

Research Paper



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Corporate Corruption and Chaos: A Formal Recursive Model

^aJohn Levendis* and ^bGavin Waters

^aLoyola University, New Orleans, USA

^bMissouri Western State University, USA

Abstract: This paper develops a formal model of organizational corruption in order to explore rigorously the dynamic implications of corporate culture. This formalism is especially important whenever feedback (i.e. recursive) mechanisms are at play, since this can induce complex dynamics which are not at first obvious. We show that the conclusions of even a simple model are not intuitive and are, in fact, chaotic. Moreover, corporate corruption often has little to do with the variables that are under the control of management. Rather, they are determined endogenously, by a corporate culture that has a life of its own and is sensitive to the initial conditions in which the firm finds itself. Managers can influence the dynamics of corporate culture through various methods including employment pre-screening or promotions policies. However, these methods do not diminish the chaotic nature of dynamics of corporate corruption that are beyond managerial control.

Keywords: Corruption, corporate culture, feedback, dynamics, recursive, chaotic

INTRODUCTION

The spread of corruption within a corporation is a serious and complex matter. This paper examines the issue, taking into account two key insights that are, if the reader will indulge us for a moment, easily conveyed by the following two brief anecdotes:

Two job applicants walk into the manager's office. The manager asks the first guy, "What's two plus two?" "Four," he answers. "Thank you. Don't call us, we'll call you," says the manager, who then turns to the second guy and asks, "What's two plus two?" The second guy responds with a smirk, "What do you want it to be?"

