

Accepted Manuscript

Title: Embezzlement, Whistleblowing, and Organizational Architecture: An Experimental Investigation

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PII: S0167-2681(17)30374-8
DOI: <https://doi.org/10.1016/j.jebo.2017.12.024>
Reference: JEBO 4238



To appear in: *Journal of Economic Behavior & Organization*

Received date: 14-3-2017
Revised date: 22-12-2017
Accepted date: 29-12-2017

Please cite this article as: Makowsky, Michael D., Wang, Siyu, Embezzlement, Whistleblowing, and Organizational Architecture: An Experimental Investigation. *Journal of Economic Behavior and Organization* <https://doi.org/10.1016/j.jebo.2017.12.024>

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Embezzlement, Whistleblowing, and Organizational Architecture: An Experimental Investigation

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Highlights

- We study the impact of organizational architecture on embezzlement and whistleblowing
- Six architectures are tested with a synthesis of a common pool resource game and an ultimatum game
- We find that flat and pyramid shaped structures successfully reduce embezzlement

Abstract

We investigate the optimal shape of organizations to reduce embezzlement. In a stylized synthesis of a common pool resource and ultimatum game, agents are activated sequentially within an organizational architecture wherein they can take a share of the available resources or choose to "blow the whistle", an action that sets all payoffs to zero. The resources not taken will grow and benefit all agents. Six basic organizational architectures are tested, including horizontal, vertical, pyramid shaped, and inverted pyramid-shaped structures. Our results suggest that horizontal and pyramid structures are more effective at reducing embezzlement. Rates of embezzlement and whistleblowing increase with the number of levels in the structure. Holding the number of levels

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