hazard identified by agency theory. Furthermore, as discussed above, Brown et al. (1998) concluded that highly internally competitive sales forces might be more efficient as long as competitive individuals are recruited. We instead posit that, while it may be that beneficial effects of competition can be observed in interorganizational interactions, intraorganizational competition at the individual level may instead negatively affect an organization's efficiency, effectiveness, and ethical climate. Inside the organization, the relationship between intensity of competition and firm efficiency may be an inverted "U" shape rather than a linear one. Just how much internal competition is optimal in an organization is a topic that is best addressed by future empirical research.

This paper contributes to a larger context of theoretical discussion by proposing a theory of how unethical behavior can spread from individual to

individual, and then across social networks. First, when the theory of planned behavior is applied to a competitive dyad where there is heightened incentive to win the competition, this theory explains that the 'loser' is likely to adopt the behavior of the 'winner,' even if it involves the adoption of unethical behavior. Thus, in a certain environment, the spread of unethical behavior may closely follow the initial emergence of an unethical act. Second, while it is likely dangerous to design organizational systems and structures where the sole aim is to prevent the emergence of an unethical act, as that same system/structure promotes the easy spread of unethical behavior, under a highly competitive internal environment, it may be difficult, regardless of a manager's control over structural network properties as described by BBS, to prevent either the emergence or the quick spread of unethical behavior. Such a grassroots picture provides balance to extant explanations of top-down models of the emergence and spread of unethical behavior, while it also fills the gap between the emergence of unethical behavior and the state of institutionalized corruption.

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