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Ambiguity in the regulation-corruption interface: The development a philosophically-based holistic model

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Abstract

Discussions on governance often focus on regulations without much consideration of the individuals responsible for implementation, and the socio-economic and sociopolitical circumstances in which they arise. The issue of effective governance is unlikely to be simply a question of the quantity or quality of regulations built to maintain and protect corporate governance. The general genuflection of economic and political authorities to simply increase the amount of regulations when confronted by financial and economic corruption needs to be changed, and the moral characteristics of managers, interpersonal trust, the prevailing socioeconomic and sociopolitical circumstances of a country at a particular moment in time, all need to be carefully considered and analyzed. To this end, the study develops a holistic regulations-corruption conceptual model and illustrate its utility with examples of specific countries.

Introduction

 The building of high-performance organizations in uncertain times can only occur when corruption and the financial turbulence and inequity this generates are effectively brought under control. However, to do this with some possibility of success, the complex nature of the relationship between regulations and corruption needs to be analytically dissected and described in greater detail. While aspects of the nature of this relationship are studied separately, few studies in the extant literature have analyzed it holistically and have gone beyond analyzing different aspects of it in isolation. We maintain in the current paper that the ambiguity of the findings in the extant literature, where regulations sometimes are reported as being effective in curbing corruption and sometimes not, reflects both its complexity and the current lack of a more global 'macro' theoretical analysis, that takes account of individual and politico-socio-economic factors in the regulations-corruption interface.

There is a large and growing body of financial regulations that have different manifestations in different countries across the globe, and it is not within the scope of the current article to give a brief account of these, rather the discussion will confine itself to what financial regulations seek to achieve and their basic forms. The Financial Services and Markets Act 2000 (Financial Services Authority, 2014) gives four main regulatory objectives:

- Maintaining confidence in the financial system (Market confidence).
- Contributing to the protection and enhancement of stability of the financial system (Financial stability).

- Securing the appropriate degree of protection for consumers. (Consumer protection).
- Reducing the extent to which it is possible for a regulated business to be used for a purpose connected with financial crime. (Financial crime reduction).

In the United States financial regulations focus on two main areas: *prudence* aimed at monitoring and regulating the risks that firms attract and *disclosure*, aimed at monitoring and controlling information provided to potential market participants (Murphy et al, 2013).The prevention of bank crises is considered more important than other industries since the externalities to other banks and the economy as a whole are greater (Brunnermeier et al , 2009) thus the discussion around financial regulation is focused on that of banking (Haldene, 2012), but is nevertheless considered to have relevance to the effects of regulation in general, particularly as it relates to trust and effective governance that emerges from compliance to such regulation. Financial regulations are aimed at ruling out negative financial behavior as and when it arises, such as after specific financial crises and, for this reason, tend to build progressively on earlier regulations. Thus, as experience grows from one crisis to another, the corpus of regulations has been shown to generally increase in quantity, prescriptivism and complexity. However, however prescriptive regulations may be, some degree of self-determination in decision making in the managerial process of their implementation is inevitable; as Hodgson (2013, p. 133) points out, regulations like contracts cannot be completely codified in law and must recognize that to an extent "all business deals have in part have to rely on fragile mechanisms of honesty and trust"

An interesting observation by Haldane (2012) is that with complex rules managers may "manage to the rules" rather than to the spirit or substance of those rules; "They may induce people to act defensively, focusing on the small print at the expense of the bigger picture (op, cit:7). This aspect of following *form* rather than *substance* is associated with a moral orientation that is lacking in the substantiation of principles beyond simple adherence to rules and regulations that underpin them. And, as we shall discuss in the next section how regulations themselves can be used illicitly and become a source of corruption.

Unquestionably, the costs brought about by the increasing prescriptivism and complexity of financial regulations, are very great indeed. The Economist (2014) notes that since the legal environment for companies has become increasingly complicated, with around 300,000 regulatory statutes carrying criminal penalties in 1991 (with substantially more today), the costs to companies attempting to comply are prodigious. The Economist (2014) suggests that today large companies are required to spend more than 40 million US dollars a year in keeping documentation merely to respond to potential regulatory requests. Smaller companies cannot afford to keep documents to this extent, making them risk breaching regulations without necessarily having done anything substantively wrong. Additionally, there are substantial opportunity costs, with enormous amounts of time and money being put into attempts to ensure regulations' compliance undermining innovation, investment and customer service.

The paper takes the following form. First a literature review which consists of four sections, namely: the corruption-regulations relationship, corruption and moral sentiment and, individual morality and corruption with a further subsection which briefly outlines the importance of trust in the efficacy of regulations in combating corruption in interpersonal relations. The literature review is followed by a section that describes the philosophically based holistic model with examples obtained from secondary data. The paper ends with a conclusion that incorporates a discussion of the paper's contribution, limitations practical implications and opportunities for further research.

This is a conceptual study and the methodological approach used throughout the paper corresponds to secondary data analysis (Schutt, 2011). Secondary data dealing with the regulations–corruption interface and individual and contextual factors are used to construct a holistic heuristic that provides an analytic tool for considering the regulations-corruption interface and presenting ways in which it might be resolved. The conceptual model is presented as a 'first step' in providing a theoretical edifice for primary data analysis and further secondary data research.

Literature review

The relationship between regulation and corruption

The introduction outlined the costs of regulations and the fact that rules and regulations can only be prescriptive up to a point and rely, ultimately, on trust and honesty of specific role players Since this is so the next question that arises is: can and if so, in what ways and contexts regulations help, or hinder, the control of corruption in corporate and civil organizations?

Jin and Langbein (2006:2) define corruption as, "rent-seeking behaviors that are formally illegal in a given society". Hillman (2009:99) indicates that: "Rent creation and rent seeking democracies are not illegal, nor necessarily is rent extraction. Illegality involves corruption. Corruption is the illegal use of authority of government for direct personal benefit." Following Hillman (2009), corruption can therefore be seen as the illegal use of authority for direct personal benefit. This includes illicit uses of authority for rent collection by government agencies and official personnel, as well as by private organizations and individuals.

Cross-national analyses have consistently shown that corruption and ineffective governance are associated (Mauro, 1997; Rose-Ackerman, 1997; Van Rijckehem and Weder, 2001; Hyden et al, 2003; Leeson and Sobel, 2008; Dahlström et al, 2009;). How corruption is to be contained and eliminated is a world- wide problem with peaks of urgency in countries such as Russia and Africa. The problem is exacerbated by the fact that the measurement of corruption is problematical and, in some instances, tautological (Langbein and Knack, 2010).

Regulations refer to the written rules and legal requirements for conducting business with specific civil and private organizations in a given country. The term 'over-regulation' is sometimes used in the literature to describe situations where regulations are so onerous that they impede the effective functioning of the organization. Such rules and regulations can offer an entry barrier for businesses that allow corrupt officials the opportunity to elicit bribes. In such instances, the greater the number of rules the greater the opportunities for eliciting bribes by

corrupt officials. In other instances, rules can discourage bribes where they are implemented by honest officials where bribes, if offered, would be most likely to incriminate the bidder. Langbein and Knack (2010, p. 366) maintain that, "Rules in some cases become an entry barrier to be overcome with a bribe; in other cases, rules discourage bribes, making it cheaper to comply with the rule than offer a bribe. In combination with information about actual institutions and surveys of the amount and frequency with which citizens pay bribes, perceptual data can yield important information about detailed aspects of governance that would be useful for theorists and practitioners alike."

Clarke (2014, p.1) indicates that, "Cross-country studies have shown corrupt countries have more burdensome regulations than other countries do. Some of these studies argue heavy regulation leads to corruption. In countries where regulations are onerous, firms might bribe government officials to avoid having to comply with the regulations…. When corruption is high, policymakers might impose regulations so they, or their supporters, can demand bribes from managers trying to avoid the regulations". Clarke's (2014) empirical study using data from more than 30,000 firms in over 100 low- and middle-income countries found that firms that spent more time dealing with regulations (i.e. where regulations were more onerous and complicated) were more likely to be involved in corrupt practices. Clarke (2014) surmises from his findings that the removal of onerous and burdensome regulations would substantially reduce corruption in the countries he studied. Generally speaking, also it has been found that that corrupt practices are associated with countries where registering businesses take a lot of time (Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002; Svensson, 2005).

The association between regulations and corruption is also not restricted to the country level of analysis, firm level studies of organizations in specific countries have also shown that managers who are required to spend more time dealing with government officials are more likely to be involved in bribery and corruption (Clarke, 2012; Malomo, 2013). Clarke (2014) also shows that managers who bribe are more likely to say regulation is a serious problem than managers who do not become involved in bribery. In such instances, where conforming to regulations is time-consuming and slow, managers may bribe government officials to avoid complying with regulations or to speed up license approvals. Of course, although regulation may cause corruption, the opposite is possible; where corruption leads to more regulation and that this, in countries where governance is poor, lead to further corruption.

In this regard, Shleifer and Vishny (1993, p. 601) maintain that regulations exist "to give officials the power to deny them and to collect bribes in return for providing the permits."

Finally, Zyggliopoulos (2014, p.1) surmises on the effect's regulations can have on corruption; "by introducing confusion and additional layers of complexity, over-regulation creates motive for both private business and public servants to engage in corruption. Thus, regulations themselves create opportunities for corruption when they become overly complex by engendering bribe-taking opportunities

The foregoing discussion has indicated some recent findings regarding the empirical relationship between regulations and corrupt practices at country and managerial levels, the following section considers, theoretically with particular reference to Adam Smith's (1976) seminal work, the relationship of differences in 'moral sentiment' in explaining ambivalence regarding what are considered 'corrupt practice' at different times and in different national contexts

Corruption and moral sentiment

Adam Smith's (1975) Theory of Moral Sentiment', although written in eighteenth century Scotland, has conceptual richness and practical relevance which remain perennially useful. (Coldwell, 2017b). For example, Szmigin and Rutherford (2013) regard the Theory of Moral Sentiment and Smith's concept of "sympathy" and notion of "impartial spectator" as analytically useful today. They introduce a heuristic "Impartial Spectator Test," "which. . .[they]. . . argue, builds on traditional stakeholder perspectives and... provides an objective route to ethical criteria of demarcation" (Szmigin and Rutherford 2013, p. 71). Coldwell (2017a) also presents a recent example of an empirical application of Adam Smith's Theory of Moral Sentiment. Coldwell (2017a) indicates that behind custom differences in moral sentiment, there are general "natural" human ideas of right and wrong. Smith (1976) maintains that at the extreme ends of an imaginary moral disapprobation–approbation continuum, there exists a moral consensus in absolute rights and wrongs. Smith's (1975) use of the word *custom* is similar in meaning to *culture*, but they are clear differences in meaning. *Custom* refers to tradition and traditional practices, *culture* to ideas and beliefs (Merriam-Webster 2014). At the moral disapprobation end of the imaginary continuum, Smith (1976, p. 15–16) maintains than an absolute moral consensus overrides custom factors: "But the characters and conduct of a Nero, or a Claudius, are what no custom will ever reconcile us to, what no fashion will ever render agreeable. . ." On the other hand, at the approbation end of the continuum, custom has a much more pronounced impact on consensus in moral sentiment. For example, although *beauty* is a concept of approbation that has some widely held basic and fundamental consensus in what it consists of; there are nuanced differences in the way it is perceived by different cultures in different historical periods. At high levels of moral consensus of *absolutes* i.e., a *natural* sense of right and wrong in moral conduct, the influence of custom tends to be low. However, custom does affect moral sentiments of approval and disapproval where moral absolutes are less clearly fashioned and are more influenced by custom. Smith (1976) suggests, this tends to be the case more for approval than disapproval of specific moral conduct. For example, Smith's (1976) examples of Nero and Claudius indicate a high general moral disapprobation towards the absolute wrongness of their conduct. For Smith (1975) also, the absolute disapprobation of infanticide is underlined by its *natural wrongness* in that, if widely adopted, human society would cease to exist. At lower levels of moral disapprobation, the effect of custom would be likely to increase. For example, is marijuana a drug that threatens the function of society by creating an underclass of addicts? Or is it a drug that should be freely available for alleviating physical and mental suffering? Much moral discussion around marijuana usage today is influenced by custom and culture as it lacks the natural characteristics of absolute right or wrong. It lacks absolute moral consensus as a natural wrong as it does not pose an absolute destructive property to human survival. On the other hand, custom is more important in moral approbation as good conduct, like beauty, which has no clear absolutes, although Smith (1976, p. 16–17) recognizes that may exist even with a concept like "beauty" at very high level of abstraction. "I cannot admit that custom is the sole principle of beauty, yet I can so far allow the truth of this ingenious system as to grant, that there is scarce any one external form to please, if quite contrary to custom . . .". Szmigin and Rutherford (2013) maintain that the impartial spectator concept affords a mechanism for freeing ourselves from moral bias by providing ". . . an explanatory mechanism of moral judgement based on common sense and enabling a disinterested and dispassionate evaluation of the motives and actions of ourselves and others. It does this through foresight to compare one situation in the context of others and in terms of moral rules and what society should approve". (Werhane 1991, p. 38). It acknowledges the propensity for cultural bias in moral rules and affirms that judgments

of moral conduct should, as far as possible, be that of an impartial spectator who weighs up moral conduct "averages" in terms of specific existing societal customs (Coldwell, 2017b).

Adam Smith (1975) conceptualization is useful in presenting a theoretical foundation the degree of approbation, and indeed what is regarded as a corrupt practice in countries with different customs and traditions. For example, in Germany it was possible until fairly recently (2002) for a German company to pay money which was tax deductible, as a marketing inducement (bribe) to customers purchasing their products. However, for purposes of this paper, evidence of high and low national corruption is seen as being defined by corruption comparisons between countries using widely accepted, unbiased scales (e.g. the annually compiled Corruption Perceptions Index).

Levels of moral development and moral orientations: differential individual propensities for corruption

Before going on to analyze the effects of management moral orientations on regulations –keeping and corruption it is useful to:

- Present a brief description of the centrality of moral sentiment in human behavior including economic, self- interested behavior.
- Briefly outline the process of moral development and types of management moral orientation.

As noted earlier, Adam Smith (1976) recognized that sympathy for others was fundamental in human interaction and was evident despite self-interest. He also recognized that moral sentiment could be developed in different individuals with some having developed a greater moral sensitivity than others Smith (1976) acknowledged that custom and fashion influence moral approval and disapproval and lower levels of moral sentiment are evident among less morally developed persons.

Kohlberg's (1981) theory of moral development has been applied to managers (Post et al., 2002 and Rahim et al, 1999) and is therefore it is considered important to present a brief overview of its contents. Very briefly, Kohlberg's theory (1981) describes three fundamental stages of moral development. The earliest stage which he called the pre-conventional stage, describes a level of moral development usually found in very young children at the primary school level which emphasized obedience by the administration of punishment when this lapsed. At a later stage in the pre-conventional level of development, children develop individualism, instrumentalism and exchange in their relationships with others in their social interaction with the world. This further development at the pre conventional level has been called the ''seeking-of-rewards-stage'' (Carroll and Buchholtz, 2000). The reward seeking aspect of the pre-conventional level is developed further in the conventional stage of moral development. It is this level of moral development that, according to Kohlberg (1981), is generally found among the majority of adults. The first level of the conventional stage is characterized by behavior aimed at obtaining approval; the ''good boy/nice girl'' stage of morality (Carroll and Buchholtz, 2000). The second level of the conventional stage focuses on moral behavior governed by adherence to the law and requirements for the maintenance of order.

The post-conventional stage is the final stage of moral development. Most adults never attain this level. The post-conventional stage is divided into two subcategories. The first category involves ''an understanding of social mutuality and a genuine interest in the welfare of others'' (Barger, 2000, p. 1). The second category and most complete level of moral development is constituted by the belief in universal principles and control through conscience (Barger, 2000).

Most managers could be expected to have attained a conventional level of moral development and hold a neutral or amoral orientation to business, in terms of Carroll and Buchholtz's (2000) typology (discussed in more detail later). Fewer managers are likely to have developed to the post-conventional (moral) stage or to have remained at the pre-conventional (immoral) stage of development.

Carroll and Buchholtz (2000) management moral orientations typology consists of three basic types of management ethical orientations. The first type, 'immoral management', describes managers whose general behavior, decisions and actions are unethical. Immoral managers are selfish and greedy and focus principally on personal and company gains.in terms of the model indicated in Table 1, these managers would have a high propensity for the cynical and manipulative use of regulations to achieve particular ends. As Carroll and Buchholtz, (2000:108) put it: "Immoral management regards legal standards as barriers that management must overcome in order to accomplish what it wants……. profitability and organizational success at almost any price"

The second type, moral management embraces high ethical and professional standards and espouses the principles of fairness, balanced judgment and unselfishness. Profits at any price that require illegal and /or unethical behavior are not advocated by morally oriented managers (Carroll and Buchholtz, 2000:110). This type of manager would conform to Plato's idea of moral leaders who use their talents for the benefit of society as a whole and have been carefully selected and trained for their role as decision –makers.

Carroll and Buchholtz, (2000) maintain there are two types of amoral managers: intentional amoral managers who deliberately do not include ethics in their decision making because ethics is regarded as having no real place in the world of business; and unintentional amoral managers who simply are neutral to ethics without conscious deliberation. Intentional amoral managers believe different rules apply to business than to other spheres of life and ethical considerations are not integral to business decision making. Such managers would occupy a fluctuating and vacillating group of decision makers who while not deliberately making unethical decisions, would tend to be susceptible to bribery if considered personally advantageous.

Writers such as Jackson (2000) and Warren (1993) focus on the way individuals adhere to ethical norms and mores in organizational settings and how these should at all times govern organizational behavior. However, Barker (1993) and Sims and Brinkmann (2003) regard managers who adhere to organizational rules and regulations rigorously without looking up and beyond to the bigger picture as putting the prospect of ethical decision- making outside their reach. Ibarra- Colado et al (2006:46) take a more intermediate position: "Here being ethical requires being a person whose

individual moral responsibility leads one to be 'morally assertive' so as to mediate corporate priorities". In short, a morally oriented manager feels responsible for his/her ethical behavior and "organizations should avoid restricting ethical individuality through rules and instead create an 'empowering ethics' that enables people to realize and meet their ethical responsibilities".

The development of a philosophically based holistic model

The foregoing literature review clearly indicates that there are, inter alia, socio-political, cultural and individual factors that have a bearing on the regulations-corruption interface. The current section develops a philosophically based holistic model that incorporates individual and socio-political aspects in defining a *corruption divide.*

Table 1 indicates two by two holistic model that combines individual and socio-political philosophical theories to describe polarized types of contextual factors that impinge on the relationships between regulations and corruption.
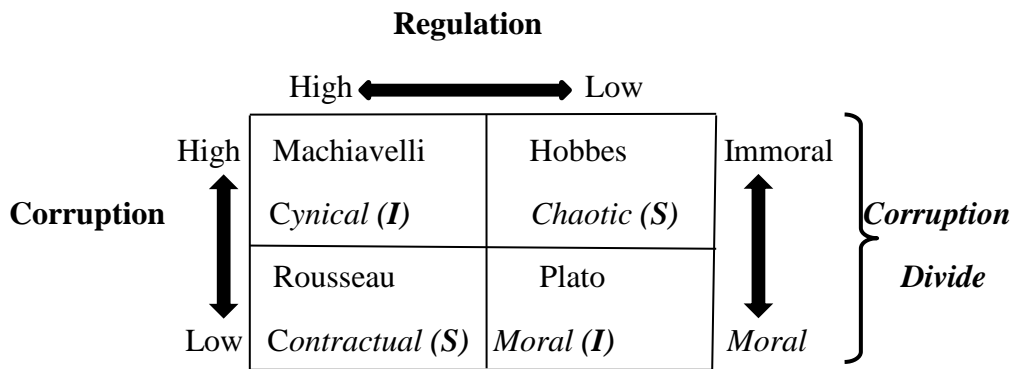

Regulation

High ⟷ Low

	High	Low	
High	Machiavelli *Cynical (**I**)*	Hobbes *Chaotic (**S**)*	Immoral
Low	Rousseau *Contractual (**S**)*	Plato *Moral (**I**)*	*Moral*

Corruption (vertical axis, High–Low)

Corruption Divide

Table 1. Contextual sociopolitical and individual factors in regulation-corruption interfaces

Table I indicates corruption (high/low) on the vertical axis and regulations (high /low) on the horizontal axis. High regulations denote 'over-regulation' (the concept of 'over regulation' is a relative term which is poorly defined in the literature and could be regarded differently in different contexts and by different individuals and organizations). Similarly, what constitutes high and low levels of corruption is not clearly defined in the literature. However, for purposes of this paper high and low corruption levels refer to corruption comparisons between countries using widely accepted scales (e.g. the annually compiled Corruption Perceptions Index). The heuristic device is separated into immoral (upper) and moral (lower) divides and into individual (I) (managerial), and social (S) (country-contextual) segments.

Dealing with each quadrant in turn, the high corruption /high regulation quadrant refers to a Machiavellian approach by individual managers and/or government officials characterized by a cynical use of complex and onerous regulations to extort illicit rents and red-tape short-cuts through bribery. Machiavelli expounded the philosophy of cynicism in statecraft by his principle

of creating appearances of moral rectitude while doing what was necessary to maintain and bolster the Price's power. His insight into human nature which he describes as: "One

can say this in general of men: they are ungrateful, disloyal, insincere and deceitful, timid of danger and avid of profit…" (Bennett, 2017 p.36), offers a clear paradigm for the manipulative and corrupt government official and/or cynical manager.

Quadrant 2 in Table 1 refers to a situation characterized by a relatively low level of regulations and high levels of corruption. At this social contextual level of analysis countries in this predicament are in a chaotic Hobbesian-type state, where there is minimal rule of law and where in its most extreme form (as in some parts of Africa today), "… the life of man, solitary, poor, nasty, brutish and short" (Law, 2013, p.96).

Quadrant 3 of Table 1 indicates the low corruption/ high regulations section in the socio-political context. This section is regarded as being the 'opposite' of the Hobbesian state of chaos and corruption. Here Rousseau–type social contractual obligations effectively control corruption with low levels of regulation social regulation. Social contracts are drawn up binding citizens to abide by rules for the sake of the common good. Rousseau envisaged small city states of Ancient Greece where rules and regulations were imposed by a sovereign who was put there democratically and embodied to general will of the community, so there could be no conflict in the legislative capacity of the sovereign and the community. Since everyone worked for the common good self-interest and corrupt practices were inconceivable (Stokes, 2006).

Quadrant 4 of Table 1 shows the low corruption/low regulations section of the individual moral divide. Plato's Republic offers a philosophically based example of a situation where government, commercial and military leaders are selected and trained for their positions on the basis of individual aptitude and moral strength. The emphasis here is on the provision of carefully trained and selected individuals to control and manage the state (Stokes, 2006, Plato, 2007). Plato's view is admittedly, sometimes regarded as undemocratic in that it advocates the running of the state through a class of specially trained technocrats, but given that in most modern advanced democratic states have well-educated and politically aware populations who elect leaders on the basis of their perceived political and technical expertise, there need not be antipathy between his commutarian (city-state) oriented views and democracy.

Table 1 also indicates a *corruption divide* constituted by both individual moral and social contextual aspects. The corruption divide in Table 1 is comprised of both moral and immoral aspects. The immoral portion of the divide is made up of Machiavelli (individual) and Hobbes (social) aspects; The moral segment of the corruption divide in Figure 1 consists of Plato individual and Rousseau (social) sections. The individual aspects of the divide concern individual aspects of morality and the manner in which regulations combatting corruption are perceived. Social contextual aspects are part of the socio-politico-economic landscape that prevails in different countries at different points in time. Clearly politico-socio-economic factors prevailing in a specific country influence and constrain the individual's ability to behave illicitly. A cynical individual with a Machiavellian outlook might find it more difficult to operate in a politico-socio-economic economic that is contractual. But, a corrupt act is essentially an individual one, so while a contractual-oriented society with service-oriented leaders might reduce

the possibility of such an act's occurrence, it doesn't eliminate it entirely, as recurring historical evidence documents.

Turning first to examples of immoral aspects of the corruption divide, the socio-political landscape in South Africa is one that has been described as "state capture" which essentially involves elected government individuals' cynical and corrupt use of government power to promote corrupt practices that enrich authoritarian political elites, at the expense of political and economic sovereignty. In the South African situation, a democratically elected government co-exists with an authoritarian and significantly corrupt inner elite. However, fortunately there have been some recent glimmers of hope for the future in the election by the ANC caucus of a new more ethical and competent President.

The socio-politico-economic landscape in other parts of Africa, such as that in in the Somalia and the Sudan (Transparency International, 2018) might be considered close to a Hobbesian one of chaos, corruption, authoritarian leadership and a complete rupture of order and the rule of law.

Examples of individual and socio contextual aspects of the moral segment of the divide are more difficult to find. Countries with strong and widely endorsed social contractual agreement and respected and implemented regulations may be most clearly seen in the Nordic countries of Sweden, Norway and Denmark (Transparency International, 2018). Examples of strong individual moral behavior by government officials and managers with low levels of regulations and red- tape and low levels of corruption are more difficult to find but New Zealand where there is a very low risk of corruption and where corruption laws are stringently enforced but where the regulatory environment is favorable for business with few red- tape restrictions (GAN Business anti-corruption portal, 2018).

The social contextual aspects of the *corruption divide* in Table 1 concern socio-politico-economic landscapes which are critically important in explanations of the efficacy of the regulations-corruption interface, However discussion of historical circumstances leading to particular current socio-political and economic situations (such as the effects of the Apartheid government of South Africa on the current government's cynicism and corruption) are seen as being beyond the scope of the current paper .

The corruption divide and interpersonal morality

An aspect of the regulations- corruption interface not indicated in the model in Figure 1 but nevertheless crucial to the effectiveness of regulations in curtailing corruption, which is part of the moral segment of the corruption divide, is interpersonal trust. The discussion and analysis that follows, focuses on describing in outline the importance of trust in individual interpersonal aspects of moral behavior in combatting corruption in the business context.

The importance of trust in the regulations-corruption interface

The low corruption/ low regulations of the 'Platonic' quadrant shown in Table 1 can only be attained through moral leadership, however while moral leadership is a necessary condition, it is not sufficient on its own in reducing corruption without interpersonal trust between the

leader/manager, the government official, and a belief in the need and efficacy of the regulations themselves.

Torche and Valenzuela (2011) indicate that trust can be conceptualized as a continuum ranging from 'thick' to 'thin' trust and from personalized to generalized trust interactions. Putnam (2000:466) writes: "Thin trust and thick trust represent the ends of a continuum, for 'thick trust refers to trust with a short radius, encompassing only others who are close to the truster…….'thin trust' refers to trust………with a long radius, encompassing people at greater social distance from the truster". The structural approach to trust suggests that closed community type trust in which interaction occurs on a personalized level is fundamentally different from generalized trust where social interaction occurs among strangers (Burt, 1992, 200; Lin, 2001).

However, the feasibility of a complete substitution of trust by regulations aimed at fully controlling, for example, corrupt professional and managerial practices seems highly unlikely; however, complete a set of regulations against corrupt behavior might be, there can never be absolute prescription for any form of human behavior, and interpersonal trust remains indispensable for a set of regulations to successfully combat corrupt behavior.

Responsive Regulation Theory (RTT) places trust at its core and regards trust and control (i.e. the regulation of a person's behavior to make it predictable and focused on achieving desired outputs) as substitutes when they are better regarded as complements with one aspect reinforcing the other up to a point of optimum self-determination (Six, 2012).

Moral internal control in an actor is built up through the internalization of norms and mores developed by socialization (Adler and Borys, 1996). Internal controls enhance while external controls reduce self-determination (Deci and Ryan, 2000). Six (2012:5) notes that self-determination theory (SDT) suggests that: "The more people internalize and integrate socially sanctioned values and norms, the more self-determined their actions and the more likely it is that their locus of causality is internal".

Weibel (2007) suggests that the more organizational control measures support the basic human needs of autonomy, competence and relatedness, the more such control measures are internalized, and the more trustworthy people become in their action and behavior. "When actors subjected to the formal controls (the 'regulates') internalize and integrate the values of the actors imposing the formal controls (the 'regulators') then the regulatees are more likely to comply with the regulation in a self-determined way" (Six, 2012:6). In short, control through regulation requires a degree of self-determination (i.e. freedom to act autonomously or with supervisory discretion) in mangers to internalize such controls and to act trustworthily. Thus, trust in the relationship between the individual manager and government official is crucially important if regulations are to be effective and not to be used as mechanisms for reducing bribery and corrupt practices.

Conclusion and recommendations

The philosophically based approach has presented a strong theoretical platform to build the holistic model of the corruption-regulations interface. The individual and social aspects of the

model have been shown to have a bearing on the reasons for the ambiguity in the nature of this interface and why sometimes regulation seems to effectively curb corruption, sometimes not, and sometimes can even help promote it.

Although presented as a holistic model with two main sub-dimensions, clearly there are aspects which we have not discussed in detail in the paper. Interpersonal trust itself, historical factors that sometimes explain socio-political and economic circumstances, psychological factors underpinning particular individual orientations and the cynical use of regulations for personal enrichment, have not been examined in the paper. However, the model and discussion of secondary data have shown quite clearly, that for regulations to be effective in combatting corruption, individual (e.g., managerial orientation, interpersonal trust and level of individual moral development) and social, (e.g. socio-political, economic and cultural) factors need to support their successful implementation.

The paper has suggested that regulations themselves are unlikely to reduce fraudulent and corrupt practices in business and that a more detailed analysis of the moral orientation of both manager and government authority are necessary to improve global governance. However, a major constraint to corruption elimination is the social contextual climate in which the individual manager operates. The model suggests that both individual and contextual moral aspects of the corruption divide will need to be satisfied if the negative regulations–corruption interface is to be resolved. The paper considered individual aspects of the level of moral development, moral orientation of managers and the degree of trust between management and government in some detail as these aspects are often only superficially discussed in the extant literature and have an important bearing on corruption and corruption elimination.

The study has contributed to the extant literature by offering a heuristic device that helps analyze individual and contextual factors that critically impinge on the regulations-corruption interface. While the model does not offer detailed prescriptive remedial steps, it presents areas of critical focus that need to be carefully considered and resolved. Limitations to the study include the problem of generating a moral socio-political landscape in which the critical relationship between government official and individual manager can thrive; the practical difficulty of selecting and training moral managers and government officials and the problem of measuring levels of individual moral aptitude (Rest, 1986). Also, the important aspect of the efficiency of specific regulations enforcement entities (law and order) have not been discussed in the paper, but their efficiency is often found to be closely correlated to the prevailing social corruption climate and individual moral orientation. The paper also suggests that moral managers and government officials are likely to be ethically 'crowded out' by over- regulation that removes the essential individual ingredients of moral discretion and trust.

Recommendations for research include at the individual level; the need to establish empirically the best means for identifying and training managers and officials for moral leadership, better ways of developing manager-official trust interfaces. Managerial training programs that focus on

identifying and examining particular quadrants, or aspects of them, in the theoretical model that pertain to individual and specific politico-socio-economic circumstances, can provide a useful focus for this. Although, of course, the social aspects of the regulations–corruption interface including socio-political and economic are more intractable and are unfortunately because of this fact, likely to take much longer to resolve in specific countries.

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