CORRUPTION EVERYWHERE? A CENTRAL EUROPEAN CASE

by

DAVID JANCSICS

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August 13 2013 — Prof. Paul Attewell

Date — Chair of Examining Committee

August 13 2013 — Prof. John Torpey

Date — Executive Officer

Prof. John Torpey

Prof. Philip Kasinitz

Supervisory Committee

THE CITY UNIVERSITY OF NEW YORK

Abstract

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David Jancsics

Adviser: Professor Paul Attewell

Both petty and large-scale corruption are widespread in Central Europe. The granting of government contracts is frequently subject to political and monetary influence. Small-scale transactions, from avoiding a traffic ticket to obtaining a license, are sometimes the occasion for bribes. My dissertation examines corruption through several lenses. First, I review a large research literature that spans disciplines from economics to political science, management to anthropology, and I identify the main theoretical positions that scholars have taken towards corruption in its various forms. I discuss the strengths and weaknesses of alternative conceptualizations and suggest areas for theoretical synthesis and development.

Second, I present a set of empirical studies that depart from the dominant approach that uses reputational sample surveys of national populations. Instead, I undertook a multi-year interviewing project in Hungary, using a snowball technique to access individuals who had first-hand experiences with petty or larger-scale corrupt transactions. Based on 50 interviews, I provide detailed empirical portraits of several types of corruption, reporting the motives of the parties involved, their social class and other demographic characteristics, and their organizational positions. I recount the voices and opinions of Hungarians at all levels of society about their involvement in these transactions. Some are condemnatory; others provide justifications and rationales for their actions.

Third, I develop separate analyses of corruption at the top, in the middle layers, and at the bottom of organizations, drawing out the distinctive purposes and dynamics of corruption in each setting. I also examine the importance of go-betweens or middlemen and the roles they play in some types of corruption, and the emergence of entire corrupt networks in certain contexts.

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Chapter 1- Introduction

Since I started in my PhD program in New York City in 2007 I have visited my family in my home country, Hungary once or twice a year. During these trips home I realized that corruption was discussed much more often in every day conversations in Hungary than in the US. The contrast was striking. Although I heard a few stories about corruption in New York as well, none of them were about the present. For example, my elderly dog walker friend in Brooklyn told me scandals about corrupt police officers, state department employees, mayors and trade union leaders but all these cases were back in the 1970s when, according to him, corruption was widespread in the City. I asked myself why corruption is such a hot topic in Hungary and why it does not seem to be as big a social problem in the USA. This was my first motivation to write a dissertation about corruption in Hungary, a country which is considered highly corrupt but also one of the most democratic and “Westernized” of the Central and Eastern European (CEE) nations, with its own native term for corruption and related informal practices: "mutyi."

However my research led me to avoid over-simplistic “Eastern vs. Western” comparisons, or emphasizing that corruption in CEE is much more widespread than in Western Europe or in the US. The findings of my study suggest that corruption is not a single thing. Corruption takes many different forms and there is also a huge grey zone of informal practices, many of them may be clearly corruption in the US but be acceptable, although somewhat illegal, behaviors in Hungary or in many other countries. At this point, an argument widespread among anthropologists is right: corruption is a relative phenomenon and an elusive social scientific concept.

This conceptual ambiguity does not mean that scholars should not want to or cannot understand corruption. In the last two decades, social scientific disciplines have experienced an explosion of corruption research. However in the existing literature on corruption we find few if any qualitative case studies, because scholars who want to study corrupt processes believe that it is impossible to collect data directly. They imagine that corruption is so dangerous or so hidden that ordinary ethnographic research methods are out of the question. Instead scholars mainly rely on survey research methods using "reputational measures". Such tools can reveal an important but also very limited surface dimension of corruption across countries. However they are definitely useless when one tries to understand the micro-mechanisms of the phenomenon.

After several informal conversations with Hungarian family members, friends, acquaintances and ex-colleagues I became very excited about listening to their experiences about corruption. I decided to conduct a qualitative research project. Instead of playing with quantitative data in front of my computer I wanted to hear more corruption cases from real people. I wanted to understand the nature of the relationship between corrupt actors through the analysis of real corrupt transactions. After these preliminary informal discussions I started a more systematic data collection, with snowball sampling and semi-structured in-depth interviews. In this research I interviewed 50 people in Hungary who actually participated in corruption or at least saw corruption closely.

When I started my research some people suggested I should answer the question why corruption is more widespread in Central and Eastern Europe than in the more developed Western world. However the reader, after finishing this study, will definitely not get a satisfactory explanation to this question. My project simply did not go that direction. Not having clearly articulated research questions at the beginning I just let the emerging themes from the

interviews direct my research. I continuously changed my research questions, adjusting them to the actual interviewees and as new ideas emerged from previous interviews. The whole process was mainly driven by my empirical data rather than by prior concepts. In this sense it is rather a inductive analysis. The main findings of this study represent a collection of interesting hypotheses, not rigorously verified premises. I do believe that inductively developed concepts and theory from data may contribute to the discovery of original and heuristic ideas. In contrast to this, testing logically deduced hypotheses often leads to only slightly modified versions of already existing theories (Glaser and Strauss 1967; Charmaz 2006: 4-5).

This is definitely not a comparative study. Although it reveals some important insights about the relationship between corruption and the extraordinary post-socialist development in Hungary, its main focus is on micro-level corruption mechanisms and the very different forms of corruption; many of them may also happen in other countries. One might reasonably ask whether using Hungary as a case study is a sensible strategy, or whether research findings from Hungary can be generalized to other settings. Corruption is viewed as a very serious problem in the EU today, particularly in the former communist nations, and it is my belief that my research, although focused on Hungary, speaks to the wider phenomenon. The different forms of corruption that I observe in Hungary are present to varying degrees in other transitional countries and cultures as well in the 'developed' world. My view is that this Hungarian case study yields insights into previously unexplored social and organizational aspects of corruption.

I started this project as a layman in corruption studies but with a relatively strong sociological, especially organizational sociological background. I became more familiar with the corruption literature only after I had launched my research and been over several interviews. In my readings I wanted to see what different disciplines say about corruption. Therefore I read

everything I could find, from economics and political science, to anthropology, organization studies, social psychology and sociology. In my research I tried to use each theoretical concept or research result that seemed to be useful regardless of the social scientific discipline. In this sense it is rather an interdisciplinary study than a pure sociological one.

I saw many different forms of corruption in contemporary Hungary. The cases vary on many dimensions, such as the social and organizational status of the actors, the beneficiaries of corrupt behavior (an individual, a clique, or an organization), the structure of corrupt networks, the role of corruption brokers, the resources available for the participants, the complexity and sophistication of the illegal schemes, the techniques to cover-up corrupt deals, the regularity of transactions, and social and organizational constraints on actors to participate in corruption.

The main concern of my dissertation research -- that was crystalized only gradually during the research process -- was to understand how people at different organizational and social class levels view and deal with corruption in post-communist Hungary. What is the nature of corrupt transactions? Does corruption at the top of an organization and social hierarchy differ from corruption at the middle level, or the bottom? What are the mechanisms created by the participants in order to conduct corruption successfully? What are the main resources, forms of transfers and counter transfers in corrupt deals? Is corruption motivated by monetary profit - maximizing and other forms of benefits or is it rather a social or organizational constraint?

In my research, I found that a broad spectrum of Hungarian citizens, from politicians and professionals to ordinary people of all ages, are quite open to talking about the impacts of corruption on their lives, and are willing to talk about when and where they encounter it, and their own involvement with petty corruption. People have not only been willing to be interviewed by me, most seem positively eager to discuss this topic. It affects their lives, and

they often have strong feelings or vivid experiences with corruption. So the limitation that academics of corruption seem to have imposed on themselves, not to study corruption through established interview methods, appears unnecessary.

The whole research proved to be an amazing learning process and a great adventure for me. I feel to be privileged to get a deep insight in such a sensitive topic that was hardly studied with qualitative tools before. I am very grateful to all of my interviewees who trusted me and shared their secret stories and thoughts about corruption.

Corruption in Post-Communist Central and Eastern Europe

Corruption in CEE communist regimes had spread all over the society from party elites to everyday transactions in coffee shops (Jowitt 1983; Galasi and Kertesi 1987). Although several studies suggest that corruption is still widespread in post-communist CEE, it is very hard to estimate its actual level due to its covert and illegal nature. Perception- based indexes are the most typical tools used to capture corruption quantitatively. The idea behind these methods is that corruption and its perception are positively and strongly correlated (Lambsdorff 2006). Perception- based empirical studies suggest that people in CEE believe that the level of corruption and bribetaking has significantly risen since the fall of communism (Holmes 1997; Miller *et al.* 2001: 109; Grodeland et al. 1998; Wallace and Latcheva 2006). Extortion by the new generation of post-communist officials is also widespread in CEE (Kotchegura 2004; Miller *et al.* 2001: 83-85).

There are two distinctive approaches in the literature that try to identify the main factors influencing the current level of CEE corruption. According to the first one, corruption is a result

of communist or even pre-communist historical paths, while the second explanation claims that corruption is a consequence of the transition from socialism to capitalism.

A significant portion of these studies argues that the communist legacy and 'path dependency', institutions inherited from the communist past, are mainly responsible for corruption in the region (Grodeland et al. 1998; Illner *1996*). One important institution, that somewhat survived the transition, is the communist administration apparatus which was originally designed for imposition and control rather than facilitation and service (Baker 2002; Ellison 2007). Scholars who emphasize the significance of socialist institutions claim that despite the newly emerging democratic institutions in most countries, the old corrupt and nontransparent administrative states remained mostly in place, with their underpaid and politicized officials and socialist organizational cultures. Other scholars think that long-term pre-socialist cultural, historical and religious traditions, bureaucratic structures, and the traditional fundamental differences between 'East' and 'West' played a more important role (Huntington 1998: 8; Grodeland et al. 1998; Aleman 1989; Blankenburg et al. 1989; Musil 1992).

There is a second approach that the economic and social transition, such as the unprecedented scale of privatization, skyrocketing unemployment, poor job security, underdeveloped political and democratic institutions, fragile states, expensive election campaigns and illegal political contributions created a serious moral and ideological vacuum as well as opportunity structures for corruption. These consequences of the collapse of the socialist regimes are viewed as more influential factors behind today's corruption than the legacies of communism or earlier periods (Holmers 1997; Sajó 2002; Miller *et al.* 2001: 46). Some of these studies are, explicitly or implicitly, drawing on Durkheim's (1966) anomie concept. Anomie is the situation of normlessness in a society when people do not know anymore what is right or

what is wrong. There is not a clear understanding of norms and values to guide one's behavior. Anomie appears during and after significant changes in a society. Corruption is a product of the breakdown of the socialist normative system when norms become suddenly blurred and the tolerance limit for deviance widens (Holmes 1997; Miller, Grodeland and Koshechkina, 2001: 46, 348; Hankiss 2002). Some argue that there are different forms of corruption before and after the collapse of communism in CEE. In underdeveloped economies, such as the former communist societies, with a degree of demonetization, corruption often took the form of reciprocal exchanges and the use of contacts; in economies with a functioning currency or a recognized external currency, like post-communist countries, it tends to take a more monetized form as bribery and kick-backs (Ledeneva 2006). Daniel Bell (1993) also argued that while in totalitarian countries corruption is the arbitrary use of power, in democracies corruption is money.

Corruption in Hungary

In Hungary informality and corruption had a long tradition in the communist system. During the 1970's and 1980's the state consciously allowed ordinary citizens to obtain illegal revenues from the "shadow" and "second" economies in order to raise the living standard in the country and keep the single-party-system politically stable (Gábor and Galasi 1985). People bribed communist party apparatchiks to turn a blind eye to the expansion of their small-scale semi-legal businesses in the "second economy" and in return citizens did not criticize the political system but enjoyed their increasing economic wealth (Hankiss 2002).

Communist company managers also built informal links to the state bureaucracy in order to smooth the operation of their firms in the chronic shortage of supply caused by the centrally

planned economy (Kornai 1992; Szalai 1982; 1989). It was a system of mutual favors between bureaucrats and managers in which money usually did not change hands. However this practice grew into a culture of nontransparent informal deals that has remained the accepted way of doing business within and between government organizations and private companies in post-communist Hungary. Most of these activities would be considered corrupt in a capitalist market economy.

One important consequence of the collapse of communism in Hungary in 1988 was an immediate economic crisis, followed by falling salaries, unprecedented unemployment, poor job security, and a rapidly growing informal or illegal economy, estimated to have accounted for 25% of GDP (Neumann and Tóth 2009). After the fall of communism, a large-scale spontaneous and mainly corrupt privatization created a "decentralized reorganization" of state assets (Stark 1996; Báger and Kovács 2005). We can find many former party cadres and ex-communist managers among the new capitalist owners. In the very early years of the transition from state socialism to the democratic system, the insider control apparatuses of public organizations collapsed and have never fully recovered (Báger *et al.* 2008).

Since the transformation crisis, the Hungarian economy has gradually returned to a sustained growth. Hungary has been a member of the European Union (EU) since 2004. While the general conditions of Hungarian democracy are stable, the country's democratic system suffers from serious problems, most importantly, too much political influence over independent institutions such as judiciary, prosecution, police, and NGOs (Fleck 2011; Jancsics 2012). Each new government, at both national and local levels, fires a significant portion of administrative staff, even at lower managerial layers, and replaces them with party devotees. Loyalty, rather than expertise, is the greatest expectation of them (Jancsics 2009).

Hungary has fallen behind the region’s average score on Transparency International’s (2011) Corruption Perceptions Index (CPI) and is now ranked 54 out of 183 countries reported in the survey. Corruption in Hungary has been on the rise over the last decade, and among its neighbors, Hungary showed the highest downturn in CPI score in the last few years (Transparency International 2012). According to recent estimates, about 65-75% of Hungarian public procurements are corrupt (Freedom House 2011). Since Hungarian political parties desire much more money to finance their operation and campaigns than the amount that is legally allowed a significant proportion of “corrupt profit” is channeled into party coffers (Sajó 2002; Transparency International 2012). The unusually high level of state redistribution is probably the central locus of corruption in contemporary Hungary. State aid (as a percentage of GDP) in Hungary spent on economic development programs is the third highest in the EU. These grants have produced a phenomenon known as “development corruption” (Báger 2011).

Chapter 2- Methodology and Research Strategy

Site, Sampling, and Interviews

Although this dissertation was informed by the literature about corruption, it was not my purpose to test existing theories but rather to obtain new insights into corruption based on rich empirical material and systematic inductive analysis of transcribed interviews. I conducted 50 in-depth interviews – speaking in Hungarian – in Budapest between December 2009 and May 2011. I sought people from different social and organizational backgrounds who had themselves participated in corruption or at least had a very close and direct insight into the phenomenon.

I subsequently used snowball sampling, a technique applicable when it is difficult to identify and contact the members of a target population, or when the subject matter--like corruption--is sensitive. Snowball sampling was originally used in research on drug use and addiction (Becker 1966; Lindesmith 1968). I asked people whom I had interviewed to recommend other people whom they knew could talk to me about petty corruption. Respondents want to know that an interviewer is trustworthy before agreeing to be questioned. Snowball sampling uses interpersonal networks to vouch for the researcher's trustworthiness, as well as being a strategy to find new respondents. This snowball procedure meant that, beyond my first ten interviews, my informants were not previously known to me. There are possible shortcomings of the snowball technique. For example, individuals may nominate others who think like them, limiting the external validity of any findings (Biernacki and Waldorf 1981). However, I believe that the benefits the snowball method can provide, namely locating members of a very specific secret population and getting insight into their illegal activities, outweigh this weakness.

I had 10 initial starting contacts, drawing upon a deliberately wide spectrum of people from low-level private firm employees to top executives of national governmental organizations, based on my own social networks of friends and friends of friends. The Hungarian chapter of Transparency International also suggested some potential respondents, investigative journalists and corporate managers, to me.

I promised anonymity to all informants. Given that assurance, plus the recommendation of the prior respondent in the snowball chain, people were eager to discuss their experiences with corruption. Some justified it; other condemned it; but everyone was open to talking about it. I conducted semi-structured interviews in Hungarian, using a flexible interview protocol that allowed me to tailor my research questions to each interview situation. Some questions, however, were asked of all interviewees (see appendix). I recorded the interviews when given permission. The interviews explored topics such as the respondents' participation in corruption, their relationship with other actors, the circumstances of the corrupt exchange, the resources that were exchanged, etc. My main goal was to collect detailed descriptions of actual corrupt occurrences.

I classified my interviewees' social economic status (SES) based on their education and occupation. I classified as working-class those respondents who did not have college degrees and who were manual workers or low-level administrative workers. Interviewees that I describe as 'middle class' had at least a college degree and typically held professional or white-collar jobs. Respondents whom I categorized as 'elite members' were top executives in either private, state owned or governmental organizations. The respondents I label 'small entrepreneurs' fit the upper scale of working class category. They are typically self-employed, small shop owners or small-entrepreneurs with a very few employees, often family members. They often financed their families directly from their business accounts.

All working class respondents were interviewed in the neighborhood where they were living, mainly industrial districts in the Eastern and Southern parts of Budapest: Kőbánya, Kispest, Pestszentlőrinc, and Soroksár. Entrepreneur, middle-class and elite interviewees were interviewed in more diverse locations of Budapest where they found it convenient; sometimes in their neighborhood but in other cases close to their workplace or commuting route. Table 1 summarizes the backgrounds of my respondents.

Table 1. Social Background of all Respondents

Social Background	**N**	**%**
Elite	13	26
Middle-class	12	24
Entrepreneur	9	18
Working-class	9	18
Lower-working class	3	6
Investigative Journalist	4	8
Total	50	100

Analysis and Findings

I started the data analysis while interviews were still being conducted. I created verbatim transcripts based on the recorded materials. In order to synthesize my transcripts, I used qualitative coding to identify connections between the narratives and the codes (Charmaz 2006: 43). I also used "theoretical memos" to save my thoughts on the nature of the phenomena, the relationships between categories, codes, and existing models in the literature. All together I

created 422 codes and several larger categories and themes but many of them are not used in this analysis.

I conducted 17 interviews in Summer 2010. I coded these transcripts and sorted them multiple ways, for example, by the actors' social status, types of exchanged resources, group affiliation and so on, and thoughtfully studied their contents. By the end of my analysis, I had constructed a list of core categories, theoretical memos, and representative examples of quotes from interviews.

My data collection was very flexible and continuously adjusted to the gradually developing concepts. The second wave of interviews in Summer 2011 was guided by the preliminary findings of the first 17 interviews and the emerging theories. In this theoretical sampling phase I tried to find and interview groups and subgroups relevant to concepts coming from the already existing data (Glaser and Strauss 1967: 45-76). For example, my comparisons led to the concept that different corruption patterns are related to different social and organizational statuses. After this I more consciously directed my data collection and looked for people from the particular social and organizational strata. Corruption brokerage and network characteristics also emerged as major patterns in corrupt cases told me by my interviewees. My data analysis also revealed that actors often face constraints to participate in corruption.

Thirty additional interviews were conducted in Summer 2011 and 3 more interviews were recorded in Fall 2011. Since additional questions emerged during the data analysis 4 interviewees from the first phase were interviewed again during the second and third waves.

At the beginning of my research my interviews consisted more or less open-ended conversations. However after studying the first set of interviews my interview frameworks became more focused and directed by the emerging concepts. Not surprisingly, the later

interviews were shorter with more specific questions than the previous lengthy open-ended conversations. In my dissertation I provide verbatim quotations as examples to illustrate my findings. I use (fictive) names, age, gender, and job titles for my respondents and in some cases I just simply put their social status.

However not only my interview transcripts were used as data sources. The findings of this dissertation are based on diverse sources of data. For the theory development I used any kind of information I found interesting during my research project. During the preliminary phase of my research, I conducted interviews with four prominent investigative journalists, who had recently revealed serious and scandalous corrupt cases in Hungary. Based on their publications, several powerful politicians and top executives were arrested and sentenced. These journalists revealed corrupt networks by following the "dirty money" through state-owned and private companies, consulting and law firms, and offshore companies. They exposed ownership structures and interlocking directorate networks of companies based on registry court data. My first insight into corrupt networks appeared in the interviews with these journalists. I comprehensively studied one particular corrupt case about a real estate scandal in Budapest that the investigative journalists published in Hungarian newspapers. I gained useful data from the systematic analysis of such newspaper articles (see the chapter on corrupt organizational networks). Using various types of data helped me to reveal and understand more aspects of corruption in Hungary.

Plan of the dissertation

Finally the code classification and data reduction processes yielded four major relatively independent topics that represent the four main chapters of this dissertation. These topics

emerged clearly from my data and not from any pre-conceptions or hypotheses. My dissertation has the following chapter structure.

Chapter 3 provides a comprehensive interdisciplinary literature review of corruption. Corruption has become one of the most popular topics in the social scientific disciplines. However there is a lack of interdisciplinary communication about corruption. Models developed by different academic disciplines are often isolated from each other. The purpose of this chapter is to review several major approaches to corruption and draw them closer to each other. Most studies of corruption fall into three major categories: (1) rational-actor models where corruption is viewed as resulting from cost/benefit analysis of individual actors; (2) systemic models that focus on external forces and the structural arrangements that determine corruption; and (3) relational models that emphasize social interactions and networks among corrupt actors. Focusing on actors' behavior and the social context this chapter explains corruption concepts taken from economics, organization studies, political science, social anthropology, social-psychology, and sociology.

Chapter 4 focuses on low level or petty corruption. It examines the role of clients in corruption by analyzing actual corrupt exchanges between ordinary citizens and low-level public and private employees. The interviews reveal how clients from different social strata deal with low-level agents in corrupt situations. Findings suggest two contrasting forms of low-level corruption: transactions where the client and the agent do not have a prior relationship and where external factors dominate the relationship; and cases with stronger social ties between the actors, where the client has more freedom to structure the transaction. However, a client's social background frequently determines the form of corrupt transaction and the form of resources exchanged illegally in the deal.

Chapter 5 deals with brokerage in low-level corruption. Corrupt exchanges are often brokered by a third party, but this phenomenon has not been satisfactorily theorized by researchers of corruption. A literature on brokerage in general provides interesting models but they have not previously been applied to corrupt or informal exchanges. This chapter identifies several distinct brokerage types in contemporary Hungary. The findings suggest that actors' group affiliations determine the form of exchanges (market vs. reciprocity) as well as affect the brokerage mechanisms.

Chapter 6 focuses on external social constraints in corrupt deals. Considering the actors' motivation the mainstream literature of corruption distinguishes two main types, collusive or extortive corruption. The first one occurs when corrupt partners participate in illicit deals because they all seek some illegal benefits. In the second type clients forced to participate because they face extortion by a corrupt officer. In several former communist Central and Eastern European countries the majority of people report that extorting bribes is a widespread practice by "street level bureaucrats". However the findings of this chapter suggest that extortion is only one particular form of social constraints in corrupt transactions. This chapter provides a systematic analysis of corruption constraints. I identified two different patterns, institutional and material structural forces that ordinary citizens face in post-socialist Hungary.

Chapter 7 looks at high level corruption in Hungary managed by political and business elites. Here the formal organizational context is of major importance. The findings show that corrupt elite cliques consciously design and coordinate multilevel structures of corrupt networks within and among organizations that involve a large number of people. I identified the major network elements and their functions in corrupt transactions. This chapter also provides a typology of corrupt networks. The networks have different structural characteristics based on

location of the ‘‘cash cows,’’ points from where the system is fed, and the actors’ positions of power. I compare my findings with the already existing literature on dark networks, terrorist, and organized crime formations.

Chapter 8 is the conclusion chapter of my research. It summarizes the main findings and also provides some policy implications for anti-corruption measures.

Chapter 3- Interdisciplinary Perspectives on Corruption

Corruption is a topic of everyday discussion between ordinary citizens all around the world but it has also become a dominant element of the agenda of civil organizations, governments, and global institutions such the World Bank, IMF, and OECD. Studying corruption has never been more popular among academics but it is an elusive phenomenon conceptually. Its literature is enormous, and most disciplines in the social sciences attempt to say something about it.

Unfortunately, there is a lack of interdisciplinary communication about corruption, such that models developed by different academic disciplines are often isolated from each other (Torsello 2011). However each social science has revealed interesting and important features of corruption, so it is worth drawing them closer to each other. Hence, this chapter reviews corruption concepts taken from social anthropology, economics, political science, social psychology, sociology and organization studies.

Many studies of corruption fall into three major categories: (1) a micro-level perspective where corruption is viewed as resulting from rational decisions of individual actors; (2) a macro perspective that focuses on social norms and the structural arrangements that facilitate corruption; and (3) a relational approach that examines social interactions and networks among corrupt actors.

It would be tempting to say that economists use micro-level rational-actor models, that sociologists see corruption as a structural phenomenon, while anthropologists focus on informal reciprocity relations. Unfortunately, this formulation is too simplistic, since researchers in each discipline sometimes blend ideas from multiple sources, causing the boundaries between these

three types of theory to blur. There are also several sub-themes within the major approaches, mainly developed by different disciplines.

This chapter makes three important contributions. First, it brings some coherence to the extensive literature on corruption. It provides a comprehensive interdisciplinary overview of the three major approaches to corruption, focusing on actors' behavior and the social context. Here, the chaper also tries to reflect the broader social scientific context related to each approach. Secondly, it provides an integration of the three perspectives, claiming that the relational approach has the potential to link rational-actor with structural perspectives. Finally, this chapter sets out a possible agenda for future empirical research in corruption studies along with several concrete research questions. Table 2 shows a summary of the differences between the three categories.

Conceptualizing corruption

The conceptualization of corruption seems to be a never-ending story: we can find dozens of competing and sometimes contradictory definitions of corruption in the literature. Williams (1999) and Pellegrini (2011: 13-19) offer interesting overviews of corruption definitions. Here are some different definitions of corruption:

Corruption is:
"an extralegal institution used by individuals or groups to gain influence over the actions of the bureaucracy"(Leff 1964: 389).

"illegal misuse of public authority by social control agents, resulting in private gain for those

agents or others participating in the agency's dominant coalition" (Sherman 1980: 480).

"deviant behavior associated with particular motivation, namely that of private gain at public expense" (Friedrich 1993: 15).

"the sale by government officials of government property for personal gain" (Shleifer and Vishny 1993: 599).

"the abuse of public office for private gain"(World Bank 1997).

"misuse of authority for personal, subunit, and/or organizational gain" (Ashforth and Anand 2003: 710).

"pursuit of individual interests by one or more organizational actors through the intentional misdirection of organizational resources or perversion of organizational routines" (Lange 2008).

Table 2. The Main Approaches of Corruption

	Rational-actor Approach	**Structural Approach**	**Relational Approach**
Level of analysis	Micro	Macro and middle	Middle
Motivation/constraint to participate in corruption	Maximize monetary rewards and minimize costs	Forced by structural constraints	Profit from the associations with others
Exchange form	Economic/Market	Driven by norms and material structural constraints	Reciprocal, often non-material
Role of Brokers	No brokers: Corruption happens between only two actors	Brokerage is an institution to reduce transaction costs	Brokerage is linked to group affiliation
Relationship form	Impersonal, short term	Relationship between individual and collective entities	Personal, long term
Corruption from an organizational perspective	Corruption is an exceptional problem within the organization: Bad Apple	Corruption is systematic products of collective processes: Bad Barrel	Corruption is an informal exchange network behind formal organizational structures

Rather than try to resolve the definitional problem, this chapter will provide a framework for comparing and contrasting the predominant approaches in corruption studies. Some disciplines avoid the term corruption altogether, feeling that this pejorative label or value-laden theoretical framing prejudges the issue or is even ethnocentric. For example, anthropology has a long tradition of studying hidden or illegal practices that exist alongside but in some tension with socially-approved practices and beliefs in a society (Wolf 1966). However relativist turn in anthropology makes scholars reluctant to use the term corruption for these because of its negative connotation. Instead anthropologists focus on concepts such as patronage, brokerage, reciprocal exchange, informal networks, gift-giving and so on (Anders and Nuijten 2008; Torsello 2011).

In this chapter I will use corruption as a broad umbrella term. There are three minimal, sometimes implicit, conceptual elements that one finds across all disciplines. First, there seems to be a consensus that corruption is an informal/illegal and secret exchange of formally-allocated resources. In other words, money, goods, or other resources that are 'supposed' to be allocated according to certain rules, and are considered to belong to an organization or collectivity, are instead handled or exchanged covertly in ways that benefit one or more persons who are not the formal owner. The exchanged resource is not necessarily anything material. It may be an illicit exchange of cash, but favors, gifts, and other resources such as jobs, promotions, making a particular decision, not making a certain decision, or even sexual services can also be the thing exchanged (Varese 2000). Some scholars define corruption in a way that rules out non-governmental foci (Shleifer and Vishny 1993; World Bank 1997; Friedrich 1993; Rose-Ackerman 1996; Nye 1993). Others claim that corruption can be found in private firms or in NGOs as well (Shore and Haller 2005, pp.18; Argandona 2003; Aguilera and Vadera 2008;

Ashforth and Anand 2003; Bayar 2005; Pellegrini 2011: 19). Without trying to resolve this debate we can say at minimum that corruption occurs in a formal organizational context.

Second, at least one corrupt party has to have formal membership/affiliation or a contractual relation with the organization from which the resources are extracted (Della Porta and Vannucci 2012: 2-3). This distinguishes corruption from other criminal activities such as stealing or robbery, where the criminals do not have a formal affiliation to the organization from where the resources are illegally extracted. A robber who breaks into an office and steals its resources is not classified as corrupt.

Third, a corrupt act is always a deviation from social rules or expectations of some kind (Friedrich 1993: 15; Lovell 2005: 67-68; Huntington 1968: 59; Serra and Wantchekon 2012). These rules vary greatly in form: sometimes corruption involves the violation of written or unwritten contracts; sometimes legal codes are broken; sometimes moral codes are transgressed but not laws; and sometimes corruption only violates local organizational regulations or procedures such as hiring requirements.

Given these three common elements, scholars have built several different models for understanding corruption that can be classified into three major categories. We summarize these approaches next. We also discuss the sub-themes within these categories emphasizing the social scientific disciplines related to each. In my dissertation I also used this corruption concept for the operationalization of the phenomenon during the data collection phase.

Corruption as utility maximization: A rational-actor approach

In the micro-level rational-actor approach, corruption is treated as if it is a strictly market transaction despite being an illegal one. In this section I summarize the major points of the

rational-actor approach. I also discuss the principal-agent dilemma, which is the most typical framework for examining corruption within the rational-actor approach. Moreover, from an organizational viewpoint, corruption conducted by rational actors is an exceptional or deviant event in an organization when 'bad apples', corrupt individuals, are the main beneficiaries of the transactions.

The conceptual starting point for the rational-actor approach is an individual who is motivated to participate in corruption in order to maximize personal rewards and minimize costs. In its pure form, this model of corruption is closely linked to neoclassical economics in which atomized individuals pursue utility maximization in their exchanges under the conditions of scarcity (Smith 1776). Thus actors engage in corruption because according to their personal cost/benefit analysis, acting in a corrupt manner seems to be the most rational decision that will maximize their personal profit. Rational-actor models use economic concepts such as contract, cost, benefit, competition, demand, and monopoly in order to analyze corrupt transactions. Mark Granovetter (1985) has argued that this utilitarian tradition in the social sciences views people as atomized or "undersocialized" actors who are minimally affected by social relations. In rational actor analyses, only two corrupt actors, an agent and a client, are involved, while their identities and past relations are typically neglected factors because they are thought to be unimportant.

In rational-actor models of corruption, core concepts include an idea of the dysfunctionality of state institutions and of corruption as a deviation from the efficient, rational and impersonal Weberian ideal type of bureaucracy. One common argument is that there is a clear division between the public and private spheres (Williams 1999; Lennerfors 2009) and that corruption happens only in government institutions that constitute a "foreign body within the market sphere" (Van Klaveren 1989: 25). Given this framing of the issue, the main reason

behind corruption is that governmental officials have a monopolistic right to sell goods, licenses, permits, and public contracts to private actors, and they use this monopoly to maximize their profit (Shleifer and Vishny 1993). The extension of government and its authority into the economic sphere distorts the functioning of the market and creates new opportunities and incentives for corruption (Banfield 1975; Acemoglu and Thierry 2000). Empirical studies do suggest that corruption is positively associated with high public sector expenditures and the degree of state intervention in the economy (Tanzi and Davoodi 1997; Treisman 2000). Government interventions are also viewed as activities that give rise to rents. Firms often compete for these rents with illegal means such as bribery, corruption, and smuggling (Krueger 1974; Tullock 1996; Rose-Ackerman 1999: 2; Acemoglu and Thierry 2000).

However the relationship between state intervention and corruption is not straightforward. Other studies claim that a higher level of public intervention may even be associated with a very low level of corruption (Hopkin and Rodriguez-Pose 2007). For example, the Scandinavian and Northern European countries associated with the most intensive state intervention into the economic sphere are typically among the least corrupt ones (Della Porta and Vannucci 2012: 11-12). Such results suggest that variables other than the level of government intervention might also have a significant influence on the level of corruption.

The principal agent dilemma

There are many scholars in economics and political science who view corruption as a particular instance of a more general principal-agent dilemma (Banfield 1975; Shleifer and Vishny 1993; Klitgaard 1988; Rose-Ackerman 1978). According to this approach, an agent is a CEO, a manager, a public officer or a bureaucrat who, due to his/her employment contract, is under an

obligation to act on behalf of his/her principal and serve the principal's interest as if it were his or her own. The principal may be a ruler or an owner or may represent the general public. In order to serve the principal's interest, an agent must exercise some discretion in their own decision-making and work but the desires and goals of the principal and the agent may be different or may diverge over time. Moreover, it may be difficult or expensive for the principal to monitor what the agent is actually doing (Jensen and Meckling 1976; Eisenhardt 1989.) An agent becomes corrupt and collects bribes when he intentionally sacrifices his principal's, or his organization's interest to his own and betrays his trust (Banfield 1975; Shleifer and Vishny 1993; Rose-Ackerman 1975). These models mainly focus on the agent and the principal sides and only superficially analyze the corrupt exchange from the bribe-giver or client's perspective (Jancsics 2013).

A major emphasis in the principal-agent literature is on the proper incentive and punishment structures and price mechanisms that can resolve the problem of corruption (Rose-Ackerman 1986; Becker and Stigler 1974; Bardhan 2006). Since, in this model, self-interest is the dominating motive behind corruption, the manipulation of rewards and punishments is regarded as the best way to deter individuals from acting in a corrupt way. For example, empirical studies confirmed that higher salaries of civil servants lead to lower corruption (Van Rijkeghem and Weder 2001; Azfar and Nelson 2003). The principal should also make corrupt acts costly to the rule-violating agent (Banfield 1975). Using laboratory experiments, economic researchers conclude that the possibility of detection and of negative sanctions in fact discourage individuals from bribe taking (Abbink *et al.* 2002; Abbink 2006; Abbink 2005).

Principal-agent theory suggests that well-designed contracts can resolve the problem of corrupt agents. According to Eisenhardt (1989) by creating an optimal contract that balances

behavioral incentives (salaries, hierarchical governance) versus outcome incentives (stock options, market governance), the agent can be successfully motivated to behave according to the principal's interest.

All interventions taken in order to reduce corruption entail costs for the principal, for example introducing incentives to obtain the agent's loyalty, strengthening the monitoring system in an organization, or narrowing agents' discretion may be expensive solutions. Banfield (1975) argues that the principal will incur costs to prevent corruption only if he/she expects them to provide marginal returns equal to their cost. Thus principals will try to find the optimal, rather than minimal, level of corruption. This is worth emphasizing because it implies that some corruption is unavoidable, but that society's task is to reduce corruption through sanctions, monitoring, and rewards, to the point where the costs of preventing and policing corruption are commensurate with the level of corruption reduction.

Critics of the principal-agent approach have noted that these models rest on the assumption that corruption exists only because of the corrupt agents, and imply that it is the role or responsibility of the principal to control corruption (Persson *et al.* 2010; Rothstein 2011: 99-104). However the principal-agent framework, especially in public organizations where the principal represents the interest of the general public, becomes useless as an analytical tool in circumstances where the principal becomes corrupt as well, and does not act in the interest of the organization or the public good. In that case there will be no actors able to monitor and punish corrupt behavior. Unfortunately, in many real-world instances of corruption, it is not just the employees and managers, who are corrupt, but top-level public officials, rulers, and legislators (the so-called principals) are deeply involved in corruption too. In such cases the supposed principals are not willing to act in the interest of the public or the organization but instead pursue

their narrow self-interests. It is especially hard to find "honest" principals in societies where corruption is the expected behavior and where the economic and political elite benefit most from corruption (Abbink and Serra 2012).

Economic Exchange

Some authors consider strictly economic or market type corrupt exchange as not the only possible but rather one specific type of corruption. Scholars in sociology, social psychology and social anthropology argue that pure economic exchanges are different from reciprocal exchanges on variables such as the social closeness, the level of trust, the timing, amount and form of transfer and counter transfer,

Economic exchanges are pure monetary transactions based rational calculation to maximize rewards and minimize costs when social context and relationship between the actors do not play significant role in the business. In contrast to longer-term reciprocal exchanges, market exchange is a short-term and relatively impersonal relation. Terms such as balanced reciprocity in anthropology and negotiated exchange in exchange theory refer to economic or market type transactions. Anthropologists usually distinguish generalized from balanced reciprocities (Sahlins 1965). In generalized exchanges, the direct material return is often implicit and the "counter is not stipulated by time, quality, or quantity." The return may be soon or may be never. In contrast to generalized exchanges, balanced reciprocity is based on precise balance and an equivalent return without delay (Sahlins 1965). Social exchange theory also distinguishes reciprocal from negotiated exchanges, similar categories to generalized and balanced reciprocities. Negotiated exchanges are transactions where actors agree about the amount and the price of the exchanged resource as well as the rules and the timing of the exchange process,

while reciprocal exchanges are sequences of unilateral giving and receiving, where actors do favors not knowing what they will later get in exchange (Crapanzano and Mitchell 2005; Molm, Peterson, and Takahashi 1999).

More trust and a more intimate relationship between two actors indicate social closeness, a short social distance and vice versa (Lomnitz and Sheinbaum 2004). When social distance between actors increases, a reciprocal relationship may transform into "market exchange", also called the "secularization of reciprocity" (Lomnitz 1988). One possible form of market exchange is administrative corruption (Lomnitz and Sheinbaum 2004). A good example of "secularization of reciprocity" is the widespread informal exchange practice, called *blat* in post-soviet Russia that has significantly changed after the collapse of Soviet-union (Ledeneva 1998). The personal non-monetary barter-type exchange of services, contacts, jobs and goods in short supply has been increasingly replaced by corrupt cash-bribe economic exchanges in the post-soviet era.

Some economists also distinguish between two forms of corruption, market corruption and parochial corruption (Husted 1994; Scott 1972). Market corruption is a competitive type of corruption that occurs when there is a high degree of transparency and large number of potential contractors whose identity is irrelevant. Market type relationships typically occur in the case of low level or petty corruption. Husted (1994) provides an example of market corruption from Monterrey, Mexico, where a lot of "coyotes" await outside the department of motor vehicles and provide corrupt service to make the processing of a driver's license go more quickly. The market rate of their service can be easily discovered by a person who compares the prices among different coyotes. In contrast to market type corrupt transactions, in parochial corruption the relationship between the partners matters. Here we find restricted competition. Due to limited entry and exit, the identity of partners becomes important in parochial transactions.

Bad apples in formal organizations

Much of the literature in organization studies has focused on whether corruption is an individual or an organizational issue (Coleman 1987; Wheeler and Rothman 1982; Sherman 1980). This problem is sometimes called, the 'bad apples vs. bad barrels dichotomy' (Trevino and Youngblood 1990; Brass *et al*. 1998; Ashfort *et al*. 2008; Pinto *et al.* 2008).

Both 'principal-agent' and 'bad apple' concepts view corrupt participants in an organization as rational-actors; however, principal-agent models tend to view all employees as potentially bad apples (corrupt) if incentives are poorly structured, while 'bad apples' theorists tend to claim that most employees are not and do not become corrupt. A 'bad apple' is an exceptional and problematic person, in the latter view. Following Skinner's behaviorist approach, early studies in organizational psychology conducted laboratory experiments and examined how direct rewards and punishments influence ethical decisions for example, paying a kickback or not (Hegarty and Sims 1978, 1979; Trevino 1986; Laczniak and Inderrieden 1987). It is peculiar that more contemporary principal-agent scholars mentioned earlier, who also used laboratory experiments to determine the impacts of sanctions and rewards on bribe taking, did not cite or rely on the findings of these early psychological researchers. Despite their very similar research questions, there appears to be no connection between these two schools.

In contrast to the notion of 'bad apples,' the 'bad barrels' perspective claims that organizational deviance and corruption are not exceptional individual events, but are rather systematic products of collective processes. Here organizational corruption is an enduring collective action (Misangyi *et al.* 2008). According to this view, 'bad apples', a few negative group members, poison otherwise 'good apples' (Trevino and Youngblood 1990; Felps *et al.*

2006). If the contagion of personal corruption reaches a critical threshold, the organization becomes a ‘bad barrel’ and can be considered corrupt as a whole (Pinto *et al.* 2008; Andersson and Pearson 1999).

There is an important debate in organization studies about who is the primary beneficiary of organizational corruption. One useful distinction is that ‘occupational crime’ is beneficial only to the individual, while ‘corporate crimes’ are committed for the benefit of the corporation in order to obtain contracts or reduce costs. In practice, this distinction breaks down if the whole organization benefits but individual actors are also rewarded for their involvement in corruption through promotions or salary increases (Braithwaite 1984: 6; Clinard and Quinney 1973).

To sum up, the rational-actor approach provides a micro-level analysis of corrupt transactions when the actors’ main motivation to participate in corruption is to maximize their rewards and minimize costs. According to this view, corruption is a short-term, impersonal and strictly market-type relationship between two actors. Within rational-actor models, scholars in organizational studies focus primarily upon individuals as “Bad Apples” within the organization.

A structural approach

A different approach suggests that corruption, just like other social phenomena, cannot be isolated from the collective context in which it has arisen (Blundo 2008). According to the structural approach corruption is not viewed as an individual act or decision but rather as a phenomenon that is institutionalized and embedded into larger social structure (Anders and Nuijten 2008). Here social factors beyond the individual determine ways of acting. In contrast to the rational-actor approach that focuses on micro-level face-to-face transactions, the structural approach provides explanations of corruption at macrostructural and small group or inter-

organizational middle-levels.

The literature distinguishes between two structural elements in corruption. The first one is related to social norms and culture that mainly represent the symbolic and often unconscious realm of social life. The second type refers to more a visible and material structure. Both types provide macro as well as middle-level explanations of corruption. These types also reflect the long-standing debate in macro sociology that distinguishes between ideational and material structural forces (Adler and Borys 1993; Collins 2005: 133; Hinings and Tolbert 2008: 475-476; Lincoln and Guillot 2006). The normative ideational view can be tracked back to Émile Durkheim's (1950: 13) concept of a social fact. Social facts are symbolic collective phenomena that operate outside the awareness of the individual actors and dictate the ways of acting, thinking, and feeling. Within the normative view, several scholars focus on macro-level universalistic norms or aspect of culture that support and legitimate corrupt behavior, while other scholars emphasize the importance of the middle-level, norms and social institutions within small groups, communities and formal organizational settings. The theoretical roots of material forces can be found in the Marxist view of society in which material structural factors such as organizational hierarchy, competition, power, inequalities, class differences and technology shape the individual's behavior.

Normative explanations

Exterior social constraint has become a fundamental premise of modern sociology (Scheff 1988). According to Dennis Wrong (1961) the "oversocialized view of man" in social theory treats human behavior as totally shaped by common social norms. A 'social norm' is understood as a socially acceptable behavior and deviations from that behavior are usually sanctioned by society

(Varese 2000). Actors seek a favorable self-image and the approval of others and hence, through socialization, they "internalize" consensually-developed social norms and values of a given society. As a result of this internalization, people do not perceive obedience as a burden but as something totally normal (Granovetter 1985). Talcott Parsons' (1937: 89-94) normative order conception was also based on this 'oversocialized' notion.

According to this normative view, corruption is possible when there is a contradiction between different social norms (Schweitzer 2004). In different societies we can find various norms that might support and legitimate corrupt behaviors. One of the earliest and most influential normative explanations for deviant behavior was provided by Robert Merton (1938). He argued that there is often discontinuity between culturally defined goals that are accepted as legitimate objectives for all members in a society and the norms that specify the allowable means to achieve these objectives. For example, American society defines material success as a universal cultural goal; yet the so-called "American dream" is not accessible for everybody because resources are scarce and some social groups simply do not hold socially accepted means (e.g. education, good job, property) to attain wealth and high-level consumption. Therefore some people in these groups may use unaccepted and illegal ways to fulfill socially-approved goals and obtain material goods.

Several empirical studies proved the importance of social norms that might encourage and legitimate corrupt behaviors. In an experimental bribery game the behavior of undergraduate students - coming from 46 countries with significantly different levels of corruption - was predicted by the level of corruption prevailing in the students' home countries (Barr and Serra 2010). An interesting study analyzed parking violation records of diplomats at the United Nations in New York City (Fisman and Miguel 2008: 82-94). The authors found a strong

correlation between the corruption level of the diplomat's home country and the frequency of parking violations. Diplomats from highly corrupt countries accumulated on average thirty unpaid violations each year while diplomats from less corrupt countries, for example from Norway or Sweden, did not get a single unpaid parking violation. These results suggest that the willingness of participants to violate rules or engage in corruption reflected the social norms and values that they internalized in the countries where they grew up.

One common normative explanation of corruption is related to religious norms and beliefs. Cross-national comparative studies have argued that corruption is higher in countries where more hierarchical forms of religion such as Catholicism, Eastern Orthodoxy, and Islam are prevailing whereas the level of corruption tends to be lower in countries with a larger proportion of Protestant population (La Porta et al. 1997; Treisman 2000; Paldam 2001; Sandholtz and Koetzle 2000). Protestant norms are related to factors that might have significant counter corruption impacts. Such factors are generally higher ethical standards, sharper separation between the state and the church, more vibrant civil society, more tolerance for challenges to authority, and stronger personal responsibility for sin (Della Porta and Vannucci 2012: 62-63.) In cultures with hierarchical and strongly centralized religions there is higher power distance which is a general acceptance of power differences between people. In such societies people are more likely to engage in corruption because of paternalism, autocracy and reduced trust caused by the high power inequality (Husted 1999; La Porta *et al.* 1997; Banuri and Eckel 2012).

An empirical study confirmed significant norm-related gender differences in corruption (Steffensmeier *et al.* 2013). Social norms, that disapprove female deviance and encourage male competitiveness, decisiveness, and risk-taking, significantly contribute to low-level female involvement in serious corporate fraud and conspiracy networks.

A more economic view of normative elements in corruption uses the term “moral costs of corruption”, which reflects the norms and public attitudes toward illegal activities and corruption in a society (Della Porta and Vannucci 2012: 58-61). According to these scholars, moral cost is one component of a rational individual calculation and can be defined as the utility that is lost because of illegal action. If a society is lenient about sanctioning corruption this low moral cost will increase the individual’s willingness to be corrupt.

Cultural relativist models of corruption believe that there is not a one simple way to define corrupt acts. According to this view that is mainly held by anthropologists, corruption is a construction of the culture, which as part of the symbolic realm as well as social norms, represents the mutual understandings and order in a given society (Shore and Haller 2005). Since an act that is considered corrupt in one country can be totally normal in another nation, corruption varies among different cultures, political and economic regimes. Therefore, different conceptions of what constitutes corruption can be found in different societies (Pardo 2004: 2).

Another normative explanation of corruption focuses on the small group-level of the phenomenon. In an early work Georg Simmel (1955: 163-165) recognized that tightly-knit local groups create their own specific codes of honor. Some early anthropological studies also argued that subgroups in a society regulate their relations with their members by their own legal or normative system (Ehrlich 1936; Moore 1973; Pospisil 1971; Pospisil 1958: 272). People are simultaneously members of different subgroups and they are also subjects of different legal systems. In contrast to the slow, unwieldy, and expensive formal sanctions of the official law, informal sanctions of semi-autonomous subgroups in a society maybe highly efficient in enforcing the group’s own rules and sanctions (Moore 1973; Scheff 1988). For example, the sanctions of criminal gangs against “deviant” gang members are often harsher, more effective

and immediate than sanctions of the "official" law (Pospisil 1971). The main argument here is that *particularistic norms* that regulate the behavior of small groups (friends, kin, classmates or colleagues) may become dominant over society-wide *universalistic formal norms* (Schweitzer 2004). Particularistic norms imply that people should share limited resources in a particular way, very often with their closest family members and friends and not with everyone else (Mungiu-Pippidi 2011). Therefore sub-group membership and its insider norm system can also support corruption.

The concept of the subgroup norm system is especially applicable in a formal organizational context where artificially created local groups, "work-related subcultures," provide an even sharper distinction between the organization and the "mainstream social life and its construction of reality" (Holzner 1972: 95). Scholars have recognized that the enforcement of external regulations within an organization is often difficult because the organization may create an insider norm, a culture of silence and cover-up where even honest members show solidarity with their deviant and corrupt colleagues (Katz 1977, 1979). The informal code of "don't give up another cop" is one well-known example within police forces (Kappeler *et al.* 1994).

While the public tends to perceive "ordinary" criminals as deviant and personally pathological, white-collar criminals are often regarded as psychologically "normal" (Sutherland 1956: 96; Coleman 2002: 184-185). Ashfort and Anand (2003) were interested in how these otherwise morally normal persons can routinely engage in corrupt practices in organizations without seeing their acts as wrong. The authors show how corruption becomes taken-for-granted and perpetuated in an organization. They argue that (1) institutionalization, (2) rationalization, and (3) socialization contribute to the normalization of corruption. When corruption becomes institutionalized it means that stable and repetitive patterns of illegal activity emerge that are

carried out by members without much thought or reflection about the nature of their actions. They no longer see their behavior as problematic or wrong. The initial corrupt action is gradually embedded in organizational structures and processes. Organizational members also try to legitimate their questionable acts for themselves and also in order to obtain their in-group members' acceptance. This process of rationalization may take several different forms such as d*enial of responsibility*, when actors claim that they have no choice due to circumstances beyond their control, *denial of injury*, when the actors insist that no one was really harmed, for example the organization was insured, or *denial of victim, when the actors argue* that the targets of corruption deserved their fate for example, because of past unfairness. Once a corrupt decision produces a positive outcome, the organization's memory will remember it as an act that had a rational reason, and such decisions create precedents that legitimate future decisions. Thus a deviant culture arises within an organization to normalize collective corruption and repeatedly enacted corruption becomes routine, an everyday mechanical action without conscious thought. Vaughan (1996) also noticed that gradually accepted and repetitive instances of misconduct can finally became normalized, such that organizations produce a culture in which deviation from formal rules and procedures is normal and acceptable. Ashfort and Anand (2003) claim that organizational socialization plays an important role in involving newcomers in corruption: when established employees treat some questionable action as perfectly normal, new members of the organization tend to abandon their initial doubts or qualms.

Scholars in a school known as "New Institutional Economics" (NIE) focus on structural elements called social institutions, defined as "any form of constraint that human beings devise to shape human interactions" (North 1990: 3) or "regulative, normative, and cognitive structures and activities that provide stability and meaning to social behavior (Scott 1995: 33). These

scholars analyze corruption from inside the corrupt relationship and examine how corrupt actors design institutions that reduce uncertainties and protect themselves from opportunistic behavior (e.g. betrayal) of the corrupt partner (Lambsdorff 2002; Lambsdorff *et al.* 2004; Della Porta and Vannucci 2004; Della Porta and Vannucci 2012: 2-3). Corrupt agreements or corrupt contracts are acts of "mutual obligation" where the parties set up the main conditions of the deal such as what is offered for what, and the placing and timing of the transaction. NIE scholars argue that, contrary to legal agreements, corrupt contracts cannot be enforced through legal ways (e.g. by the courts). Corrupt agreements are made secretly, and therefore the transaction costs -- transaction-specific investments such as money, time, or energy -- to keep activities such as partner searching, negotiating and agreement-enforcement hidden are significantly higher than in business relations in normal markets. Lambsdorff (2007: 218-219) provides an example when a German policeman who was regularly assigned to monitor illegal activities in the main station area of Frankfurt made a friendship with a local brothel manager. Later the policeman provided the manager insider information about forthcoming police raids while, in return, the manager gave him regular income from the prostitute business. In this case the already-existing trust between the actors served as an institution lowering the transaction costs for finding 'honest' corrupt partners, enforcing the corrupt agreement and preventing the betrayal of the other (Lambsdorff and Teksoz 2004).

Transaction costs are especially high the first time, when actors who do not know each other set up a corrupt relationship system. But once these initial costs have already been 'paid,' the corrupt partners have an incentive to continue illegal deals over time in order to reduce the 'unit costs' of corruption (Della Porta and Vannucci 2004). Repeated corrupt transactions automatically lead to a higher-level of trust between the agent and the recipient that further

structure the corrupt situation and stabilize the prices for a particular action. In the economic literature, this type of corruption is often called parochial corruption (Bunker and Cohen 1983; Scott 1972: 89; Husted 1994).

Another institution that appears in the NIE literature is brokerage in corrupt transactions. Since corrupt partners cannot advertise their services publicly and since searching openly for corrupt partners is risky, an institution of brokerage is needed to find and introduce corrupt actors to each other and thus also reduce the transaction costs of seeking a partner for corrupt purposes (Lambsdorf 2002; Lambsdorff 2007: 53, 140; Drugov *et al.* 2011). For example, it is common in the Middle East for executives of foreign companies to use local brokers who are well connected to princes, sheikhs and ministry officials. Such brokers save time and reduce costs and risks for the company because they perfectly know who should be bribed in order to win a contract (Aburish 1985: 1-4; Bray 2005: 119).

Material structural explanations

A number of survey researchers seek to identify macro-level structural factors responsible for the level of corruption in a country. They typically use perception-based indexes, such as Transparency International's CPI index, to measure how widespread corruption is in a society. The idea behind this research is that the perception and actual level of corruption are positively and significantly correlated (Lambsdorff 2006). Research based on analyses of corruption indices across countries suggests that increased economic competition and economic growth are negatively related to corruption (Treisman 2000).

This approach finds that formal democratic institutions reduce corruption but only over the long term. Treisman (2000) concludes that countries become significantly less corrupt only

after 40 years of democracy. Moreover emergent democratization may even increase the level of corruption (Montinola and Jackman 2002). Another finding is that income inequality and corruption mutually reinforce each other. Greater inequality fosters higher levels of corruption while a higher level of corruption increases social inequality (You and Khagram 2005).

In contrast to the findings of economist Daniel Treisman (2000) that competition reduces corruption at the country level, the literature in organization studies emphasizes that an intensely competitive environment can drive organizational members to engage in misconduct, rule-breaking and corrupt activities (Szwajkowski 1985; Baucus 1991, 1994; Zahra *et al.* 2005; Vaughan 1983; MacLean 2001). Here the competition for customers, contracts and other limited resources lures organizations to pressure their employees to behave illegally (Vaughan 1983: 59; 1996). Intense competition may cause employees to become corrupt because top managers set unrealistic financial and sales goals, which are not achievable legally, and managers just turn a blind eye to the illicit means by which employees achieve them (Brief *et al.* 2001; Ashforth and Anand 2003; Ashforth et al. 2008).

There is a possible explanation of the contradictory impacts of competition on corruption at national and organization levels. Cross-country measures reflect the degree of competition and corruption in highly aggregated, and often, indirect ways while organization-level data provides more precise information on the competitive and institutional environment of particular organizations (Alexeev and Song 2013). National data does not reflect firm-level variation. Corruption may be very high in certain economic sectors with fierce competition but low at the general national level.

Some empirical studies have examined other external environmental characteristics that predict firms' illegal behavior. They show that illegal corporate activity and financial fraud are

more likely in dynamic environments where conditions change quickly and where employees are not sure what behavior is required or expected of them (Baucus and Near 1991).

Other studies focus on structural factors at the middle-level, inside the organizations. Aguilera and Vadera (2008) link organizational corruption to different hierarchical authority types, as defined by Max Weber. Under legal-rational authority corrupt members are driven by individualistic motives. Members in organizations with charismatic authority follow their corrupt leader and create a corrupt organizational culture. In organizations with traditional authority illegal activity is highly concentrated at specific places around subgroups.

Diane Vaughan (1996) argues that organizational structural characteristics such as the division of labor, geographic dispersion, and the presence of specialized units ensure structural secrecy, and provide opportunities to conduct deviant and corrupt practices invisibly. Thus the fact that something is seriously wrong in the organization may not be unveiled for a long period.

Some scholars found other organizational structural features responsible for illegal activities. For example, large firm size, plentiful slack resources, firms with more complex organizational structures, lower dividend payments, and higher executive compensation in the form of salary and bonuses are more prone to financial fraud and other illegal activities (Baucus and Near 1991; Prechel and Zheng 2012).

The classic transaction- cost approach tries to explain how organizational hierarchies can reduce the costs of opportunistic behavior. Transaction-cost economics emphasizes that when an individual or firm tries to buy a product or service on the market, there are 'transaction costs' involved in the act of purchasing. Not only must the purchaser find a source for what he or she wishes to buy (search costs), a prudent buyer also needs to find out about quality, and consider what will happen if the seller fails to deliver or provides faulty goods. These are costs, over and

above the money price of purchasing an object or service, a notion that did not exist within the classical economic paradigm.

Written contracts are one way that buyers try to protect themselves by specifying all the details of a transaction, but the transaction-cost school emphasized that even well-designed contracts cannot entirely protect buyers from their sellers' malfeasance (Granovetter 1985). Given the opportunity, agents will secretly pursuit their private interests at the expense of the interests of those on the other side of the contract. Therefore *opportunism* becomes a central concept in transaction-cost economics. As a concept, opportunism is not identical to corruption, but in analyzing opportunism, this school provides important insights into corruption as well.

Oliver Williamson (1975: 255) defines opportunism as 'self-interest seeking with guile.' In other words an opportunistic seller may try to defraud a buyer, taking his money but either not providing the good, or providing it later than promised, or providing a faulty good or a poor quality service, or misrepresenting the product in some fashion. Opportunism is a major source of the 'transaction costs.' The risk of opportunism makes market exchanges between independent actors more costly, hazardous and difficult, because purchasers may find themselves defrauded by an opportunistic seller.

So what can organizations do to minimize opportunistic behavior? According to transaction-cost theory, when the costs of negotiating, monitoring and enforcing economic exchanges through the market contracts is too high, then actors will instead chose the bureaucratic organizational form and produce the good or service within a hierarchy. In other words, the unpredictability and costs of opportunism of doing business in markets, through buying and selling, leads businesses to prefer to undertake some (but not all) activities 'in house' within the organization.

Thus in contrast to earlier economic theories, the force behind the growth of bureaucratic hierarchy (firms, organizations) is a kind of 'corruption' endemic to markets: opportunism and the costs of avoiding that. This is the complete reverse of the position discussed earlier that associated corruption with bureaucratic organizations and linked virtuous behavior to market transactions. More precisely, we might say that economic activity is plagued by two forms of dysfunction: opportunism in external market transactions and corruption inside organizations.

The rationale that is given for moving activities inside a firm or organization is to avoid transaction costs associated with opportunism. This theory asserts that information within an organization is more accurate and cheaper to obtain than information about other external entities, and that firms can better audit or monitor their inside activities to avoid opportunism and dishonesty (Jones and Hill, 1988; Williamson, 1985; Williamson and Ouchi, 1981). Charles Perrow (1981) has challenged this argument that opportunism can be better kept under control within a hierarchical institution. He claims that opportunism is worse inside firms than outside in the market, because in an organizational context, it is harder to detect cheating, giving jobs for relatives and friends, or illegal collusion between organizational divisions. Granovetter (1985) also argues that internal audits are often arbitrary and subject to political interests.

To sum up, scholars representing the structural approach explain corruption at macro as well as community, small-group or organizational middle-levels. Actors participate in corruption because they are "forced" by social constraints, norms and/or material structural factors. Norms and culture represent the symbolic realm of social life; however there are other more visible and material constrains as well. Here the main emphasis is on the relationship between the individual and collective entities. Several different institutions such as brokerage may exist in order to

reduce transaction costs of corruption. From the organizational studies viewpoint, corruption is the systematic product of collective organizational processes.

Corruption as social exchange: A relational approach

This approach focuses on webs of social relations. The main premise of the relational perspective on corruption is that individuals associate with one another because they profit from their associations (Blau 1964: 12-32). This leads to an interest in sustaining informal exchange relationships that parallel formal organizational and legal structures. In these informal networks, people exchange several different resources, such as material goods, labor, favors or gifts. Although not all of these transactions are corrupt, these pre-existing social networks provide a comfortable, low-cost and secure infrastructure for corrupt exchanges of organizational resources as well (Sík 1994).

Two main corruption models have emerged from the literature of the relational approach: horizontally and vertically structured corrupt networks. The first one focuses on corrupt exchanges when there is a trust-based and intimate relationship among the actors. In the second model corruption happens between unequal actors and power dynamics are important components of exchanges. Moreover a small-segment of the relational literature explains corrupt exchanges with organizational network structures.

Relational models examine illegal activities by focusing on interpersonal connections such as non-monetary forms of exchange, reciprocity, favors and other interactions between corrupt actors at the small group level. However they sometimes, implicitly or explicitly, consider structural factors such as the cultural context and more often small group norms and moral codes in social exchanges. As Befu (1977) noted "no exchange model can operate in a

cultural vacuum". The relational approach is derived from anthropological traditions such as studies of Mauss's (1954), Polányi's (1958: 243-270), Malinowski's (1922), and Lévi-Strauss' (1969) on social exchange and reciprocity.

Similarly to rational-actor models, the relational approach focuses on transactions between corrupt actors, but the relational approach argues that a strictly economic analysis of such exchanges is not sufficient to understand the logic of corruption (Lomnitz 1988). Corrupt transactions, as well as gift giving, do not always require immediate return; thus there is a gap between transfer and counter-transfer and therefore most corrupt practices cannot be characterized strictly as market transactions (Blundo 2008; Davies et. al 2009; Smart 1993). Gift-giving creates gift-debt that has to be repaid in the future (Mauss 1954; Bourdieu 1997; Gouldner 1960). Sometimes one actor starts giving favors and gifts to the other one without requesting anything in return. In the future it will be very hard for the other party who received such favors and gifts to reject a more concrete corrupt offer.

There are also cases when the rewards for corruption are more abstract or even invisible and not received by a particular individual. These cannot be analyzed by the typical economic logic. For example, De Graaf and Huberts (2008) analyzed 10 Dutch corruption cases in depth, looking at confidential criminal files. The authors found that corrupt officials were not simply after personal material gain. In seven of the ten cases there were other important motives for corruption, aside from material gain. In five cases the corrupt actor's main reward was impressing others or achieving higher status in a group. Moreover in two cases officials participated in corruption for love or friendship with external actors. Smith (2007: 79-81) provides another example of nonmonetary rewards from Nigeria where men expected sex from women in exchange for organizational resources such as employment, promotion or business

contracts. The author called this type 'intimate corruption'.

There is also one important difference between the rational-actor and relational approaches: in rational-actor models corrupt exchange happens between only two actors, while the relational approach considers a wider network of participants. Moreover in contrast to economic theories that treat corruption as a pathology, the relational approach suggests that phenomena such as informal personal networks, personal trust, patronage, loyalty, and gift-giving may be complementary and necessary arrangements for maintaining social stability (Shore and Haller 2005). This approach examines face-to-face social relations from a local perspective and such interactions that look like corruption to outside observers might serve crucial social and symbolic functions from the inside or in a local context (Smith 2007: 10).

Horizontal networks

This type is the counterpart to individual economic exchange involving corrupt transactions between socially anonymous partners as discussed in the rational-actor section. Informal relationships such as ties of kin and friendship are especially functional in societies where the formal institutional structure is weak or extremely rigid and unable to deliver a sufficient or steady supply of goods and services (Wolf 1966; Lomnitz and Sheinbaum 2004). Personal social networks that are based on long-term social relationships allow individuals to deal with the imperfections of state or market-dominated socioeconomic systems. Members in these kinds of networks often see their informal acts as just helping a friend or a friend's friend (Ledeneva 1998). Yet these seemingly stable equal exchange relationships are sometimes fragile. When the quality or amount of return diverges from what the recipient expected, the balanced reciprocal exchange may be cancelled or transformed into an economic one.

According to Lomnitz (1988), in response to malfunctioning bureaucracies and inadequate formal institutions, people develop an informal social security system to survive that run underneath and parallel to formal hierarchical relations. These can be found all around the world: they are known as *pull* in America, *blat* in Russia, *compadrazgo* in Latin America, *protexia* in Israel, *palanca* in Mexico, *guanchi* in China, and so on (Lomnitz 1988).

In Latin America, the relationship known as 'compadrazgo' (co-parent or godparent) has become a tool that allows poor social groups to survive physically and lets middle and upper classes maintain their social status and privileges (Lomnitz 1988). For example, using compadrazgo, people in the urban middle class in Chile circulate resources between and within public and private sector organizations (Lomnitz and Sheinbaum 2004). These resources take different forms such as inside information, political support, admission to a good school, jobs and bureaucratic favors such as acquiring certificates, licenses, transcripts of documents, passports, permits, identity cards, tax clearances. There are moral codes regulating compadrazgo relationships (Lomnitz and Sheinbaum 2004). For example, sexual advances as a compensation for a man's favor are strictly taboo in compadrazgo. Another restriction bans reciprocity in cash through informal networks (Lomnitz 1988).

Another adaptation to the inadequacy of formal institutions is *guanxi* – the expanded network of friends in China. *Guanxi* is based on the obligatory norm of reciprocity (Smart and Hsu 2008). A person has to respond to a gift with greater munificence (Yang 1994: 143). Indeed, *guanxi* is an instrumental friendship system. Although several scholars link the *guanxi* practice to corruption, the term is typically understood as more neutral or even positive than corruption (Smart and Hsu 2008). In China small entrepreneurs often have to face police harassment and the banks' refusal to lend capital. Personal trust may facilitate entrepreneurial activities when legal

contracts are hardly enforceable. For example, *guanxi* friends often lend each other money based only on informal agreement or offer each other retail space or introduce potential clients to one another. In such cases *guanxi* functionally replaces legal business contracts (Smart and Hsu 2008).

Similar to *guanxi,* in the former Soviet Union ordinary people used *blat* as a personal network and used informal contacts to obtain goods and services in short supply and to find a way around formal procedures (Ledeneva 1998). Blat was a "survival kit" that helped to reduce uncertainty in conditions of shortage, exigency and perpetual emergency when formal rights were insufficient. Russian people used blat as a special form of barter, a non-monetary exchange because, in the socialist planned economy, money did not function as the main tool of economic transactions. Blat was a way of obtaining consumer products such as tape recorders, color televisions, washing machines or cars, things that were in short supply in the communist economy. In blat relationships "beating the system" and violating the formal rules of the communist state were shared values that integrated blat users.

Vertical networks

Informal networks are dynamic. Although individuals are generally interested in maintaining balanced social exchanges there are also aspirations to establish superiority over others (Blau 1986: 26). A symmetrical, horizontal reciprocity relationship may become unbalanced, for example, when one party becomes superior to the other, and transform into an asymmetrical power relationship (Lomnitz 1982). In this case a family member or a close friend can shift back to being a more inferior acquaintance (Lomnitz and Sheinbaum 2004). When one partner is clearly superior to the other in his or her capacity to grant goods and services, the relationship is

often called a patron-client relationship (Wolf 1966). Although patronage is still a very personal and informal relationship based on the norm of reciprocity, the lower-status individual cannot reciprocate with favors or cash, so he/she has to balance the account with more intangible assets by providing respect, admiration, loyalty, or subordination to the person with superior status (Wolf 1966; Lomnitz 1988; Granovetter 2007; Campbell 1989).

In some cases, entire governmental systems are based on patronage. The official allocation of public resources such as positions, licenses, public procurement decisions and development grants are determined by the widespread patronage systems embedded into the formal administrative structure. In many cases, patron and the client are in the same organization (Jackall 2010: 18-44; Lomnitz 1988). Although there is often a formal hierarchical boss-subordinate relationship between them, beyond this formality the partners may engage in intricate conspiracies when the client does the "dirty work" for his/her boss/patron and in return is rewarded with formal organizational resources, for example by extra bonuses.

Another example of this patronage type of corruption is the already mentioned intimate corruption. In his anthropological study, Smith (2007: 79-81) reports that in Nigeria, where men usually dominate organizational managerial positions, male patrons often provide resources such as employment or promotion to their female subordinates who reciprocate with sexual service.

The relational approach frequently highlights the importance of corruption brokers, middlemen who mediate between corrupt actors. While the NIE literature focuses on the functional roles of neutral corruption brokers who link corrupt actors and can reduce the transaction costs of partner seeking, the relational approach rather focuses on the interpersonal characteristics of brokerage. For example, in patronage networks corruption brokers allow their bosses to distance themselves from the transaction. Here the middleman does the "dirty work"

and allows his/her superior to avoid being involved directly in the exchange (Boissevain 1989; Oldenburg 1987). Blundo and Olivier de Sardan, (2006: 189) provide an example of this kind of brokerage from Nigerien ports. Every corrupt customs officer has two or more ‘customs assistants’ who are responsible for collecting bribe money from smugglers on behalf of their boss. Such brokers prevent the customs officer from directly involving himself in corrupt money exchanges.

Corrupt organizational networks

Some authors study corrupt relation structures in their organizational context. Baker and Faulkner (1993) examined illegal networks involved in price-fixing conspiracies in the heavy electrical equipment industry in the US, where executives acted on behalf of their own organization, rather than for their own personal benefit. The authors found that such illegal networks between organizations do not follow the same underlying efficiency logic of legal business activities, because the need to remain hidden was the most crucial consideration for the conspiracy members. Participants were willing to sacrifice some part of efficient coordination in order to maximize concealment.

Corrupt organizational networks constitute a relatively new and somewhat neglected field in the corruption literature. Such networks are established intentionally by several different formal organizational actors (Nielsen 2003; Cartier-Bresson 1997). They are stable and pervasive formations rather than exceptional independent events. Networks of this type form strong links between political parties and police, judicial and legislative branches of the government.

Corrupt networks also develop special units distinguished by their functions. Using a detailed example of a highly publicized real estate scandal in a downtown district of Budapest,

Jancsics and Javor (2012) identified four major elements and their functions in the corrupt exchange. Corrupt networks need ‘‘cash cows,’’ points from where the resources can be illegally pumped over a long period of time; switchmen who ‘‘turn off’’ internal and external control mechanisms in the organizations from which resources are being taken. They also need points where the corrupt profit is extracted seemingly legally (‘money laundering’). The money is often transferred through several organizations from the ‘cash cow’ to this point. Moreover such entities also use brokers and entrepreneurs connecting and organizing the illicit network element within organizations.

To sum up, the relational approach views corruption in terms of informal reciprocal social networks that serve as infrastructures to exchange different types of often non-material resources. People develop and use these long-term relationship systems to respond to the inadequate, weak or too rigid formal organizational structures. The networks may be based on close social ties or unequal vertical patron-client relationships.

Chapter 4- Petty Corruption Patterns: The Client's Perspective

Scholars often distinguish between two types of corruption: petty and grand corruption. While grand corruption occurs at the highest levels of state institutions and private corporations, petty corruption typically involves low-level officials of state administrations and their clients (Rose-Ackerman 1999: 27-37). In grand corruption, powerful economic or political actors – such as political parties, firms, international agencies and national governments – are able to influence policies and regulations to extract huge amounts of public expenditures for their own benefit (Hellman and Kaufmann 2001; Theobald 2008). In contrast, petty corruption typically involves relatively small sums of money or exchanges of favors between street-level bureaucrats and ordinary citizens.

Empirical studies suggest that since the fall of communism, corruption in Central Eastern Europe (CEE) has permeated all spheres of society (Kotchegura 2004; Holmes 1997; Miller et al. 2001:57-58). Personal experiences of petty corruption are part of an ordinary citizen's everyday life (Karklins 2005: 20). Locals report that extortion by corrupt street-level officials is the most typical form of low-level corruption: ordinary people have to pay a bribe in order to receive a service that ought to be free, or pay to avoid the threat of a punishment or a negative administrative outcome (Miller *et al.* 2001: 83; Sajó 2002).

Most studies of corruption focus on public bureaucracies but not on the common people who are on the client side of corrupt deals. One goal of this chapter is to examine how corruption varies according to social status and the relationship between the client and the corrupt actor. A second goal is to provide a portrait of corruption from the perspective of ordinary citizens who

have to face corruption. These add some new pieces to the puzzle of enduring corruption in the CEE.

Clients are neglected in the Literature

One strand in the literature discusses the client side of low-level corruption, but where investors, entrepreneurs, or managers of firms are the clients rather than ordinary citizens (Lambert-Mogiliansky *et al.* 2007; Han Yoo 2008). The most typical form is so-called “market” or “competitive corruption,” when government contracts and licenses are allocated to the firm that pays the highest bribe (Kingston 2007). Low-level officials exploit their monopoly to collect bribes while they betray the trust of the principal of the organization who cannot monitor the subordinates properly (Banfield 1975; Shleifer and Vishny 1993; Rose-Ackerman 2006). In principal-agent models, an isolated agent’s individual greed and utility-based rationality are seen as responsible for low-level corruption (Rothstein 2011: 99-101).

The systemic approach in the literature focuses on pressures and opportunity structures for corruption within a formal organizational context. This view also examines the role of the “agent” who acts corruptly in a formal structure, but it discounts the importance of the clients who are consumers of illegally sold goods and services.

In contrast to principal-agent and systemic models, the relational approach explicitly considers clients, emphasizing the role that social bonds between the actors play in low-level corrupt practices. The relationship and the degree of social distance between corrupt partners may influence the nature of the informal exchange (Lomintz 1988). If the relationship is horizontal, there is a balance of reciprocity between the agent and the client who trust in each other. According to this model, more trust and a more intimate relationship between two actors

indicate a short social distance and vice versa. The successful repetition of corrupt transactions also increases the partners' trust in each other (Bunker and Cohen 1987; Graeff 2004). When the social distance between the actors increases, the reciprocal relationship may transform into "market exchange" (Lomnitz 1988; Lomnitz and Sheinbaum 2004). Lomnitz calls this phenomenon the "secularization of reciprocity." Direct cash payments and short-term relations are more typical in this market type of corrupt exchange.

Fábrega's (2008) empirical study confirmed that corrupt public officials will accept paybacks other than immediate cash only if there is a long-term relationship between them and their clients. Bribery emerges when the actors are not sufficiently well connected to each other to transform the corrupted exchange into a trade of mutual favors and gifts.

Gerald Mars and Yochanan Altman (1983) drew upon a combination of systemic and relational approaches to analyze the relationship between corruption, the occupational structure, and personal networks. In a case study in the country of Georgia, the authors claim that strong personal networks function to reduce risk in illicit practices. Small and weak networks enable an individual to operate only in a low-risk occupation, such as in low-status shop-floor jobs where the opportunity for illegal benefit is very limited. However a strong and extended network allows people to take bigger risks when combined with prestigious occupations such as professional and executive jobs, for example the head of the local police. These high-status, high-earning, high-risk jobs, supported by influential networks often provide opportunities for corruption. There are also high status and low risk jobs such as physician in which people do not need the safety function of the network to carry out corruption. In much of the CEE, patients routinely bribe physicians and nurses to ensure they receive prompt attention and good treatment (Rivkin-Fish

2005). Here the strictly face-to-face interactions with the clients minimize the chances of detection of bribe-taking.

Analysis and Findings

The data analysis identified two different types of petty corruption, “on-the-spot,” and “bond-based” transactions, and multiple categories or dimensions distinguishing aspects of corrupt transactions. Table 3 and Table 4 present these categories.

In the first, “on-the-spot” transactions, the client and the agent do not have a prior relationship. Here, the corrupt act is the first, and almost always the last, time they meet. The other type is a “bond-based” transaction that is grounded in social ties between the corrupt actors and a higher frequency of interactions. Bond-based corruption often goes beyond dyadic relationships and takes on a network characteristic, involving brokers and other participants.

When corrupt actors meet on the spot, a particular external social setting dominates the relationship. A client is dealing with an agent who has formally-assigned authority and power in the situation. There is also a time constraint: that the deal must be made immediately in that particular place. In contrast to on-the spot cases, in bond-based transactions the clients see their corrupt act as more voluntary and they have more freedom to delay and arrange the appropriate setting for the transaction.

Table 3. Categories and Codes: On-the-spot Corruption

Category	Code
What is Exchanged for What?	Cash for Avoiding Negative Consequences Obtain Benefits Cough Up Cash
Social Distance Matters	Unaffordable Constraint A Way of Life Not My Level Embedded in Impersonal Patterns
Communication Strategies	Mating Dance Ask it Openly Frozen at the Formal Level

Table 4. Categories and Codes: Bond-based Corruption

Category	Code
Structures of Bond-based Relationships	Infrastructure for Illegal Deals Need for a Contact
What is Exchanged for What?	We Have Everything that is Needed Old Acquaintances Symbolic Resources

On-the-spot Corruption

Corruption does not just happen. Being corrupt is an active process, generated and structured by the participants. It requires organizing efforts from those involved. For example, on the spot, actors must have social skills to communicate effectively to make a corrupt deal. It takes a certain degree of savvy and self-confidence. As we will see, some affluent individuals are quite inept at dealing with low-level corrupt bureaucrats and will suffer fines or overlook opportunities because they aren't comfortable negotiating and interacting with low-level people.

"You know, on the street it [corruption] is different. You have to solve it….I mean, on the spot. You cannot call your friend in the office to help you and you cannot make phone calls to find a contact either. You are alone." (working-class respondent)

What is Exchanged for What?

Cash for Avoiding Negative Consequences. When clients have to deal with agents on the spot, they may try to avoid negative consequences, or they may seek some illegal benefits. In the first situation, clients are legally obliged to perform duties, and they try to purchase an exemption from this duty (Offe 2004: 82). My interviewees mentioned the first type when they had to deal with authorities such as traffic police (for speeding). Although this is hardly mentioned in the literature, petty corruption is not found solely in public organizations. In Hungary, many on-the-spot situations happen between citizens and employees of private companies, such as electric and gas meter readers, or parking and ticket inspectors. These corrupt agents use different degrees of threat in order to demand bribes. Here is an example of on-the-spot corruption when the client paid to avoiding a sanction.

"I had an unpaid electric bill, older than 60 days. The guy came from the electricity provider company and told me that he would shut down my electric meter immediately if I could not show him any proof that my bill had been paid. A 'shut down' means a lot of paperwork, an expensive reset of the meter, and at least three days without electricity. I saw that he was a nice man and felt that maybe I could make a deal with him. I gave him 5,000 HUF and asked him to come back in about 30 minutes. He was willing to do it. So, I just ran down to the nearby post office, paid the bill, and showed him [the receipt] when he came back later. I guess I was not the first guy who bribed him to buy some time." (A working-class respondent)

In this example, although the agent was the more powerful actor, the client had the option to choose the legal way and pay his fine. Therefore we cannot say that violators are always forced to pay bribes. However there are other on-the-spot transactions where the actor uses authority to extort from the client. In these cases, the client has to pay for "not distorting true information" (Mishra 2006: 191). Extortion is still the dominant form of petty corruption in many post-communist CEE countries according to various researchers (Miller et al. 2001; Sajó 2002; Karklins 2005).Here is an example where a car mechanic described extortion by parking attendants:

"I would mention this parking thing. In some districts things have gone from bad to worse. If you buy a ticket to park, it does not mean anything. The parking attendants need extra money and [can fine me]even if I have a valid parking ticket. If the money [I offer] is not enough for him, he does not even allow me to bribe him. They have some cheek. And if you ever talked

with a parking attendant you already know that dealing with these guys is not fun. If I say they are not smart that is a wild exaggeration. Can you believe that these assholes can control you?"

Obtain Benefits. Another type of on-the-spot corruption occurs when the client's main goal is not avoiding negative consequences but rather obtaining certain benefits. In these examples of "corruption with theft" the agent steals the goods of his/her organization (Shleifer and Vishny 1992) and the client then buys the "stolen" resources. This corruption reduces the cost of goods or services for the buyer. In the examples I collected, the agent and the client were eager to deal with each other and both were beneficiaries of this corruption. These were win-win situations for both parties.

"I think in Hungary about 60%-70% of adult citizens encounter corruption every day. Frankly, if I want to buy something, for example, when I was building my house, in a hardware store the salesperson told me that without a receipt we "could solve" this deal 40% cheaper…. I surely went for it. Everybody would go for it. It means this price was without sales tax and he could give me the stuff even cheaper. Everybody wins here. All right, not everybody; it may harm the state." (A working-class respondent)

"This story just happened to me today. We were coming back from this rock festival, it was a big crowd. We were in a hurry… so we did not buy a bus ticket at the station but asked the bus driver for a ticket instead. I had to pay him 400 HUF but he did not give me back a receipt. [The driver pocketed the money for himself.]I remember two days ago when we were heading to the festival the bus cost 600 for the same distance. He did this with all of us, meaning 15 people.

So, he earned illegally about 6,000 HUF, immediately. In our group not everybody thought that it was totally all right, but nobody complained. We also saved 200 per ticket [by not buying a regular ticket]. But we did not want to do it. So, what did the driver do with us? He bribed us, not we him. I've never seen a thing like this before." (A young adult middle-class respondent)

Cough Up the Cash. Whatever resource a client wants to obtain, she/he has to provide something in return. According to the literature, in a market-exchange type of corruption the low level of trust and the ad-hoc characteristic of the transaction lead to cash payment between the actors (Lomnitz 1988; Fábrega 2008). My research supports this argument:

"When you are in front of the police…man…you have to cough up cash…severely cash…but once when I did not have enough with me they even escorted me to a nearby ATM machine." (A working-class respondent)

Social Distance Matters

Mark Granovetter (2007) claims that relative social status may be an important factor in corrupt transactions, determining the type of exchange and whether it is defined as corrupt. My results confirm this. However, I found that the actors' unequal status plays a dual role. First, the agent has authority over the client. All of my respondents who participated in on-the-spot petty corruption agreed that the person who pays for the goods or services is placed in an inferior position despite the fact that the client initiated the corrupt deal.

However, there is a broader aspect of social status that is derived from actors' positions in the wider social structure. Although the agent has greater power on the spot, the client may have

a higher social status than the lower-middle-class or working-class agent. This social distance can have several consequences for the corrupt relationship between a client and agent.

While working-class and entrepreneurial respondents often participated in petty corruption on-the-spot, many middle-class and elite interviewees were more reluctant to participate. The following examples show how people with different social backgrounds solved the same instance of street-level corruption, namely dealing with a speeding violation.

Unaffordable. Some clients cannot participate in corruption at all. There is obviously a lower – working-class group whose members are excluded from petty corruption simply because they cannot afford to be corrupt. This does not mean that they are never corrupt; in other situations they can obtain resources for a bribe by gathering, for example, family resources for it. The low-income person who gave me the following example also mentioned that on a different occasion she bought a fake high school diploma because it was necessary to gain a job. However, on-the-spot situations are often beyond low-income people's financial abilities, especially since they rarely carry around much cash.

"Usually I don't have enough money with me to bribe the police. So, there is no risk that I would participate in corruption. They can write me a ticket because I do not have 40,000 HUF in my pocket. Or I can say to him: I have 1,000 can you please release me? (laughing). *You need some capital to solve something like this, which I do not have. Yes you need…*(waving imaginary money sadly)."

Constraint. My working-class respondents reported that they drive a lot. Using cars and vans to commute to different places where they work is a crucial part of their job. It also means that they often have to deal with traffic police. They told me that they are constrained to bribe police in these situations because they cannot afford to pay all the fines or to lose their driving license. A painter told me this:

"You know we travel all around the neighboring towns…we do not work just in Budapest. Especially in the evening I drive the minivan fast because everybody wants to get home rapidly. So every two or three months they [police] *catch us speeding. Thank God so far we were able to get off by bribing them. We pool our money together. It is sometimes one day's salary for two people. It is a little scary now because there is much more severe control over them* [policemen] *by their bosses. So they are reluctant to take the risk and receive bribes. But I have to take the risk because this* [driving license] *is my working tool. I cannot afford not to be corrupt* (laughing)."

A Way of Life. Researchers argue that frequent dealing with officials in the CEE positively correlates with use of contacts, giving presents and bribes in petty corruption (Miller *et al.* 2001: 118). My interviews with Hungarian entrepreneurs confirmed this: Entrepreneurs participate in petty corruption quite frequently. They repeatedly told me that without constantly offering bribes and corruption they could not run their businesses. I also recognized a pattern among entrepreneurs that corruption becomes regarded as a universal tool to solve all problems, almost a philosophy of everyday action.

*"Yes. After a while it is just so natural. For me it is an everyday process. So, it is not like my blood pressure is going up because I have to bribe somebody….. There is 3,000 HUF in my hand and "hello." "Hey Tomikám, please check my car accurately and do not write down everything on the receipt". Understand? It goes like that. I went to an authorized car service place and once I just started to "jatt" [Jatt is a Hungarian slang term (verb and noun) for a tip but also for a small bribe]. Why did I "jatt"? I just felt like it. He did not know either why I gave him "jatt". Now he knows why. I do the same with the police when they stop me. It is like: "Mr. policeman, why don't you buy something nice for your wife with this money?" And it works perfectly."(*An entrepreneur respondent)

Entrepreneurs have more knowledge about petty corruption situations than their working class counterparts. They are confident and pro-active in dealing with low-level authorities. They know when circumstances make it possible to avoid paying a bribe or being extorted. A road construction entrepreneur who very often participates in corrupt deals put it like this:

"*I would say that small entrepreneurs are trained for it [petty corruption] because it is necessary for survival. I just had a case last week. The police stopped me because I was driving in the lane restricted for buses. You know, I am not a chicken in these situations. I told him that my engine had suddenly stopped. That is why I was driving in the bus lane. Frankly, it did not make any sense. He said he would officially report me. I laughed at him: I do not care. Then he released me because he was too idle to start the paperwork. I already saw in his face when he stopped me that he just wanted to squeeze some money from me. I know this face. He made an attempt. That is it. I was too tough for him."(*An entrepreneur respondent)

Not my Level. In contrast to the entrepreneurs and working class interviewees, I found that the middle-class interviewees rarely participated in on-the-spot corruption. They seemed to be unwilling to bribe traffic police, even though they frequently participated in more serious white-collar corruption.

"*I do not care….I won't bribe them. I can easily pay the 100, 000 HUF penalty...and that is it. I will get back this money from somewhere else. If I bribed him* [policeman] *I would lower myself to his level. "* (A middle class respondent)

"I would never bribe anybody on the street. Why?... It is just not my level. Tax evasion, buying fake receipts, concealment of income, this is my level (laughing). No, I am wrong because sometimes we give money to the doctor. When my wife was pregnant, we gave money regularly to the gynecologist. But that is it." (Another middle-class respondent)

"I do not participate in these things [low-level corruption] for moral reasons. But there are the bigger things, where you will settle for less…the stakes are much higher. This is the area of your personal existence and career. And I often say: all right, let's do it. Solve it in an illegal way. I do not say: give me money. I just say, solve it somehow." (A middle-class respondent)

Embedded in Impersonal Patterns. My respondents in the elite never dealt directly with low-level officials in street-level petty corruption. They often simply paid the penalties. I also

recognized impersonal patterns embedded into the formal structures that make elite members immune from the consequences of low-level rule violations.

"In Hungary only undersecretaries or higher level guys are eligible for private use of state cars, usually with a chauffeur. But I went on all my private trips with a state car but no driver, of course…. I remember when I first saw they [the police] took a picture of my speeding car. I was speeding and I was waiting for the speeding ticket to arrive in a letter. You know, I saw the camera's flash. After six months I realized that I would never get that ticket because it was a state car. It does not matter who drove it. OK, I thought: that is fine. Then I had this other story. I went home with the state car, too fast I guess, and the police stopped me. He asked for my driving license and just started messing with me. You know the usual shit. But when I gave him the car's registration book and he saw that it was a state car, he suddenly froze. Then just: 'thank you and have a good trip' and just released me. Because there was a stamp in the book: The Ministry of the Interior." (An elite respondent)

Here is another example how powerful formal settings can guarantee impersonality for top executives in low-level rule violations. The CEO of a Hungarian subsidiary of a huge multinational company put it this way:

"You know our executives like to drive fast. We have speeding cases almost every month. Recently we had to give a statement to the police about the identification of the driver. It is a new regulation. And we just say that it was Sergey the company's Russian guest or something like this. And the company pays the bill. There is no personal responsibility at all. Nobody will lose

his driving license because he collected 15 tickets a year. It is a kind of fringe benefit here." (An elite respondent)

Communication Strategies

On-the-spot corruption has a distinctive feature: The participants have to initiate a corrupt transaction with a partner whom they do not know. This is quite different from bond-based cases when the partners have a longer relationship and trust each other or the illegal deal is already arranged by corruption brokers. On the spot they must use effective communication to start a negotiation because, very often, there is a time constraint in such deals. They also have to recognize the signs, gestures, and language of the agent that may indicate his/her willingness to be corrupted. This requires special social skills. Based on the respondents' social background, different communication strategies emerged from the interviews.

Mating Dance. Working-class interviewees told me that they are usually cautious about asking the other side directly about corruption. They leave room for maneuver just in case the agent is not willing to be corrupt.

"Corruption is a mating dance….You have to play the nice guy to the lady but both of you know what will really be the end of this….But you also have to be prepared if she rejects you. So, do not reveal too much. This is the art of corruption." (A working-class respondent)

They also emphasized the importance of meta-communication:

"I looked into his eyes, very suggestively…and I saw in his eyes that he would be OK. I saw, I knew that he would accept the money." (A working-class respondent)

"After one sentence I know if we are speaking the same language or not. I do not know why…the gestures, the words the other one uses. The language is important. You can know if your partner did this before…and it is not just the language, it is the invisible link between two people. Sooner or later you will feel it. It is like a man and a woman meet in a bar…and your instinct tells you that now it is possible.... maybe…." (A working-class respondent)

Ask it Openly. Entrepreneurs move comfortably in the world of petty corruption. They know the structure of corrupt situations and how to communicate in such situations very well. My entrepreneur respondents initiated corrupt transactions boldly:

*"I always ask for it. You have to know how to ask, but you can ask it openly."(*An entrepreneur respondent)

Frozen at the Formal Level. Neither middle-class nor elite interviewees seemed to be eager to participate in low-level, on-the-spot corruption. When they had to deal with street-level authorities, they used formal language because they wanted to maintain their status or social distance. They told me that the other side was also often suspicious about them because the agent detected the social distance between them and decided that possible corruption would be very risky. Low-level officials noticed that their middle-class clients spoke differently, had nice clothes, and seemed well-educated. All of these signs made the officials ambivalent about

attempting corruption. In some cases, the officials started to use an overly formalized language, trying to emphasize their authority, while their clients with higher social status also tried to keep social distance and show their social superiority. In these cases, transactions became frozen at the most formal kind of interaction, because neither partner allowed any informality. Middle class clients could not change the rules of relevance of their relationship with the agent on the spot. Therefore they often chose the legal way.

Both sides play the generally accepted role of an agent and a client, the most typical framework regarded appropriate and relevant in a given situation (Allan 1979: 16), as in the following example:

"We play that he is the serious official and I am the polite client. We both know that probably my monthly salary is close to what he earns in a year. Anyway I do not want to lower myself to his level. So I remain a polite, but firm, client."(A middle-class respondent)

"I think if I tried to bribe her [an official] I would just speak to her in a way that makes her feel I am different. It probably would not work because she fears me." (A middle-class respondent.)

Keeping the business formal may also provide opportunity for middle class clients to complain effectively about ill treatment and extortion attempts by the agent:

"It is very interesting because I think I could not bribe anybody in that office [department of local government]. *For sure, the official would feel: 'I am not messing with this guy because*

he has tools to put me on the spot.' Because I can bring the case to higher forums…to the supervisor…or I can call my lawyer. I can do all these things. On the other hand, if I participate in corruption I cannot go on these legal ways anymore…because I got dirty, too."

Bond-based Corruption

CEE countries have network-oriented cultures that provide a low-cost infrastructure for ordinary citizens to organize informal and often illegal transactions (Sík and Wellman 1999; Böröcz 2000). Miller and coauthors (2001: 122) found that in CEE, on average, two-thirds of their respondents had not known anyone in the office when they dealt with low-level officials. However, "knowing someone else in the office" significantly increased their chances of using contacts, small presents, and bribes. Prior, repeated non-corrupt legal exchanges may establish stronger relationships and mutual trust between the actors, and these bonds can be the basis of future corrupt relations (Lambsdorff *et al.* 2004; Lambsdorff and Teksoz 2004).

My interviewees gave me numerous examples where corruption was based on a previous relationship between the actors. Contrary to on-the-spot situations where the immediate formal authority of the agent dominates the relationship, bond-based corrupt transactions are rather social relationships that the participants enter into purposefully and voluntarily. The client also often has opportunity of control some parts of the corrupt situation such as date, time, place, or regularity of the deal. Sometimes brokers mediate between the agent and the client, which may also reduce the risk for the client to participate in bond-based transactions. Two different types of bond-based corruption emerged in my interviews. In the first type, an already-established connection was used as infrastructure for future corrupt transactions. The second type occurs when the client needs some resources. However, since he/she does not have direct contact to the

agent, the only way to obtain such resources is to find somebody who can reach out on their behalf.

Structures of Bond-based Relationships

Infrastructure for Illegal Deals. A successful previous corrupt transaction or originally legal relationship can be transformed into a stronger bond-based corrupt relationship. For example, policemen, customs officials, or bus drivers who are regularly assigned to the same place, had more options to meet with the same people and develop a bond with them. My interviews suggested that small local governments in suburban districts of Budapest are also places where local community members have a higher chance of meeting the same officials again. A working-class respondent explained:

> *"I think if you are a returning guest or customer somewhere, sooner or later you will ask [for a corrupt deal]. You know, just ask if you can do it in a "smarter" way. Nobody is the enemy of his money [an idiom for 'no one pays more than he has to']."*

If the infrastructure is used for corrupt transactions regularly, the corrupt relation may become institutionalized: the partners create standard frameworks of the transaction, such as regular prices or times and places of meetings. Both parties are interested in this standardization because it reduces uncertainty and decreases the transaction costs of repeating negotiations and arrangements (Lambsdorff 2002; Lambsdorff and Teksoz 2004). When stable and repetitive patterns of illegal activity emerge, the phenomenon becomes part of the actors' normal everyday

lives (Ashfort and Anand 2003). Participants here more explicitly formulate the rules of transactions and construct the corrupt relationship.

"I agreed with the nurse of my doctor that she can do my blood work in the doctors' office. So, I do not have to go upstairs and wait an hour in front of the laboratory. I always leave her 500 HUF and she knows this. This was the standard price in our little established business." (A working-class respondent)

However, bond-based corruption can also be institutionalized when the client tries to avoid negative consequences or extortion. A small shop owner told me this story:

"My shop is in downtown Budapest. So, if I want to go by car I have to put a fortune in the parking meter…and run from the shop to put more money in, every two hours. After I had collected some tickets in the first two months I thought I should do something. I got to know the parking attendants. Once I asked one of them: what if I pay an amount each day to their pocket and they just turn a blind eye to the relation between the parking meter and my car?. And I was shocked because the guy routinely responded: OK, this would be 3,000 HUF a week. It sounded like an official tariff. That was two years ago, now I pay them 16,000 a month. Yes, they raised the price a little, but I can park anywhere around the shop. They know my car. And there was another thing. About a year ago new parking attendants appeared which made me nervous. But they soon assured me that they had known about my little deal with the former guys. They said the parking company had started to rotate them because of corruption. Of course these guys did not want to give up their business. They created a list, and the phone numbers, of people and

small shop owners who bribe them and they shared these lists. So, if they are ordered to another neighborhood, based on the list, they know from whom they should collect the money. They work like a small illegal company within the big company." (An entrepreneur respondent.)

Need for a Contact. In some cases when the client did not have a direct relationship with the agent the client had to find an actor who could provide them. Typically this required several mediators (brokers). The client had to activate his own network and ask acquaintances, friends, and family members. In these cases, corruption brokers mediate between the agent and the client which also reduces the risk for the client to participate in bond-based deals.

"OK. I'm not a corrupt guy but I can solve some difficulties...actually I have to. If my old car has to go through the yearly inspection test, I just call some friends and they find me a corrupt car inspection service. Let's say there is a crack on the windshield. An average guy like me is struggling with money problems. A new windshield is 20,000 HUF and we are not even talking about the worn tires and brake shoes. If I bribe the guy to pass my car through the inspection, that costs only 8,000. I need the car every day to get to work. What will all poor men do? Just bribe the inspection staff. But you need somebody because you cannot just walk in. That is not because I do not dare to ask, but it takes too long a time to find the person to whom the bribe should be paid. So you could easily go to the wrong person. You have to know the source and the exact amount." (A working-class respondent)

The interviewee, I quoted above, gave me another example of a bond-based corruption experience. She was unemployed and sought a shop assistant job at an international chain of

newspaper stores, but the employer required all applicants to have at least a high school diploma. Since the woman had only an elementary education, she activated her social network:

"I asked a few people. I wanted a high school diploma with a commercial qualification. One contact was through my sister and other one was a former colleague. Both could have got me a diploma but the second one was too hungry and wanted too much. So finally my sister's acquaintance brought it to me. I did not meet with the guy who actually sold it. I gave my sister's friend my personal data and the money. I trusted him." (A working-class respondent)

What is Exchanged for What?

In their study, De Graaf and Huberts (2008) found that next to material gains, the most important motive for officials to become corrupt was a combination of achieving status and impressing others, and in some cases love or friendship were also among the motives. Although the likelihood that the actors might meet again and the stronger social ties between them would make payments other than cash possible, my interviewees said that a cash bribe is still the dominant form of payment in bond-based transactions.

"They need only my cash, man,…nothing else. And this is what I bring them." (A working-class respondent)

We Have Everything that is Needed. Middle-class and elite members often do not need the illicit resources that can be offered at lowest levels of organizations.

"Yes, I heard that it is possible to buy a fake college degree. But this is what we [middle class] never do. Because we have eight college diplomas. Therefore, we have everything that is needed." (A middle-class respondent)

"No no no [laughing] *I do not have to bribe those car inspection guys. Do you know why? Because I usually sell my cars before they would need a technical test…and just buy a new one."* (An elite respondent)

Old Acquaintances. In other cases, when higher-status clients want to solve problems at lower levels, they often simply use their social contacts in the middle or higher levels of organizational hierarchies. Then the contact person handles the cases within the organizational hierarchy using their authority or informal contacts. These are typically reciprocal exchanges when favors, rather than cash, are exchanged.

"There was this parking hysteria a few years ago. I had an apartment in Kertész street...you know where...next block to the Academy of Music. My little son lived there. He sometimes went home in the morning when these parking guys already had given him a ticket. The car was registered in another district, so parking was not free there. He suddenly accumulated a 330000 HUF penalty. By luck, the head of the parking company was an old acquaintance…and I said it was too much money to pay …I called up this guy and he said: 'come on in my office but bring your boy too.' He [the acquaintance] was dressing my son down…as it should have been…like a good colleague. Then he just typed his code and pushed

Enter. And that is it, the record was deleted. And he still hesitated to take the whisky." (A middle-class respondent)

"I have never tried to solve things in this way because when I had to go to the local government in our district everybody knew my mother. She and the deputy mayor were classmates at college. I did not even know. But everything went so smoothly and quickly when, for example, I wanted a new ID." (A middle class respondent)

"Listen, I cannot get a good electrician, but an average working-class guy can hardly get a good doctor, a specialist. It is not a big deal for me because my father is a doctor. So, little people have to pay gratuities to get a doctor. They even have to wait two months for a special examination. For me, my father just calls one of his old classmates and I nip in the same afternoon."(A middle class respondent)

Symbolic Resources. Bourdieu (1997) claims that a gift-giver can accumulate symbolic capital in return, such as recognition, honor, prestige, or nobility. I collected this interesting example from a doorman and locker room inspector in a Turkish steam bath. He was an agent who obtained symbolic capital from clients in return for short cuts. In this case, the agent was in a subordinate position to the clients, because of the social status differences.

"Some days the pool is crowded with pensioners and tourists and the guests need line numbers and have to wait one or two hours to get in the pool. I let some habitués into the bath immediately and for free. In return these guests give me generous tips. I have known them for

years. They are wealthy businessmen and entrepreneurs. These guys drive very expensive sports cars and come to the bath in the middle of the day when everybody else works in an office. Knowing these people and talking with them like friends gives me a very high prestige among other staff members in the bath. They really envy me."(A working-class respondent)

Conclusion

This chapter has explored the role of clients in petty corruption in post-communist Hungary through the unusual strategy of conducting in-depth interviews with actors who actively participated in corruption. Much of the past literature on corruption has collected data in a very indirect fashion, either drawing on press reports or using surveys and reputational measures. Scholars have assumed that because corruption is illicit, that they cannot study it in a more direct fashion. In contrast, I found that in a country where corruption is widespread, people of varied social statuses are willing to provide details about their experiences with corruption, and these provide rich data for research and analyses of corruption.

My interviewees described two different types of petty corruption. When the actors meet on the spot, clients have to adapt very quickly to circumstances such as the already given time and a place as well as the immediate formal authority of the agent. This kind of corruption is frequently coercive and involves extortion. Sometimes, however, it is the client who takes the initiative to gain some bureaucratic purpose or to reduce the cost of a transaction by offering a bribe to an official.

A contrasting type, bond-based corruption, is built upon already existing relationships and networks. In this case, clients usually see their corrupt act as voluntary and they also have considerable freedom to structure the transaction.

Tables 5 and 6 summarize my observations about role of the clients with different social backgrounds in petty corruption. The most noteworthy finding is that different social classes are affected by and experience corruption in quite different ways. Variation in social distance in petty corruption, measured by social class differences between clients and agents, affects the strategies that clients use to deal with street-level agents. There are significant differences in petty corruption patterns depending upon the circumstances of the relationship and depending on the client's social background.

Table 5. The Role of the Clients with Different Social Backgrounds in On-the–spot Transactions

	Lower-Working Class	**Working Class**	**Entrepreneurs**	**Middle-class**	**Elite**
Participation in on-the-spot transactions	Cannot afford to participate Use legal ways	Feel constrained to participate	Confidently and pro-actively participate Corruption can be a 'way of life'	Rarely participate Use legal ways	Never participate Use legal ways Enjoy impersonal immunity from negative sanctions
Communication strategy	Formal communication	Cautiously initiate Meta-communication is important	Boldly initiate Dominate the communication	Formal communication Play the socially accepted role	Formal communicatio

Table 6. The Role of the Clients with Different Social Backgrounds in Bond-based Transactions

	Lower-Working Class	Working Class	Entrepreneurs	Middle-class	Elite
Participation in bond- based transactions	Try to find a contact	Try to find a contact Regular transactions become institutionalized	Try to find a contact Regular transactions become institutionalized	Do not need resources offered at low levels Reach higher levels of the hierarchy through informal networks	Do not need resources offered at low levels Reach higher levels of the hierarchy through informal networks

According to Lomnitz (1998) the social distance between corrupt actors has an impact on the form of corrupt exchange: greater social distance tends to produce cash-based "market type" exchange, while in the context of shorter social distance reciprocal exchange between the actors tends to predominate. My research supports Lomnitz's argument about on-the-spot situations when the actors do not know each other. However I found that cash bribes still remain the dominant payment method even in bond-based cases. Although here the relationship is built on stronger social ties, many clients cannot provide valuable resources other than cash to the agent.

I document one case when higher-status clients provided symbolic resources to the agent, rather than cash.

While working-class respondents and entrepreneurs, even if they use intermediaries, make corrupt deals with agents at the lowest level of organizations, middle class and elite members in Hungary tend to avoid making direct corrupt deals with low-level agents. They prefer to follow legal methods in on-the-spot situations, even if there is a certain loss in doing so, such as paying an unfair fine. However, having followed the legal path, using bond-based transactions, clients with higher status will often transfer the case to their arena of influence, the higher levels of organizational hierarchies where they can deploy their social capital, and use their middle-class and elite contacts to gain their desired ends. Here, we find reciprocal exchanges between the client and their intermediaries who then handle the low-level case within the organizational hierarchical settings. In other words, although middle class and elite members may seem (like lower-SES individuals) to be victimized by corrupt lower-level officials, they can often mobilize their networks of influence to undo or reverse any harm that has been done to them. Thus they stay 'clean' in on-the-spot encounters with corrupt officials but use a different kind of corrupt influence higher up organizations to reverse any costs of staying clean.

Although these findings about class-based differences in how petty corruption plays itself out were obtained from research in Hungary, it is my belief that the types of petty corruption and mechanisms that I have described are likely to be present to varying degrees in other countries and cultures. Hopefully, other researchers will attempt similar data collection in additional countries.

Chapter 5- “A Friend Gave Me a Phone Number” – Brokerage in Low-level Corruption

This chapter focuses on a special type of low-level corruption in Hungary: brokered corrupt exchanges, where there is a third party acting as a middle man in setting up or carrying out a corrupt exchange. This stands in contrast to the predominant principal-agent model (Lambert-Mogiliansky *et al.* 2007; Banfield 1975; Schleifer and Vishny 1993; Rose-Ackerman 2006) which treats corruption as an illegal transaction between two actors: an agent and a client. While some corruption scholars have recognized the role of a middleman in corrupt exchanges, there are crucial gaps in scholarship concerning corruption brokers. Most of these studies focus only on the functional explanation of such practices and do not analyze the micro-level mechanisms in actual corrupt exchanges. They suggest that the main function of corruption brokers is to reduce transaction costs and risks for the corrupt participants. In this view, brokers are nonpartisan actors, entrepreneurs who negotiate between separate parties for material profit (a commission). These corruption studies do not differentiate between low level and high level corruption and do not consider the status and the group affiliation of the actors. The corruption literature on brokerage also largely overlooks important ideas developed by social network scholars who have a long history studying brokerage.

This chapter is distinctive in the sense that it brings together brokerage concepts from the anthropological and social network literature in the examination of low level brokered corrupt exchanges in contemporary Hungary. Using data from a qualitative field research conducted in Hungary, this chapter attempts to develop a more systematic explanation of corruption brokers in low level corruption. The two research main questions we address are: What are the main

exchange forms through which resources are transferred between a client, a broker and an agent? What are the main mechanisms through which resources are brokered?

This chapter focuses on low-level or petty corruption when the resources exchanged by the actors are found at lower organizational levels. Thus the agent is a low-level employee or "street level bureaucrat" (one who deals with the public). The clients who seek to obtain such resources are typically working-class or middle-class persons or small entrepreneurs. These types of corrupt transactions usually do not involve the elite members of a society; their corruption looks different and is not covered in this chapter.

Analysis and Findings

In this chapter I consider only those petty corruption cases where the agent is located in the lower layers of the formal organization and the transaction involves resources available at those lowest organizational levels. This chapter also focuses only on corruption brokers who are individuals. Although I found that some formal organizations have corruption brokerage functions in inter-organizational networks, that latter type of brokerage is more typical in higher level corruption, therefore I excluded these cases from my present analysis.

The qualitative methodology I used here did not allow me to undertake a quantitative structural analysis of corrupt networks and brokerage; however it revealed important micro-level exchange mechanisms and qualitative elements of corrupt brokered exchanges managed through brokers. Since my data does not allow me the analysis of a whole social network, I focus on the most basic form of brokerage, triads. My data analysis identified five different types of corruption brokerage: *(1) representative corruption brokerage, (2) entrepreneurial corruption*

brokerage, (3) gatekeeper corruption brokerage; (4) extra service corruption brokerage; and (5) multiple insider brokerage.

Brokerage in the Literature

Brokerage typically involves the flow or exchange of valued resources from one actor to another via an intermediary (Gould and Fernandez 1989; Stovel *et al.* 2011). Any brokered relation requires at least three actors, a sender and a receiver who are the parties of the transaction and one, the broker who is between them. The brokerage literature emphasizes the fact that brokers usually extract profit or 'commissions' from the transaction, however the extracted resources do not need to be cash (Mardsen 1982: 206; Boissevain 1974: 147-157).

Georg Simmel's (1950: 135-169) seminal early work about the role of dyadic and triadic relations in a society has had a long lasting influence on the brokerage literature. In the 1960s and 1970s, mainly anthropologists studied brokers, and viewed them as actors who have an important role connecting different levels of a society, typically local communities with larger formal systems or the national level (Adams 1970; Wolf 1956; Boissevain 1968; Silverman 1967; Bailey 1959: 59). The more contemporary structural view of brokerage is based on the concept that social life is riddled with gaps and holes that obstruct the free flow of information and other resources (Stovel *et al.* 2011). Such social network scholars typically deploy a quantitative apparatus and mathematical tools to analyze network structures.

My reading of the brokerage literature suggested six structurally distinctive models, although they were not always explicitly discussed and differentiated. The subsequent data analyses allowed me to refine some of these types and adapt and apply them to a corrupt

environment. In the following section I review the 6 main brokerage types that can be found in the contemporary literature. Finally I depict the corruption literature on brokerage.

Brokerage in anthropology and social network analysis

The entrepreneur is probably the most often example referred to in the brokerage literature, although authors use different labels for it. An entrepreneur broker is somewhat similar to Simmel's (1950: 154) *tertius gaudens,* the third party who benefits from the situation because s/he is the only connection between actors who do not know each other. Entrepreneur brokerage is equivalent to Gould and Fernandez's (1989) *liaison type*. Here the broker links distinct groups without having any prior affiliation with either. According to Jeremy Boissevain (1968; 1974: 147-157) brokers are a special kind of entrepreneur in the sense that they do not own or control resources, thus they have to manipulate strategic contacts with other people who control the resources directly.

In Ronald Burt's (1992) *structural hole* concept, brokers are also entrepreneurs in the "literal sense of the word" (Burt 1992: 34; Burt 1998). They generate profit from being between others and coordinating others' activity (Burt 1992: 23). Burt argued that "nonredundant contacts" - people who give you access to networks you aren't already part of - are especially beneficial individuals in social networks. Structural holes provide two types of benefits that may be converted into profit for an entrepreneur broker. First, structural holes generate information benefits. Burt (2004) argues that the brokers' structural position provides them earlier access to new information and the opportunity to be the first person to spread and translate this information across groups. Second, another benefit emerges from the broker's ability to control the circulation of information or other resources between the actors (Burt 1992: 30; Burt 1998).

Peter Mardsen (1982: 206) argues that peripheral actors with limited access to other actors or resources have little alternative but to exchange with an entrepreneur broker. According to Mardsen, actors try to economize on brokerage costs and use the shortest transaction routes available to them. If a direct connection is not available, they will prefer an indirect connection via single intermediary. If more than one broker is needed, they will use an indirect connection involving only 2 brokers, and so forth.

In contrast to entrepreneurs, when the broker is nonpartisan and stands outside the groups that he or she brings into contact, 'multiple insider brokers' are people who are simultaneously members of two different groups that they link. This type of brokerage may be beneficial for both groups, but theirs is a very fragile relationship.

Vedres and Stark (2010) called this type of relationship 'structural folds' when overlapping organizational membership provides an opportunity for certain actors to generate innovative ideas. According to the authors, structural folds are therefore points of creative tension and innovation. However, they also found that inter-group cohesion is negatively correlated with internal group stability, because members other than the brokers are suspicious that they are exploited or manipulated by the other group; that 'their' broker is not successfully representing their side's interests. Consequently, groups with more structural folds are more likely to break up, these authors argue.

Other authors similarly recognized the unstable nature of a person having multiple group affiliations. For example, Simmel (1964: 142; 1950: 150-151) mentioned a tragic version of this type when the broker is deeply engaged emotionally with two conflicting parties. One example is when marriages occur and where spouses belong to different conflicting families or clans. These may be sources of great conflict. Stovel, Golub, and Milgrom (2011) provide a social

pathological explanation of the instability of multiple insider brokerage. Actors who occupy two or more roles have to face ongoing role conflicts, and the groups may also pressure their members to split with the other group or abandon the other role.

Gould and Fernandez (1989) described a 'coordinator brokerage' type as a relationship when all actors or parties belong to the same group and where brokerage is entirely internal to the group.

Among early anthropologists, Elizabeth Bott (1971: 139-143) provided a description of brokers with coordinator roles. She examined family networks and found that *connecting relatives* coordinated and controlled the flow of activities and relationships between other kin members. Connecting relatives were often responsible for maintaining family social relationships within the larger kinship group, relationships that would not be sustained otherwise. Sometimes they helped to bring family members together but there were other cases when these brokers prevented other members from seeing each other.

Henning Hillman (2008) analyzed horizontal network relations in Revolutionary Vermont where actors mediated within factions they belonged to. Hillman also called these brokers 'coordinators' who strengthen internal solidarity through their indirect relationships among otherwise unconnected members of local communities.

In Gould and Fernandez's (1989) typology, representative brokers are fellow group members who establish contact with a non-group member. In this case, the group delegates to one of its members the task of communicating and negotiating with an outsider.

Granovetter's (1973) *weak ties* concept is structurally similar to representative brokerage. He argued that people connected with weak ties do not spend much time together and their relationship is not intense emotionally. However through weak ties (or representative brokers)

local members of cohesive groups can reach circles different from their own and thus obtain access to information and ideas different from those can be found it their cluster. Weak ties are important resources providing mobility opportunities to people, for example, job information. Communities with many representative brokers (weak ties) who link them to different clusters are also more successful.

The anthropologist, Richard Adamas (1970) examined brokers in Guatemala who linked local and national levels of the society. Brokers such as school teachers and political party agents were the representatives of the national system but supposed to act at the local level.

Another interesting representative brokerage type in the literature is language brokerage (Morales and Hanson 2005). In immigrant families in the US, children who become familiar with the English language often act as the representatives, translators and interpreters for their non-fluent parents and their extended family. These children serve as mediators in situations from paying utility bills, banking, to making doctor's appointments and visiting hospitals.

There are two addition types discussed by Gould and Fernandez (1989); however they are not referred in other studies. A *Gatekeeper* brokerage is when a member of one party approaches someone in a rival party through an intermediary who belongs the rival group. Here the broker acts as a gatekeeper for his/her own group and must decide if s/he is willing to link the two parties or mediate between them. A variant where two actors belong to the same group and the broker is an outsider is called *cosmopolitan* or itinerant brokerage.

Corruption brokers in the neo-institutionalist literature

Although corruption researchers do not consider the brokerage models reviewed above explicitly, it seems that corruption brokers fall in two categories of the previous literature. Some

act as entrepreneur or a special form of representative brokers. Most researchers view corruption brokers as entrepreneurs, as nonpartisan *middlemen* who work for their own profit and serve as the only link between otherwise unconnected actors. In other studies we can find representative corruption brokers who are delegated by their group.

Corruption scholars do not usually differentiate between low level and high level corruption. They mainly focus on the functional aspects brokerage and try to identify the main roles of brokers in corrupt deals.

The New Institutional Economics school argues that transaction costs involved in doing corrupt business are typically much higher than in legal deals. Searching for partners, determining "contract" conditions, and enforcing contract terms are especially costly in corrupt exchanges, therefore actors often use middlemen to reduce these transactions costs (Lambsdorff 2007: 136). The costs are higher because corrupt actors often do not trust in each other but cannot enforce corrupt agreements by legal ways. Therefore they have to use other tools to enforce a corrupt deal. A middleman with a good reputation for reliability can serve as guarantor of a corrupt deal, reducing the risks of reciprocal mistrust in the negotiations (della Porta and Vanucci 1999: 156; Lambsdorff 2007: 150).

Since corrupt actors cannot advertise their services in a public way, and since searching openly for corrupt partners is risky, middlemen can also help in identifying and involving corrupt partners (Lambsdorff 2007: 53, 140). Well-connected brokers can also reduce the "search costs" for other confidential information about, for example, future tenders, possible competitors and their bids or bribable officials (della Porta and Vanucci 1999: 173).

In some studies of corruption, brokers are viewed as representatives, delegated by their group/organization. However in most cases these delegates are subordinates of their higher status

group members. This type of corruption brokerage is similar to patronage relations mainly discussed in the anthropological and political science literature (Boissevain 1989).

Oldenburg (1987) distinguished insider middlemen (representatives) who are members of the hierarchical structures and outsider ones who are not affiliated with organizations. The latter are individual entrepreneurs.

In some cases the middlemen is the "fall guy" or scapegoat when things turn wrong (Lambsdorff 2007: 160); the firewall to absorb the risks that otherwise would harm their client, who may be their boss. In the eventuality of a police investigation, the broker will keep silent about the identity of the other corrupt actors and reduce their exposure (della Porta and Vanucci 1999: 158)

Corruption brokers also allow their bosses to distance themselves from the transaction (della Porta and Vanucci 1999: 156). Here the middleman does the "dirty work" and allows his/her superior to avoid being involved directly in the exchange (Oldenburg 1987). Blundo (2006: 188-189) and coauthors mentioned examples from African countries where corrupt custom officers in ports, who do not want to be exposed, use brokers to collect money from smugglers.

Companies may delegate the "dirty work" to local agents in order to remain clean but they may also do this because they do not have local knowledge (Lambsdorff 2007: 184) John Bray (2004) provides examples to illustrate the relationship between multinational companies and local brokers. International firms entering into local economies often use domestic intermediaries who may help the company to save time, resources and efforts (transaction costs) to get to know the market. Foreign managers, not familiar with the local practices, may not know when and who should be bribed or how much bribe money should be paid. So they turn to local

brokers. Said K. Aburish (1985) also described how Western companies use well connected Arab intermediaries with wide knowledge about the local culture to help win contracts in the Middle East.

Analysis and Findings

In Hungary, I found that brokers are quite common in low level corruption situations; they link ordinary citizens to officialdom. In this way they show some similarities with the models of some early anthropologists who recognized social brokers bridging the gap between the local communities and the world of formal institutions (Bailey 1959: 59; Wolf 1956). The interviews confirmed that these middlemen are in one sense amateur brokers: facilitating corrupt deals is not their primary activity or main occupation. They typically have a normal job and just occasionally participate in such corrupt exchanges. I found examples where the client sought to obtain some extra illegal benefits, by using a broker, but in other cases they tried to avoid negative consequences, for example deleting a speed violation record from the police's data base. Although it is possible that in many cases the agent tries to sell the organizational resources he/she controls and looks for potential buyer clients, most of the cases I collected represent corruption markets dominated by the demand of the clients. Here clients tried to find a seller agent through brokerage.

Two major ways to categorize low level corruption brokerage practices were first, according to the form of the exchange and second according to the mechanisms which through the broker managed the transaction. These two categories imply different group affiliation structures among corrupt actors.

One of the main questions of this chapter is what the form of the exchange is between the client, the broker and the agent. The anthropological and social exchange literature distinguishes market type and reciprocal exchanges. In my interviews I encountered both types. Market type exchange is a *balanced reciprocity* when there is a precise balance and an equivalent return without delay (Sahlins 1965). One actor pays a certain price and receives something specific in return. By contrast, reciprocal exchanges are based on unilateral giving and receiving: where an actor does a favor not knowing exactly what they will receive at a later date. The actor who gives something expects to be get something good in return, but what exactly and when is not spelled out.

Market type exchanges are similar to a phenomenon called *negotiated exchanges* in the social exchange literature. They are transactions where actors agree about the amount and the price of the exchanged resource as well as the rules and the timing of the exchange process (Cropanzano and Mitchell, 2005; Molm, Peterson, and Takahashi, 1999). When actors do not know each other very well and there is considerable social distance or a low level of trust between them, this gives rise to what is called the "secularization of reciprocity" and leads to a market type exchange based on cash (Lomnitz 1988).

Two different mechanisms emerged from the interviews about the role of the broker or how the broker facilitated a deal. In the first type, the broker connected the client with the agent by introducing them to each other, but then stepped aside. By contrast, in the second type the broker controlled the transaction throughout and remained the only link between the otherwise unconnected actors. These types were also referred in the literature. Stovel, Golub, and Milgrom (2011) called the first type *catalyst brokerage* and the latter one, *middlemen brokerage.* Burt (1992 pp 19) also claimed that two people are structurally equivalent if they have the same

contacts. They lead to the same sources of information. In several cases when a broker introduces a "protégé" to other contacts he/she makes the protégé structurally equivalent. This implies that social capital is shared between them and both become brokers (Dekker 2006).

In my empirical work, I encountered five types in the qualitative data: (1) representative corruption brokerage, (2) entrepreneurial corruption brokerage, (3) gatekeeper corruption brokerage; and (4) extra service corruption brokerage; and (5) multiple insider brokerage. These reveal distinctive corruption brokerage patterns in low level corruption in contemporary Hungary. In the first four types the clients and the brokers had rather lower SES while in multiple insider brokerage, I found middle class clients and brokers. Now I will provide descriptive material and quotes about each type.

Representative Corruption Brokerage

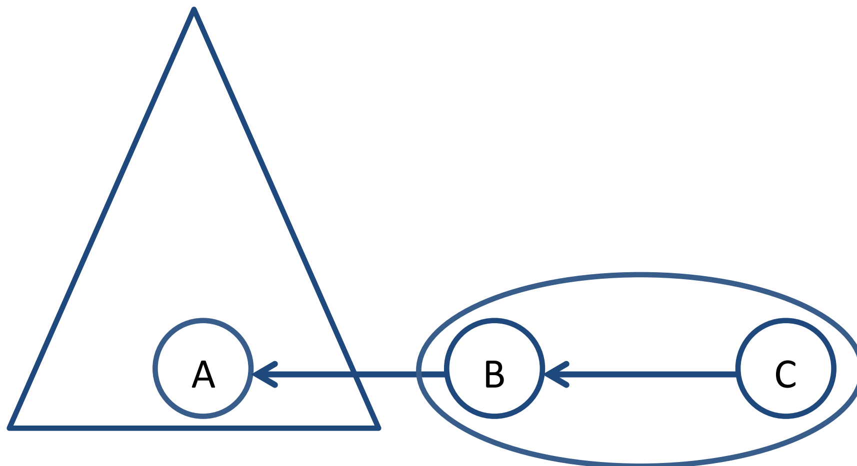
As Gould and Fernandez's (1989) noted representative brokers are fellow group members who establish contact with outsiders. Figure 1 shows a graphic representation of the representative corruption brokerage relation. My interviews provided many examples in corrupt transactions as well. These brokers "just help" family members, friends, acquaintances, or neighbors in a local community to obtain organizational resources illegally.

This is an example how András, -- a 25-year old unemployed male working class respondent --was tied to an agent through a community broker, a 'friend':

"There are so many people who drive but do not have a driving license. They don't want to take all of these time-stealing, but required driving lessons for months: They just want the license immediately. It was the same with me. I called a friend who had mentioned this driving

instructor before. I got the instructor's phone number. When I called him [the instructor] I had to refer to my friend. I met with the guy twice. First he wanted to see whether I really can drive and we did the paperwork, personal data, and so on. Next time, I got my approval from him. You know I can call five acquaintances right now if I want to get a fake license this, a fake permit that. At least one will provide me the needed name and phone number. Even if you do not know the right guy, it is for sure that you know somebody who can help you to reach the right guy."

Figure 1. Representative Brokerage



Zsolt, a 36 year old man who is a small entrepreneur in road construction told me the following story. During winter he rarely has contracts or work, so he developed a scheme to obtain paid sick leave in the winter months:

"It was a few years ago when I started this. I went to this doctor's office. I do not have too much work in winter so I wanted to supplement my earnings with some sick pay. I asked some old friends in my neighborhood and quickly got this phone number. I had to pay the doctor 15,000 HUF a month and he kept me on government sick pay for 5 months. I got 50, 000 sick pay per month from the state as the managing director of my company but I had to deduct the doctor's 15,000. I think every patient in his office was there because of such money. Everybody looked very healthy [laughing]. For example, the guy next to me went on sick leave because his employer wanted to fire him."

In this following case András was the broker who connected several friends with a corrupt agent:

„A friend gave me a phone number of a car inspection service where I could get a fake „green card" for my car. The greencard proves that your car meets the environmental standards. Getting a fake one is much cheaper and faster than really fixing your car and going through a "honest" inspection. That was two years ago. So I got the contact to this small service. Only two men were working there. Last week I was in this service again with a friend who also needed a fake green card. I introduced him to the service guys. I have already sent at least 10 other friends to them. That's is good for me because next time they will help me find somebody."

In these examples the intermediaries were catalyst brokers (Stovel et al. 2011). They were willing to share a corrupt contact with others and thus they created a new relationship between the client and the agent. They just connected the actors but they did not manage the

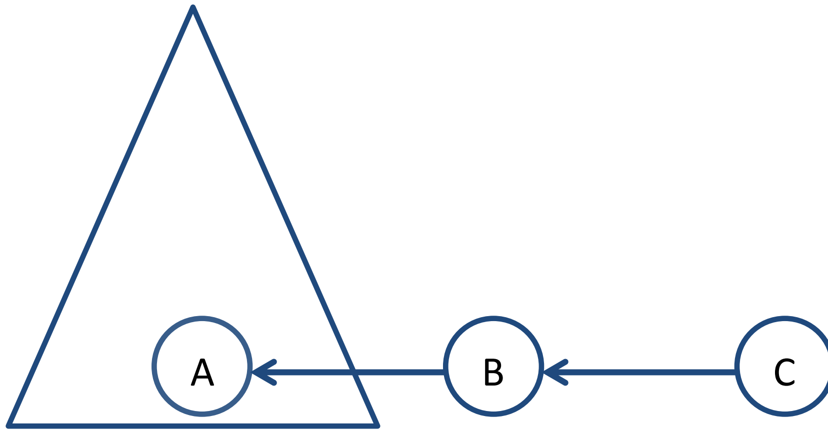
actual transaction. For example, when he introduced his friends to the crooked car service members, András shared his social capital and made his friends structurally equivalent with him in this triadic structure. This has two implications. First, András gave up the benefit of controling the relationship and second, he provided an opportunity to his friends to become corruption brokers in turn. He also acted as guarantor of the deal, reducing the risks of reciprocal mistrust between corrupt actors.

Since he did not receive comission from these transactions in any material form, András likely benefited in other ways. He, similarly to other gift-givers, accumulated symbolic capital in return, such as recognition, honor, prestige, nobility, or status (Bourdieu 1997). He also created debts on his friends's side that, based on the norm of reciprocity, that will be paid off in the future (Gouldner 1960). This brokerage creates new relations between the client and agent and therefore can be classified as catalyst brokerage. According to Stovel, Golub, and Milgrom (2011) a catalyst brokerage is a stable relation because each successfully brokered act consolidates broker's position in the local structure. András enhanced his status and reputation in the local community as cool guy who has such contacts.

Entrepreneur Corruption Brokerage

Entrepreneur corruption brokerage is a market type relationship between a client and the broker. This is a more impersonal and cash based exchange. These brokers usually do not let the corrupt actors directly meet with each other, but instead try to block all information about the agent, further brokers or the real price of the resource. Their commission is usually extracted from the total price of the corrupt deal. Figure 2 shows a graphic representation of the entrepreneurial corruption brokerage relation.

Figure 2. Entrepreneurial Brokerage



In András' cases community information circulated quickly within the group (Burt 1992: 26). The fact that risks to be unveiled are relatively low within a cohesive circle also supported the free information flow. It is easy to find brokers among friends and family members and it is also easy to become a broker. However the resources available for András and his friends were limited. He told me that it would be much more difficult to reach specific resources, especially at the local government. He mentioned:

"It is possible that somebody you know very well just says: here is the number, call this guy. But it also possible that somebody else, not a very good friend, says: this will be this amount of HUF, because it is risky or I do not know you, or something like this."

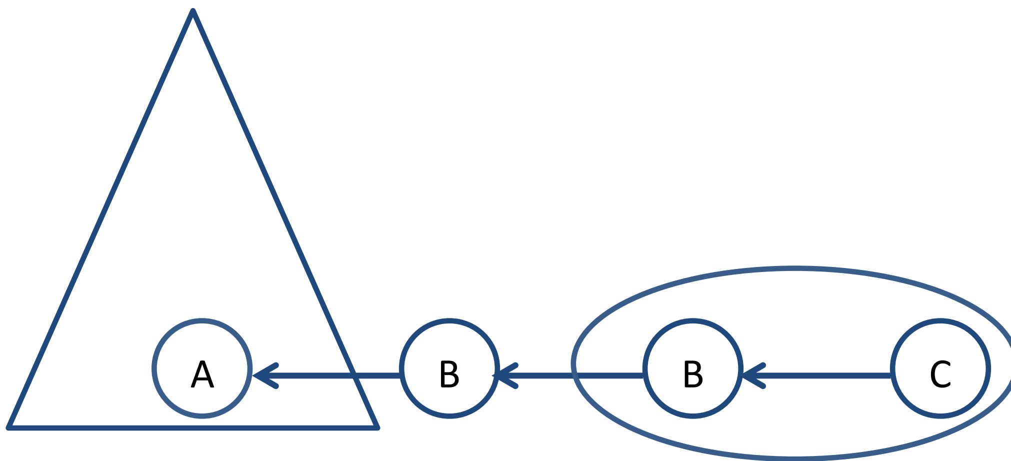
It is common to find that that a client does not have direct contact to the entrepreneur broker and s/he therefore needs a first broker, a local member to connect with the entrepreneur. For example, I interviewed a 37 year old working class woman, Zsuzsa who was unemployed and sought a shop assistant job at an international chain of newspaper stores, but the employer required at least a high school diploma from the candidates. Since she had only an elementary level education, she used her social network to acquire a fake diploma.

"I asked a few people. I wanted a high school diploma with a commercial qualification. One contact was through my sister and other one was a former colleague. Both could have got me a diploma but the second one was too hungry and wanted too much. So finally my sister's acquaintance brought it to me. I did not meet with the guy who actually sold it. I gave my sister's friend my personal data and the money. I trusted him….So, I meet with the guy, my sister's friend. He did not ask extra money. Probably his share was already in the price but I do not know. It was 20,000 HUF cheaper than the other option."

In this case the first broker was the Zsuzsa's sister who tied Zsuzsa directly to her acquaintance, the second broker. Here the sister also guaranteed trust between the two actors. Moreover the sister did not ask for any kind of compensation she made the woman structurally equivalent with her. She was a representative broker who helped one of her family members. The second broker asked cash for the fake diploma. His "commission" was probably included in the total price but we do not know the further details. Maybe there were even more brokers in this case. The entrepreneur broker benefited from controlling information between the client and the agent (Burt 2004: 30). Using the same analogy we can imagine that relatively large and complex

networks of corruption brokerage may exist with sequences of entrepreneurs who act for cash and representative brokers who act to help ingroup members. Figure 3 shows a graphic representation of the multiple entrepreneurial corruption brokerage relation.

Figure 3. Multiple Entrepreneurial Brokerage



Zsuzsa's case is also a good example of attempts to economize on brokered transactions (Mardsen 1998: 207). When alternative brokerage routes for a given transaction are available, the client has more freedom to choose the cheapest access.

Since the client cannot control the transaction managed by a broker, entrepreneur brokerage is riskier for the client than representative brokerage. Here is another example where a friend, a group member broker linked the client with an entrepreneur broker. In this second example once again fake official documents were brokered. This form fits the predominant view discussed in the corruption literature when the broker has a function protecting the actors. However here only the agent's identity was protected and the transaction was much riskier for

the client because, like in the previous case, the client has to provide his/her personal data in order to issue the fake document. A 55 year old male small shop owner described this:

"It is not too hard to obtain a parking card issued for the disabled. It is a big deal because with this you can park for free in Budapest. You just need a fake medical approval that you are disabled. When you submit your application at the local government's office they are not interested if you are really disabled or not. They do not investigate the genuineness of the documents. My friend who already had had a fake parking card gave me this guy's contact. We met twice in shopping center's parking lot. First time, I gave him my personal data and next time he brought me the doctor's approval. It was real, with the doctor's seal, signature and everything. It was 40,000 HUF but I am not sure how much the doctor's share was."

Gatekeeper Corruption Brokerage

In Gatekeeper brokerage situations, the broker and the agent are members of the same organization from which the resources are extracted, and the client is an outsider. Here the broker-client relationship is -- similarly to the entrepreneur brokerage -- a market type exchange when the client pays cash for the illegally sold resources. There is weak relationship and low level of trust between them. This is a middleman type brokerage where the broker is not willing to introduce the agent and the client each other. A 26 year old low-level female clerk told me this case:

"About 4 years ago after I had been fired I wanted to learn English. The Employment Center offered free English courses for unemployed people but it was almost impossible to get a

spot. It was extremely competitive because among the 10-month intensive course they also provided some allowances. My mother knew this woman. I am not sure from where. Maybe she was an acquaintance of my mother's ex-colleague. She was working at the Employment Center and knew some people in the department where they selected the course participants. So, the women told me she could handle this for me for some money. And she did. I applied not as anybody special but accidentally [laughing] I was selected."

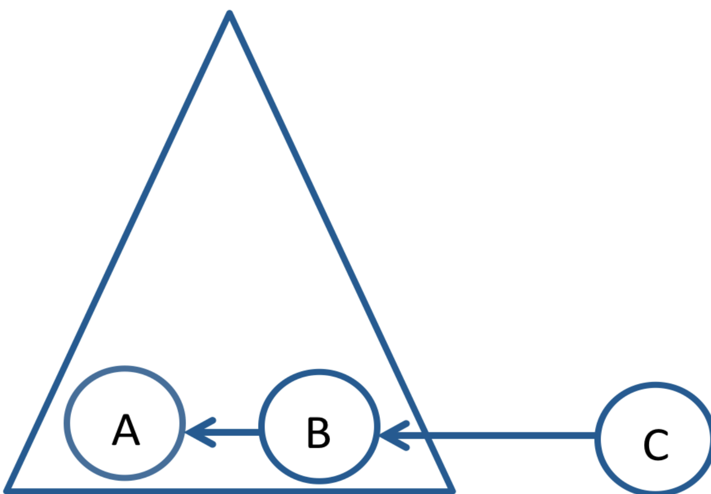
However the broker-agent side seems to be different from gatekeeper cases. The fact that the broker and the agent are members of the same organization extends the variety of possible payment methods between them. The likelihood they meet regularly and the stronger social ties between them would make different forms of reciprocal exchanges possible (Lomnitz and Sheinbaum 2004). Corrupt transactions, as well as gift giving, do not require immediate return, thus there is also a possible gap between transfer and counter-transfer (Blundo 2008). The organizational environment provides several opportunities as well. The broker may compensate the agent with other favors, resources s/he personally controls, support in promotion or political struggles, or silence about the agent's other illicit deals and so on. Here is an example how the broker and the agent may collude in such transactions.

I interviewed Ágnes a 29 year old bank clerk. She, as an agent in an corrupt exchange involving authorized mortgage loans for people who were not qualified because of too low a legal income or who lacked a job. The clients were recommended to Ágnes by her friend and colleague, the broker of the deals. She explained:

"This is him [colleague] who brings the clients and I do the "paperwork". They [clients] do not know if I am in on the deal or not. They are just sitting in front of me and I do the regular paperwork I normally do. Probably they think that somebody at higher levels at the bank approved their loan request but actually this is me who manipulated the documents."

In Ágnes' case, the broker let the clients to meet with the agent in person; however they were not aware that they were dealing with the real agent. In these situations, like in several entrepreneur brokerage cases, the client is more vulnerable, since the agent knows the client's identity and controls the whole transaction, while the client has only limited knowledge about the transaction and the agent's identity. Figure 4 shows gatekeeper brokerage.

Figure 4. Gatekeeper Brokerage



Extra Service Corruption Brokerage

My interviews suggested another type of brokerage which seems to be widespread in Hungary. This type is a form of entrepreneurial brokerage but shows some special characteristics that were not discussed in the corruption or brokerage literatures. Here small entrepreneurs or self-employed freelancers are the brokers. In this type, connecting the agent with the client is only one among other –mainly legal - services that the entrepreneur can offer to his/her client. Brokers usually regard the brokerage as an extra service that may provide them competitive advantage over their rivals in the legal business world. The broker tries to make his/her service more attractive for the client. Figure 5 shows a graphic representation of this extra service corruption brokerage relation. Béla -- 35 year old -- who formerly worked as a cashier in game rooms was unemployed when I interviewed him. He gave the following description:

"*I went to the office of this real estate agent. It was 3 years ago, exactly. I knew that he was well connected to the local government. He had had some big real estate deals with them. At that time, the local government had a program for young people who were born in the district. Those who wanted to buy their first apartment in their life were eligible to apply for a 1 million HUF subsidized long-term loan from the government: without any interest being charged, and of course with very low monthly installments. But the case is that the loans were allocated only to insiders. From the "street" you did not have a chance of getting one. So, this real estate guy told me that he would get me a loan. He did not even want extra money for it. His only requirement was that I had to buy the apartment through his office and pay the normal and legal 2% broker fee. In the end, we did not make this deal but only because I did not find a suitable apartment."*

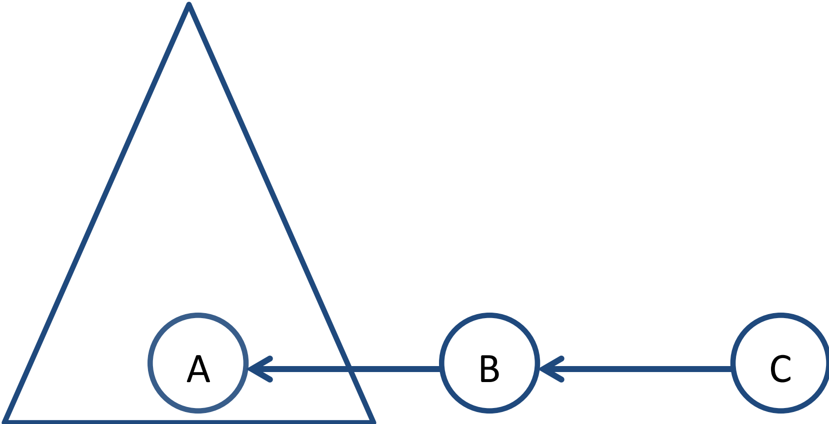
Gyula, a 28 year old male small shop owner said: *"When I bought my first pre-owned car, a car mechanic helped me. He checked the car before I signed the contract. When you buy a car in Hungary you have to immediately take out automobile insurance. At the same time this car mechanic gave me a phone number of an insurance agent. He [the car mechanic] told me that if I paid some extra to the agent she would have taken me to the highest level insurance category where you have to pay only a much reduced yearly insurance fee. Normally you can get that level only after 4 - 5 years driving without any traffic offences or road accidents. So, I called the agent; we met at a Duna Plaza [large shopping mall in Budapest], sat down in a bench and I got this extremely good insurance contract. I need hardly say this was totally illegal. The car mechanic shared his contact with me because, I guess, he hoped he would be my long-term mechanic. And he was right; he is still repairing my cars; although I have had 4 cars since then."*

In this situation, brokers have a prior relationship with the agent who sells the organizational resource, although this bond is typically not very strong. The interesting thing is that the broker does not extract a 'commission' from the illegal payment. So, the profit for the brokerage is embedded into the payment for the broker's legal services. By providing this extra service to a client, the broker may be able to charge more than the normal market price. In other cases the broker wins the good will or long-term loyalty from the client or simply gains an edge over competitor entrepreneurs.

Extra service brokerage can be either the catalyst or middleman type. The broker is not interested in extracting a commission from the corrupt payment but s/he wants profit through the

legal service. Therefore the broker is not interested in preventing the client and the agent from knowing each other. Figure 4 shows extra service brokerage.

Figure 5. Extra Service Brokerage



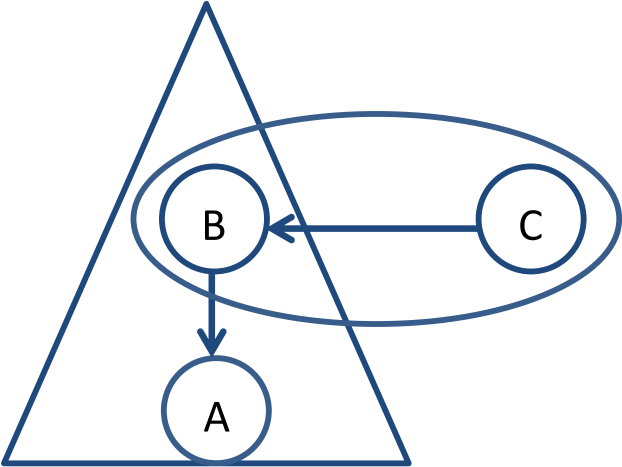
Multiple Insider Corruption Brokerage

I found only a few middle-class respondents who sought low-level resources through corrupt schemes. In these cases, they reported their participation in petty corruption but the patterns seemed to be significantly different from when working class or small entrepreneurs used brokers. The middle class clients' brokers were typically former university classmates or ex-colleagues mainly from the similar social strata but not necessarily from the same neighborhood. Simultaneously the broker was in the same formal organization with the agent. The broker had multiple group affiliations, a group membership that was shared with the client, and an additional

formal organizational membership that was shared with the corrupt agent. Figure 6 shows a graphic representation of multiple insider corruption brokerage relation. Tamás, a 29 year old male manager reported this:

"Because I had not paid the fines for my speeding and other traffic violations I was punished by 7 days of community service. You know…raking and garbage collection in public parks all day. Can you imagine me doing shit like this? This was my luck actually, because my former university classmate's father was a local government representative there for years, and he knows a lot of people in the district. So, it just took some phone calls. I called my friend and he gave me his old man's number with whom I had already met several times before. I called the old man and asked if he could do something in this case. It happened that he knew the head of the local Community Service Association, the organizer of work in the district. They fixed everything. I went there only once, and the secretary approved and signed my 7-day-work form without any real work. She did not ask anything. The boss just ordered her to do it for me."

Figure 6. Multiple Insider Brokerage



Another distinctive feature of multiple insider brokerage is that cash is not considered as a currency neither on the client-broker nor on the broker-agent side. The client and the broker are in the same social group and there is a reciprocal but non-monetary exchange between them. The broker usually has a higher organizational status in the same organization than the agent. This suggests a power inequality between them. In the first example, the broker used his pure formal authority and ordered the agent to manipulate documents. The organizational studies provided similar examples of this "crime-coercive" model when high-ranking corporate officials pressured their employees into illegal behavior. Refusal to engage in such corrupt acts would lead to negative sanctions from the top managers (Needleman and Needleman 1979). In other cases there was a patronage relationship between the broker and the agent. The broker is still superior to the agent; however patronage is a more personal and informal relationship. Because of some possible benefits, for example promotion, the agent provides loyalty and subordination to the broker and helps her/him in the illicit practices (Wolf 1966; Lomnitz 1988; Granovetter 2007; Campbell 1989; Boissevain 1989; Jackall, 2010: 18-44).

Conclusion

This chapter identified 5 corruption brokerage patterns in contemporary Hungary. Table 7 summarizes the main characteristics of these types. These patterns are similar to 5 of the 6 major brokerage models discussed in the anthropological and social network literature. Moreover my findings suggest that the actors' group affiliation may determine different type of corrupt exchanges (market vs. reciprocity) as well different brokerage mechanisms. Although in this chapter I analyzed relatively simple triadic structures, the findings suggest that brokered corrupt

exchanges are diverse and may involve a combination of market type and reciprocal relationships.

Table 7. Corruption Brokerage Types

Brokerage Type	Client's SES	Client-Broker Exchange Type	Client's Risks	Brokerage Stability	Brokerage Mechanism	Broker's Profit
Representative	Low	Reciprocal	Low	High	Catalyst	Symbolic capital, & mutual favors from group members
Entrepreneurial	Low	Market	High	Low	Middleman	Commission or fee from the client's payment
Gatekeeper	Low	Market	High	Low	Middleman	Shared profit with the agent, mutual favors from the agent
Extra Service	Low	Market	High/Low	Low	Catalyst or Middleman	Profit embedded in legal payments
Multiple-insider	Middle	Reciprocal	Low	High	Middleman	Mutual favors from the client

Despite their similarities there is also a crucial difference between corrupt and "normal" brokerage: because brokered corrupt exchanges are illegal actors try to avoid being exposed. The corruption literature suggests that brokers are used in order reduce the risks of transactions that otherwise would harm the corrupt actors. However my examples suggest that in market type relationships (entrepreneur and gatekeeper types) the risks are often unequally distributed. Since the broker usually controls all information about the agent but the client has to provide her/his real personal data for the transaction, the client is the one taking a greater risk. In contrast to this, representative and multiple insider brokerage, where the client and the broker have the same group affiliations, provide a safer environment for the client. In representative brokerage, the broker vouches for the client's and the agent's trustworthiness, and in multiple insider cases the broker's clear organizational authority over the agent may be a guarantee for the client. Although the brokerage literature regards multiple insider brokerage as an unstable relation in corrupt cases, this seems to be somewhat different in my interviews. Here the broker-client relationship is based on strong social bonds while the broker-agent link refers to an also strong –formal or informal -- organizational power relationship. These two types of relationships represent different segments of social life. Therefore there is not a real competition between them that might threaten cohesive group stability.

Middle class and working class (including small entrepreneurs) brokered corruption also shows major differences among SES levels. According to studies on network capital, the social networks of the urban poor are geographically restricted and offer fewer instrumental resources (Wilson 1987). Such people have a limited access to mainstream institutions and their resources

(Hurlbert et al. 2008). Other authors who have studied informal exchanges in developing or post-socialist countries found the urban upper classes easily reached bureaucratic resources compared to the poor (Lomnitz and Melnick 1991: 21-31).

My findings confirm the result of these studies. While locality or neighborhood was important in finding brokers for low SES clients, middle-class clients found brokers from among from ex-university classmates and colleague networks. Moreover low SES clients obtained organizational resources only through impersonal and more risky market type exchanges, while middle class clients were connected to higher organizational levels through strong ties. The fact that in corruption cases, multiple insider brokerage, which involves rather higher status brokers and clients, seems to be especially resilient suggests that corrupt middle-class actors in low level cases have Less chance of being exposed.

Chapter 6- Corruption as a Social Constraint

In examining the fundamental motivations for engaging in corruption, the research literature provides two explanations, *collusion* and *extortion,* or as Bauhr and Nasiritousi (2011) called these types, *greed* or *need* corruption. According to the collusion/greed approach, individuals participate in corrupt exchanges in order to maximize their rewards. They engage in corruption because their personal cost/benefit analysis suggests that acting in a corrupt manner seems to be the most rational course of action to maximize their personal profit (Shleifer and Vishny 1993; Banfield 1975; Rose-Ackerman 1978). However, these rational actor models rarely consider the actors' social context, past and current relationships, and their normative preferences.

Participation in extortion is clearly less voluntary from the client side. Corrupt individuals, usually public officials, use their authority and their monopolistic position to force ordinary citizens to pay bribes. However extortion is only one form of social constraint in corrupt exchanges and my empirical findings will suggest a wider variation within "need" corruption than has been previously recognized.

As Bauhr and Nasiritousi (2011) noted, anti-corruption measures do not even consider *greed* and *need* corruption as distinct phenomena but instead target corruption as it were a general or single phenomenon. This chapter delves deeper into the "need" side of corruption. Based on qualitative field research I identify two different patterns of external social forces influencing corrupt actors' behavior: institutional and material structural constraints. In the material type, people are aware of the constraints leading them to enter in corrupt exchanges; in contrast, they are largely unconscious of the impact of institutional constraints. Both types operate at societal (macro) as well as organizational (mezzo) levels. Examples of both will be

given below.

The main goal of this study is to create a systematic classification of corruption types when the actor's behavior is constrained by external social forces. While trying to use the corruption literature where it is available I also provide a broader interdisciplinary theoretical framework to explain particular corruption constraints. Some types in this chapter have already been mentioned individually in the corruption literature. However using real-life empirical examples this study may be the first attempt to gather different forms of corruption constraints in one place, providing a more coherent and comprehensive interpretation of the phenomenon.

Theoretical preliminaries

In social sciences there is an analytic distinction made between symbolic segments of social forces including cultural, normative or institutional elements and other, "more materially constrained levels and imperatives of the social system" (Alexander and Smith 1993). These two types are often referred in macro sociology as ideational and material structural forces (Adler and Borys 1993; Collins 2005: 133; Hinings and Tolbert 2008: 475-476; Lincoln and Guillot 2006). The normative ideational view can be tracked back to Émile Durkheim's (1950: 13) concept of a social fact. Social facts are symbolic collective phenomena that operate outside the awareness of the individual actors dictate the ways of acting, thinking, and feeling. The theoretical roots of material forces can be found in the Marxist view of society in which material structural factors such as organizational hierarchy, competition, power, inequality, class differences and technology shape the individuals' behavior. Both classics, Parsons (1951) and Foucault (1980) also distinguished cultural (knowledge) and social (power) systems. People are embedded in cultural contexts that provide them meaning and understanding of their action, but they are also

embedded in structural contexts that limit their options (Morris: 1992).

A more recent literature also makes a distinction between two different types of external social forces -- “institutions” and “social structures” -- while complaining that these two terms are often confused and used interchangeably by some scholars (Fleetwood: 2008a). While institutions are systems of established and embedded social norms or rules, social structure should be considered as relations that involve power. People engage with social structures by entering into particular relations— relations of class or gender for example. Actors are aware of the opportunities and constraints embedded in social structure and take them into consideration when deliberating. In contrast to this, participants are often unaware of institutional rules or norms. They just follow them without recognizing their compelling nature (Fleetwood, 2008b).

Another author who similarly distinguishes institutions from social structure is Portes (2006) who argues that institutions represent the symbolic sphere of social life. They are cognitive frameworks such as culture, values, or norms. By contrast, social structure is the “realm of interests backed by different amounts of power” and is composed of actual persons and organized in a social or formal organizational hierarchy. These two, analytically separate, spheres together explain humans’ motives for their actions and their consequences (Portes: 2010: 51-60). My study applies this distinction to argue that these two forms of external constraints, institutional and material structural forces, should also be separated in the analysis of corrupt exchanges.

My data analysis identified two main patterns that represent the different types of corruption constraints, institutional and material structural constraints. Moreover I also found one societal and one organizational level theme within each pattern. Table 8 presents the main types, categories and codes emerged from my data.

Table 8. Corruption Constraint Types

Main Patterns of Corruption Constraints	Category	Code
Institutional Constraints	Universalistic Constraints	Corruption à la Merton
		Robin Hood Attitudes
	Particularistic Constraints	Don't turn in an In-group Mate
Material Structural Constraints	Constraints Embedded into Social Structures	Cannot afford not to be Corrupt
	Constraints Embedded into Organizational Structures	Gatekeepers
		Ordered to be Corrupt
		Reducing Systemic Uncertainties

Institutional Constraints: When corruption is normal

In the "oversocialized view of man," actors' behavior was viewed as totally shaped by common norms that command action (Wrong 1961). This social scientific approach emphasized the importance of socialization and the internalization of social norms. According to this view, after people internalize social norms they no longer recognize the social constraint of the institutionalized system of such norms as a burden but instead see them as totally normal or natural, something common to all group members (Granovetter 1985; Cloyd 1965). One important feature of this kind of institutional constraint is that they are usually 'non-intentional'. This means that the process of their creation and the behavior linked to them are not based purposive human action. Actors do not perceive the effects of the institutions they have created (Hall and Taylor 1996).

There are society-wide universal norms as well as local norms created by smaller groups and communities. We can also distinguish norms that are formal and codified into laws from more implicit and informally enforced norms for example, moral codes or etiquette (Schweitzer 2004).

Several scholars have considered the role of social norms in corrupt behavior. Empirical studies suggest that the willingness of participants to violate rules or engage in corruption reflect lenient social norms about corruption that people internalized in the countries where they grew up (Barr and Serra, 2010; Fisman and Miguel 2008: 82-94). One common normative explanation of corruption is related to religious norms and beliefs. In countries where the dominant religion takes a more hierarchical form such as Catholicism, Eastern Orthodoxy, and Islam, corruption is more widespread, while the level of corruption tends to be lower in Protestant countries where the individual conscience of each believer is stressed (La Porta *et al.* 1997; Treisman 2000;

Paldam 2001; Sandholtz and Koetzle 2000). Although these norm-based empirical explanations provide important additions to the corruption literature they fall short of sufficiently theorizing the compelling character of norms and the mechanisms by which they actually work.

Universalistic constraints

Corruption à la Merton. According to Robert Merton (1938), culturally defined goals of modern capitalist societies such as material success and certain level of consumption are not attainable by all members of a society through socially accepted means. Therefore individuals try to obtain material goods using illegal means in order to conform to society's goals or ends. Here universal informal norms, the culturally defined goals, are collectively accepted as legitimate and are expected objectives for all members in a society but they contradict other universalistic formal norms that constrain the legally available means to achieve such goals.

My Hungarian interviewees often compared their own living standards with those in neighboring Western European countries. They desired a level of consumption similar to that of an average Austrian or German, but they were painfully aware of their significantly lower salaries and standard of living in Hungary. It is noteworthy that – compared to the last two decades of socialism - people in post-communist Hungary have faced fewer opportunities for upward mobility or increased earnings. Democratic Hungary has become more and more immobile and one's parents' social status strongly determines children's career opportunities (Bukodi 2002). My research suggests that, in this economically-constricted post-socialist context, corruption has become a legitimate mobility channel for both working-class and middle class Hungarians. Because legal channels for attaining prosperity are not functioning for many

people, corruption provides a real alternative tool to express, achieve and maintain social status. A middle-class respondent explained how corruption might contribute to social status:

"In order to feel that you are in the right position in society you should change your car every two or three years…or if you do not have an LCD TV at home you are not even a human…and of course there are the 'required' holidays. You cannot provide all of these from your salary so you have to do something illegal to achieve such goals. But this is normal in Hungary today."

"There is a huge contradiction among Hungarians. We want to consume like our Austrian "brother-in-laws" and expect all of the goods available for the Western middle-class. After the collapse of communism we expected that these goods would arrive very soon. But they have never really arrived. And we still want them badly, at all costs. And because we don't have such a Prussian work-ethic to produce those goods, we have to find other ways." (Middle class respondent)

"I can imagine that everyday people are not corrupt in the US because what we are talking about must be ridiculously small amounts for them. But here if you are a youngster in Hungary, I know because I see my brother, and you earn 83 000 forint (approximately $380) a month and work at a CBA [Hungarian retailer chain] or in a shop the public transportation is 11 000 for a month. Ok, let's say you don't pay rent because you live with your parents. But you have to give them 10 000 or 15 000. So, 50 000 is left; but a pair of trendy jeans is 22 000. So buy one and 30 000 is left for a month to eat and to go out and invite your girlfriend to see a

movie and to pay your cell phone bill. I don't know anybody in Budapest now who would not be corrupt in order to afford such a normal life of a young person. So, they just steal whatever they can from their workplace and sell it." (Working class respondent)

What we see here is that Merton's insight into "innovative deviance" within the USA can take on a more general form when (a) nationals of a poorer country come to use nationals of a more affluent country as their reference group; and (b) when macro-economic downturns undercut citizens' aspirations for social mobility or a certain standard of living.

Robin Hood attitudes. Another universal norm among many Hungarians that supports corrupt behavior is the belief that cheating the state is acceptable. Some authors have recognized a similar phenomenon in other Central and Eastern European societies when a "grey zone" of informal and illegal activities became tolerated ways of beating the unpopular Communist system or ways of defying greedy politicians (Ledeneva 1998). In my interviews the most typical rationalization was that state and state authorities constitute an alien body imposed on Hungarian society and therefore stealing from them is perfectly legitimate. Some interviewees even compared cheating the state to Robin Hood's heroic acts: robbing from the rich and giving to the poor.

*"Let's say that there is an entrepreneur and he has to cheat on tax payments because he cannot pay it all. Entrepreneurs such him have this Robin Hood feeling…and they say: this f***ing state wants to steal my money because the taxes are huge. But the state cannot mess with me because this is me who will cheat the state. I will do tax evasion, use fake receipts and so on.*

I know because had the same feeling when I used to be a self-employed entrepreneur years ago." (Middle-class respondent)

"The state here did not give too much to the Hungarian people. After the collapse of the communist system I did not get anything from these new democratic governments such that I should be loyal with them. And people just think, why not; why not cheat the state? (Working class respondent)

"I think the main point of the Hungarian history, for a very long time, has been about cheating the central power…if we wanted to survive. Because the central power was always somebody else; it was not us. So, the game was cheating the Turkish when they were here, cheating the Habsburgs when they were here… In the Horthy times it was also very difficult to solve things…because if you were Jewish, or if you were a German or if you made business with the Serbs you had to cheat the power, you had to cheat the authorities. You could not choose the legal ways. The 1950s was the same; it was like everybody against the communist state because the state and its regulations were unpredictable." (Middle-class respondent)

Robin Hood attitudes reveal unique characteristics of the post-communist transition and the relation between Hungarian citizens and the state. Communist public administrations were originally designed for imposition and control rather than facilitation and service (Baker 2002; Ellison 2007). During decades of the communist one-party system, Hungarians lost confidence in public institutions. Compared to other European countries, their trust in institutions such as the political parties, the government, and Parliament is exceptionally low, even more than 20 years

after the collapse of communist state (Rádai and Tóth 2010). Extortion by post-communist officials is widespread in Central and Eastern Europe (Kotchegura 2004; Miller *et al.* 2001: 83–85), which also contributes to the fact that cheating the state is viewed as absolutely legitimate among ordinary people.

Particularistic constraints

Don't turn in an in-group mate. Corruption also happens when *particularistic norms*, related to small groups predominate over society-wide codified *norms* (Schweitzer 2004). In an early work, Georg Simmel (1955: 163-165) recognized that tightly knit local groups create their own specific codes of honor. Early anthropological work also argued that subgroups in a society regulate relations among their members by what amounts to a local legal system (Ehrlich 1936; Moore 1973; Pospisil 1971; Pospisil 1958: 272). People are simultaneously members of different subgroups and they are therefore subjected to different universal and local legal systems. Moreover, in contrast to the slow, unwieldy, and expensive formal sanctions of the official law, informal sanctions of semi-autonomous subgroups in a society can be highly efficient in enforcing the group's own rules and sanctions (Pospisil 1971; Moore 1973; Scheff 1988).

This local *versus* universal norm concept is also applicable within formal organizations where the artificially created local group affiliation of being an organizational insider provides even a clearer distinction between the organization and the outside world. Scholars have long recognized that the enforcement of external regulations within an organization can be difficult because organizations create insider norms, and a culture of silence and cover-up, where even honest members show solidarity with their deviant and corrupt colleagues (Katz 1977, 1979).

The informal code of "don't give up another cop" is a well-known example within police forces (Kappeler, Sluder and Alpert 1994).

Organizational insiders often socialize newcomers to the organization into corruption and produce a local culture in which deviation from formal rules and procedures is normal and acceptable (Ashfort and Anand 2003; Vaughan 1996). Such studies, sometime implicitly, embrace the approach known as sociological institutionalism (Canales 2010; Hall and Taylor, 1996). This approach defines culture or the small group itself as an institution (Cloyd 1965). In this view, this institution legitimates particular actions for group members because it is an important part of their understanding of reality (Hall and Taylor 1996). A local government official in Budapest told me how he was socialized in a corrupt organizational culture:

"*In our office everybody knows about the others' dirty businesses. When I started to work at the local government it was not like an occult initiation to the corrupt tribe. I just simply saw how things were going on around me. I just joined the line and that time I did not even think about it. If you are not a team player, the team gets rid of you. So, the first rule is, do not turn in a fellow colleague. There is an environment, a culture you just get in as an innocent but you quickly accept it. And of course you also immediately see that the guy next to your desk at the same position has a three times bigger car than you have and goes to the French Riviera for holiday.*"

Material Structural Constraints: The territory of power

For most participants in corruption, material constraints are more visible and real than institutional ones. In the case of this structural corruption such as demands for bribes, ordinary

people are clearly aware of the pressure that forces them to participate. Such constraints are related to their actual position in society or formal organizations. This is the realm of unequal power relationships. My interviews suggest that sometimes unequal power is embedded into impersonal and societal level power structures but in other cases it is crystalized in organizational hierarchies.

Constraints embedded into social structures

I cannot afford not to be corrupt. In this category, corruption provides the only solution for everyday problems that an actor can financially afford. For example, a person's low socioeconomic status may prevent them from purchasing goods or services at the normal market price; however, corruption works as the equivalent of buying at a discount. Here corruption is a strategy of personal survival. In his class analysis, Alejandro Portes (2010: 88-89) calls the lowest and most vulnerable strata of the working class *redundant workers.* They drift from one menial job to another or are simply excluded from the regular labor market. Their primary focus is on day-to-day survival and they often engage in informal and illegal economic activities. The prime characteristic of this class is its complete lack of economic power.

Several interviewees mentioned that they "cannot afford not to be corrupt". For example a working-class interviewee told me that some services, necessary for his everyday job, are beyond his budget. He has to choose illegal ways to obtain such services and such demand creates its supply in the informal/illegal market. Here is an example:

"OK. I'm not a corrupt guy but I can solve some difficulties...actually I have to. If my old car has to go through the yearly inspection test, I just call some friends and they find me a

corrupt car inspection service. Let's say there is a crack on the windshield. An average guy like me is struggling with money problems. A new windshield is 20,000 HUF and we are not even talking about the worn tires and brake shoes. If I bribe the guy to pass my car through the inspection, that costs only 8,000. I need the car every day to get to work." (Working class respondent)

"You know we travel all around the neighboring towns…we do not work just in Budapest. Especially in the evening I drive the minivan fast because everybody wants to get home rapidly. So every two or three months they [police] *catch us speeding. Thank God so far we were able to get off by bribing them. We pool our money together. It is sometimes one day's salary for two people. It is a little scary now because there is much more severe control over them* [policemen] *by their bosses. So they are reluctant to take the risk and receive bribes. But I have to take the risk because this* [driving license] *is my working tool. I cannot afford not to be corrupt* (laughing)." (Working class respondent)

In contrast to the Mertonian motivation, where the universal social norm of consumption supported corruption, here actors with low social-economic status face a more immediate social constraint derived from their position in a social structure. The Mertonian case suggests a desire for a higher level of consumption necessitated by cultural values, while the later form of corruption aims to satisfy a more basic level day-to-day consumption need.

Constraints embedded in organizational structures

Gatekeepers. The corruption literature tends to distinguish between two types of corruption: collusion and extortion (Mishra 2006: 191; Bauhr and Nasiritousi 2011). In the case of extortion the agent uses his/her authority to force the client to pay a bribe. The economic or political scientific explanation for this form of corruption is that state officials have excessive discretion and they act as monopolists by creating scarcity and forcing clients to pay extra money for the services (Karklins 2005: 22; Rose-Ackerman 1978).

An alternative theoretical framework that might be used to explain extortion type corruption in organizations is 'resource dependency theory.' This theory claims that individuals or organizational units that control resources critical to the whole organization or to other actors acquire power as result (Hickson *et al.* 1971; Pfeffer and Salncik 1974; McKinley and Mone 2003).

My findings suggest that actors who control crucial organizational resources are similarly able use this ability in an illegal market. Such resources are not necessarily material ones; they can involve control over organizational decisions or even non-decisions as well as information. This was the basis of extortion in many cases my interviewees mentioned. Actors who work close to the organization's boundaries and frequently interact with customers or clients play a gatekeeper's role. They have more opportunities to force such outsiders to pay bribes in return for access to organizational resources. These corrupt activities at the boundary of an organization are difficult for upper management to monitor, so corrupt organizational actors may be able to hide their illicit activities over the long term. This type of corruption acts as a constraint on the client side -- since to obtain whatever actions they need from an organization requires them to work through the corrupt gatekeeper. Here is one example:

"If you want a driving license in Hungary it's for sure that you have to bribe your instructor and the examiner. These two work as a team. My colleague has just taken the practice test. She bribed them because she did not want to try it four or five times. If you do not pay they bring you down….after 30-meter-driving they just order you to pull over and you are failed. Then you have to pay the test fee again, so it is cheaper and easier to pay some bribe."

However not only individuals are gatekeepers. The concept of 'bad apples vs. bad barrels dichotomy' in organization studies claims that not only individuals (bad apples) but also whole organizations (bad barrels) can be corrupt (Coleman 1987; Wheeler and Rothman 1982; Sherman 1980; Misangyi *et al.* 2008). According to this view, organizational corruption, as one particular form of *corporate crime*, is often committed for the benefit of the whole organization or a particular department, in order to obtain contracts or reduce costs (Trevino and Youngblood 1990; Brass *et al*. 1998; Ashfort *et al*. 2008; Clinard and Quinney 1973). My interviews confirmed that not only individuals but also organizations can use their gatekeeper position in order to extort bribes for the organization's benefit. A young father told me this:

"Today many-many schools and even kindergartens have their own nonprofit foundations. If you pay money to the foundation of your kids' school and they renovate the gymnasium using that money you did something good, something noble, right? The only problem is that this is not voluntary. Because this is why your kid was admitted, if you do not donate the school they do not admit your child. This is the unwritten rule; this is extortion."

A building contractor and entrepreneur provided this story:

"I have been in several housing projects in Budapest's wealthiest district. The district is developing rapidly; ugly big houses have been erected there. But as a contractor you can get a building permit from the local government only if you let the government's own public firm to build the roads and infrastructure around your future building. But their price is three times higher than the average market price. The officials at the local government do not even bother to use a "secret" language. If you go in for a permit they tell you clearly that this is the only way to get it. The local government simply blackmails you."

Ordered to be corrupt. My findings confirm that corruption constraints can be also result from face-to-face organizational power relationships. In such cases, actors participate in illicit activities because their superiors coerce them to act illegally. Scholars have studied what gives rise to excessive and rigid conformity to superior authority (Scheff 1988). Milgram's (1974) famous experiments dramatized how easily normally-moral people will undertake morally improper actions because they obey authority figures. However, in other cases, pressure by high-ranking corporate officials on their employees is quite direct, pushing the latter into illegal behavior. Here the fundamental source of conformity is the threat of punishment by superiors (French and Raven 1960; Warren 1968; Etzioni 1961). In these "crime-coercive" situations, lower-level employees participate in corruption because of fear of being fired or punished in other ways (Needleman and Needleman 1979). A HR assistant told me this story:

"My job is to collect and select the CVs the company receives. My boss told me that XY applicant is a kin of a top dog and we have to hire that person. I was ordered to shortlist only very weak resumes because among them the relative would seem like a super talent. It is a clear violation of the company's recruitment policy but what can you do in this situation? If you do not follow such orders you can be fired very quickly. So I did it."

A retired financial executive explained how serious the sanctions can be:

"This kid was an EU tender expert in the finance department of the local government. Since he did not want to be part of the mayor's suspicious activities he was sacked and he was turned down from all other jobs he applied to. The mayor reached everywhere in the town. He is a talented young man but he has not had a job since then. What I see is that those in power wanted a deterrent to influence the other employees…you know, it was just like shut up for everyone in the office."

In a previous section I argued that whole organizations can act as gatekeepers and force outsiders to pay bribes. However organizations can "order" their own members (insiders) to become corrupt as well. Here, as it was the case in gatekeeper type, the organization may be the main beneficiary of corruption but the forcing mechanism is embedded into hierarchical relations within the organization. The following example shows that one of the largest political parties in Hungary ordered its members, mainly mayors in large Hungarian towns, to provide party contributions, but turned a blind eye when they used illegal means to collect such money.

"The party leadership prescribes for local mayors the exact amount they must pay into party coffers. They tell the mayor: listen, you are a mayor in this and that size town with this population and you have to pump up X million Hungarian Forint and annually pay it to the party center. We do not care how you can get this money; you can even use corruption if you need it. And of course you have to raise money for your own campaign as well without our help."

In contrast to the gatekeeper corruption, where the actors used their ability to control organizational resources and informally forced clients to pay bribes, here the actors use the formal power system of an organization to coerce their own organizational members. Coercion is used to force corruption down the organizational hierarchy. Actors at higher levels of the organization shift corrupt agency down. In most cases this shift down the hierarchy sometimes occurs because the expertise necessary for carrying out corruption only exists at lower layers. In other cases, corrupt actors with higher status want to remain safely hidden, so they let lower level employees take the risks and do the "dirty work".

Reducing systemic uncertainties

Several authors argue that corruption sometimes stems from individuals' response to inefficient bureaucracies. For example, in transitional societies corruption can function as a means of rapid assimilation of new interest groups into the political system, especially when the system is not flexible enough to provide legitimate and acceptable means for this purpose (Huntington 1968: 61; Leff 1964). Social anthropology also provides examples when people, in response to malfunctioning bureaucracies and inadequate formal institutions, develop informal social security systems to survive that run underneath and parallel to formal hierarchical relations

(Lomnitz 1988; Lomnitz and Sheinbaum 2004). Such informal networks can be found all around the world: they are known as *pull* in America, *blat* in Russia, *compadrazgo* in Latin America, *protexia* in Israel, *palanca* in Mexico, *guanchi* in China, and so on (Smart and Hsu 2008; Ledeneva 1998; Lomnitz 1988).

Similar patterns emerged from interviews with professionals and academics that worked in ministries and other public sector organizations. In Hungary almost all spheres of the society are over-politicized. Political party affiliation and sympathy determine job placements and resource allocations in almost all public institutions at both the national and local levels. Each new government after coming to power fires a significant portion of the administrative staff, even at lower managerial layers, and replaces them with people loyal to the party in power. Even academic institutions are not exempt from such cleaning practices (Jancsics 2009). This makes any individual's bureaucratic career extremely uncertain. In order to reduce this uncertainty, Hungarian middle-class professionals cultivate reciprocal networks of influence, so that they can gain help if they fall out of favor. They do favors for one another to cement these networks. Cultivating one's network is a kind of long-term investment: participants do not usually require immediate payment for doing a favor for someone. They are content to pile up IOUs.

"These are small deals in the public administration, mutual favors. They are not materialistic. It is like: I let you win a public tender and next time you will give me a job. It is very important in Hungary because every 3-4 years the people's job status changes. I can give you a good example: A university professor teaches, and then becomes an under-secretary in a ministry, and then becomes a consultant of a telecommunication company, and then he goes back to the university where he conducts a special research project for the telecommunication

company financed by the ministry where he worked before. See…this is a full circle."(Middle-class respondent)

"It is like: When somebody is dropped out of the public administration, he needs a job in the private sector. When you work for the state you obviously need contacts, "good" men, acquaintances, wives, friends and friends of friends when the cleaning comes…and the cleaning has always come since 1998 when Hungary's extreme political polarization started. This is a permanent movement of people among public, private and nonprofit sector organizations. You need the safety function of this social network if you want to survive. Since you can be fired anytime, you have to give favors when you are a decision maker in order to guarantee your next job." (Middle-class respondent)

"It is an informal thing between different divisions of the [government] administration and private enterprises. Today I invite you for a beer and tomorrow you invite me to drink something. But in our case the beer is paid by the state which means it is paid by the tax payers." (Middle-class respondent)

Another theoretical approach for explaining uncertainty in organizations is Transaction-Cost Economics which argues that even well-designed contracts cannot entirely protect buyers from their sellers' malfeasance. Consequently 'opportunism' -- the possibility that one is cheated or 'ripped off' is a major source of 'transaction costs.' According to this theory, when the costs of negotiating, monitoring and enforcing economic exchanges through market contracts is too high, then actors will instead chose the bureaucratic organizational form and will produce the good or

service within an organization rather than buy it on a market. Information within an organization is more accurate and cheaper to obtain than information about other external entities, and therefore firms can better audit or monitor their inside activities to avoid opportunism and dishonesty (Williamson 1975; Jones and Hill 1988; Williamson 1985; Williamson and Ouchi 1981).

My Hungarian cases illustrate a different aspect of reducing transaction costs. Hungarian employees build corrupt and informal relationships with employees at other organizations with whom their own firm does business in order to guarantee that their firm will be paid promptly.

The Hungarian judicial system is exceptionally slow and cannot guarantee rapid and satisfactory enforcement of business contracts. Therefore entrepreneurs have to find other mechanisms to reduce the risks of opportunistic behavior by the other contractual party.

"Listen, even a signed contract does not matter. It happened to me several times. I did the work and the contracting party said: I will not pay you; sue me if you want and maybe after eight years you can get something back. So, now I am constantly corrupting people at the contracting company because it means a guarantee for me. The guy will do everything to force his company to pay me on time because this is the only way he can get his bribe money from me. After the company pays me, I pay him."

Companies often use their power over their suppliers and smaller firms or entrepreneurs regarding the timing of payment for completed work or services. They pay much later for the completed work than was specified in the contract. After work has already been done and a contractor has sent an invoice to its business partner, the contractor also has an obligation to pay

the invoice's tax portion immediately to the tax authority. This makes the contractor's position against the more powerful partner even more vulnerable.

"Not paying on time is the most natural thing in Hungary. Firms do not always do this because they want to mess with you. They do it just because they are also waiting for money from other firms. There is long queue and there is a hierarchy in it. It is a bad and inadequately functioning system. If you want to get your money within seven days what is actually in your contract and not after six months or even later you have to bribe somebody to put your invoice before others. Or you have to give him a generous gift, an expensive concert ticket or a pass to the coolest summer festival, for example."

These examples suggest serious systemic bureaucratic anomalies in Hungary that are corrected by corrupt informal practices. These findings confirm the often-criticized argument of some early scholars such as Huntington (1968) and Leff (1964) that corruption may be functional in particular circumstances. People find informal solutions to reduce the risks and uncertainties of the post-socialist public administration.

Conclusion

Corruption is complex and should not be seen as a general or single phenomenon. Nor should it be considered as primarily a matter of individual morality or character. In this chapter I have argued that is more fruitful to understand corrupt behavior as the result of existing social and organizational institutions that manifest themselves as constraints on individual actors. Although there are obvious overlaps between them, two different patterns of corruption constraints should

be distinguished: institutional and material structural constraints. In the case of institutional constraints, internalized social norms and values sometimes support and legitimate 'corrupt' acts and therefore participants may view these behaviors as something totally normal. By contrast, when material structural corruption constraints lead people to engage in an illicit deal, the actors are quite aware of the pressure they are under, deriving from unequal power relations.

I sketched several sub-themes of these two types that emerged from in-depth interviews. Constraints may be embedded into societal level institutions or structures or they may emerge from organizational particularistic cultures and norms or power structures.

Some corruption constraints recognized in this study may be linked to Hungary's socialist or even pre-socialist social conditions or its post-socialist development, while other forms of corruption are similar to those found in many other parts of the world. As the international literature suggests, a culture of silence and cover-up and other particularistic norms supporting and legitimating corruption at local and organizational levels are well known phenomena in Western countries and all around the world. Redundant workers, the most vulnerable strata of the working class who are sometimes constrained to participate in illicit deals for their everyday living is probably not a Central European specialty either. The two structural types, gatekeepers and superiors who order corruption, are embedded into organizational power structures. These phenomena can be also found in many organizations in the world.

We can probably find several examples in other countries of the Mertonian type of corruption constraints that appear when universal informal norms contradict formal rules. However the specific type discussed in this chapter-- when Hungarians use their Western counterparts as their reference group and when they use corruption as an alternative mobility channel -- is probably a consequence of the particular economic trajectory of post-communist

Central Europe. This is the result of disappointment in the illusory promise of the transition from Communism, the expectation that people in Central Europe would rapidly reach the living standards of the West. However, malfunctioning traditional mobility channels are also responsible for legitimating corruption as mobility tool.

A widespread Robin Hood attitude reflects Hungarians' anti-state sentiment and their mistrust in formal political institutions. This attitude may be rooted in the historical experience of central power and the top-down governance attitude of the political elite in Hungary that predominated under and well-before communism. Moreover, such elite actors had often represented foreign interests. The Soviet Union's tough love over 40 years is only one example of such alien influences. The fact that many Communist Party members survived the transition and gained political or economic elite positions in the new Hungarian democracy further eroded the post-socialist state system's reputation. All of these factors contribute to the widespread anti-state norm that legitimates certain forms of corruption and rule breaking aimed at the state.

The phenomenon that people find corrupt informal solutions to reduce the risks and uncertainties of flawed administrative structures, is another feature of corruption in Hungary, again related to the problems of the Central European development. The Hungarian government, similar to other bureaucracies in the region, has never gone through a successful rationalization process or developed a non-partisan professional civil service (Jancsics and Javor, 2012). In the first half of the 20th century, the public administration suffered from the legacy of patrimonial culture and clientelism. During communism, direct party influence in ministries and other administrative units was also typical. The exercise of partisan political interference in the current Hungarian state makes bureaucrats' careers especially perilous and triggers survival strategies such as building personal informal networks in which corruption is a currency of favors given

and favors owed, a form of bureaucrats' employment insurance.

In sum, petty and large-scale corruption are so widespread within Hungarian society because multiple features of Hungarian society -- from political fundraising, to inept administrative procedures to dissatisfactions with standards of living to career insecurities -- all reinforce corruption by creating constraints on individual action that encourage corrupt behaviors. When so many separate social forces push individuals into corruption, the task of building corruption-free institutions, or at least of reducing the frequency and scope of corruption in society, becomes a monumental task.

Chapter 7- Corrupt Elite Networks[1]

Despite the relatively rich literature on corruption in CEE, we know surprisingly little about how actual high-level corrupt networks evolve within and among public, private, and nonprofit organizations. The predominant public management literature on corruption still remains at the dyadic level of explanation where only two abstract actors, an agent and a client, participate in a one-time corrupt transaction, and does not tell us much about the complex, enduring organizational structures of such illegal activities. There are also very few qualitative empirical studies in the public management literature, perhaps because of the difficulties of conducting fieldwork and collecting data about corrupt transactions. This chapter attempts to develop an analytical framework for interpretation of corrupt governmental networks in Hungary. Questions that guided my inquiry were: Who are the main actors, and what roles do these actors appear to be playing within a corrupt network? What are the main mechanisms through which networks manage to survive? What are the main types of such networks?

Corruption in Public Administrations

As Hopkin and Rodriguez-Pose (2007) have noted, the major line of research on corruption in public administrations is dominated by the "return to the market" approach supported by the public choice school. According to this view, the "big governments" that emerged during the postwar period in many Western countries bears the main blame for the wide spread of

[1] An earlier version of this chapter was published as a coauthored paper in the International

corruption. Empirical studies suggest that corruption is positively associated with high public sector expenditures and the degree of state intervention (Tanzi and Davoodi 1997; Treisman 2000). The cure, prescribed by global institutions such as the World Bank, IMF, and even the EU, for the widespread corruption in the post-communist CEE countries is in accordance with this market-oriented economic agenda: privatization and reduced government intervention. Some scholars have found a negative correlation between decentralization and corruption and suggested that decentralization of government activities may be effective in combating corruption (Huther and Shah 1998; Fisman and Gatti 2002).

However there are critics of this market-oriented approach. These scholars argue that radical public-sector reforms reinforced by public choice and new public management theories caused an even higher level corruption because private sector management styles that solely focus on results undermined the "ethics infrastructure" in public service (Gregory 1999; De Graaf and Huberts 2008). Holmes (2006) claims that the radical shift toward a market ethos and the privatization of the state are the major factors of post-communist corruption. The extremely rapid privatization challenged the legitimacy behind the state, blurred the boundaries between public and private domains, increased the nontransparent interactions between business people and state officials and finally created weak states in the region. In an empirical study Asthana (2008) also concludes that decentralization in developing countries may increase the level of corruption.

According to the predominant public choice view, government officials, like other economic actors, are self-interested individuals and will therefore try to exploit their monopoly to collect bribes while they betray their benevolent principal's trust (Banfield 1975; Shleifer and Vishny 1993; Aidt 2003; Groenendijk 1997). The principal-agent model suggests that corruption

can be mitigated by creating an incentive structure in which the negative payoffs to corruption are higher than returns to corruption (Teorell 2007; Rothstein 2011, 100).

Secret Societies and Hidden Illegal Networks

Although some authors have identified inter-organizational and network features of corrupt networks, public management studies still lack systematic research and detailed analysis of the phenomenon (Cartier-Bresson 1997; Calavita, Tillman, and Pontell 1997; Vaughan 1982; Lauchs et al. 2011). Nielsen (2003) emphasized some important characteristics of corrupt networks: they are stable and pervasive structures rather than exceptional independent events; and they form strong links between political parties and police, judicial, and legislative branches of the government, as well as watch dogs, auditing, and journalistic organizations.

There is an emerging approach in the literature that examines secret and illegal networks, though not corrupt ones. In one of the earliest studies on secret societies Simmel (1950) claims that in contrast to other social foundations that are characterized by organic growth and instinctive expansion, secret societies are formed in more conscious and deliberate ways. These societies are hierarchical structures with features very similar to formal organizations. Since the main reason for secrecy is protection, they develop a division of labor to be protected from being unveiled.

In contrast to Simmel, other scholars claimed that secret societies have a network structure rather than formal organizational hierarchy. According to Erickson (1981), secret societies have a persistent structure of social relations that distinguishes them from other secret activities, such as one-time collaborations. Baker and Faulkner (1993) also concluded that the structure of illegal conspiracies does not follow the same underlying efficiency logic of legal

business activities. The authors analyzed illegal networks in the heavy electrical equipment industry in the U.S. where executives acted on the behalf of the organization, not for their own benefit. They also found that the need to conceal was the primary consideration for illegal networks and that they were willing to sacrifice some part of efficient coordination in order to remain hidden.

In recent years, organized crime research has also departed from the stable and hierarchical criminal organization approach and adopted the enterprise metaphor and social network models (McIllwain 1999; Klerks 2001). A new approach has emerged that emphasizes the dark, hidden, and illegal characteristics of some social networks. Dark networks, like other formal organizations, have goals (e.g. terrorism, organized crime); however these are illegal and unacceptable for legitimate authorities, such as states and governments (Milward and Raab 2006). Since such networks have to face massive control efforts by the authorities, they must operate secretly. In order to survive in this hostile environment, they try to be invisible and resilient.

Analyzing the social network of 19 hijackers of the 9/11 terrorist attack, Krebs (2002) found that members of the terrorist network formed strong ties years before the attack, in schools, training camps, or even in families. However, they keep these prior networks inactive. To reduce the visibility of the network, conspirators rarely interacted with outsiders and tried to minimize their joint activity, especially face-to-face communication.

Dark networks are differentiated vertically and functionally, which is in line with Simmel's secret society model (Mayntz 2004). Top leadership is distinguished from operative cells, and other specialized units with different functions evolve, such as finance, procurement, and propaganda (Milward and Raab 2006; Mayntz 2004). Dark networks are loosely coupled and

decentralized systems. The different units enjoy relatively high levels of autonomy in planning their day-to-day actions. Thus, exposure of one cell may not threaten the existence of the whole network (Mayntz 2006; Raab and Milward 2003). Al Qaeda is often associated with the franchise business model in which units operate relatively independently, using only the name and the know-how of the core organization. Drugs and terrorism are entrepreneurial activities in the sense that they look for high rewards and need to be tolerant of high risk (McIllwain 1999). Scholars argue that highly motivated entrepreneurial human agents, such as Osama Bin Laden and Pablo Escobar, were needed to create dark networks (Milward and Raab 2006).

Dark networks are illegal. In contrast, this chapter focuses on illegal activities of formal organizations that have seemingly legitimate goals and use seemingly legitimate means. Corruption means informal deals and illegal machinations hidden behind an existing formal structure.

Analysis and Findings

I start with a detailed example of an intentionally designed and operated network of governmental corruption in order to present the main actors, the roles they play, the main elements of the network, and the functions each individual fulfills to survive and securely maintain the operation of the corrupt structure. In this chapter I use a real estate corruption case to specify these elements but I also add examples from other interviews to illustrate my key terms. Like other dark networks, corrupt networks are structurally and functionally differentiated; they build various units distinguished by tasks and roles. According to my findings, the main functions the different elements must fulfill are (1) cash cows, points from where the system is milked, (2) places for at “turning off” internal and external control

mechanisms in the organizations from which resources are being taken, (3) extracting illegal profits, and (4) brokerage and entrepreneurship, i.e. connecting and organizing the network.

I discuss these elements separately; however in the real world they are often mixed. Sometimes complex corrupt networks build several different subunits to fulfill each of the main functions while in other cases only a few actors are able to accomplish the main functions.

What a Corrupt Network Looks Like

My example is a highly publicized real estate scandal in a downtown district of Budapest. The corrupt network was discovered by investigative journalists, and the prosecutor's office started to investigate the case in 2006 based on the media publications. The journalists were informed about the case by local tenants forced by the local government to move out, and by city protection advocacy groups. Some tenants and civil society groups reported the case to the police in 2005, but they did not investigate it for a year. Finally the Central Investigating Prosecutor took the case away from the police and started an investigation on his own.

Based on media articles, I identified three central actors in the network who formed a strong corrupt clique. These actors designed, organized, and managed the corrupt network.

Since the trial in the case is still in progress, I do not use the actors' real names; instead we call them Antal, Béla, and Csaba. Antal was the mayor of the local government and member of the local Socialist Party, Béla was the chairman of local government's Economic Committee and a member of the Liberal Party. Csaba was a lawyer and entrepreneur who, among other companies, owned 10% of a real estate developer firm, which we call Housing Ltd. The local government owned the other 90%. There was a fourth person, Csaba's girlfriend, who though not among the main organizers, still had an important role in the network. She was a clerk, employed

by Housing Ltd. and also the owner of several project firms that were founded for corrupt purposes.

The corrupt clique sold twenty-six multi-story buildings between 2003 and 2005, in a historical district in Budapest that had been on the UNESCO World Heritage List since 2002. The market value of these properties can be measured in tens of billions of Hungarian forints (HUF). The buildings' original owner was the local government. The tenants who rented the apartments had a long term lease, and they paid a reduced rent for the apartments. In Budapest typically the renters have a pre-emption right to buy the apartment, but in this case the local government refused this option, claiming that in the case of historic monuments this right does not exist. The National Office of Cultural Heritage (OCH) often assisted the corrupt clique by releasing expert reports supporting the demolition of the buildings under monuments protection.

A proposal to sell the buildings was submitted to the Assembly by Béla, the Economic Committee's chairman. Based on "independent" appraisers' valuations, the asset management company of the local government released a report that emphasized the buildings' obsolescence, their lack of value, and the need for demolition. The asset management company was under the full control of the Economic Committee. Antal referred to these expert reports when he pushed the local government's assembly to vote for the sale of the buildings at a very low price. Based on an earlier decision of the assembly, with the support of the conservative opposition party, the local government did not have to publicly tender a building when its value is under 1 Billion HUF. Therefore, Antal easily and legally refused other potential developers even if they offered a much higher price for the buildings.

The local government assembly made a decision in a closed session to sell the properties without a bidding process. The mayor signed the contract with the project firms. Although the

contracts defined the price of the buildings, money was not exchanged in that phase of the business. However based on the paperwork provided by the local government, the Land Registry Office administered the firms' purchase right option on the title deeds.

The project firms' names contained a number, for example Kiraly 27 Kft., which is a common practice in the real estate industry where companies are often founded only for one particular project. The founder/owner of the project firms was Csaba's girlfriend in most cases, and the companies' official addresses were at the same location for most of them. Most of the firms were still undertaking the company registration process while they become the quasi-owners of the buildings. The same lawyers managed the company formations for all project firms; some of them had ownership in the firms. These lawyers and their law firms also participated as consultants in the sales contracts and other processes related to the real estate projects.

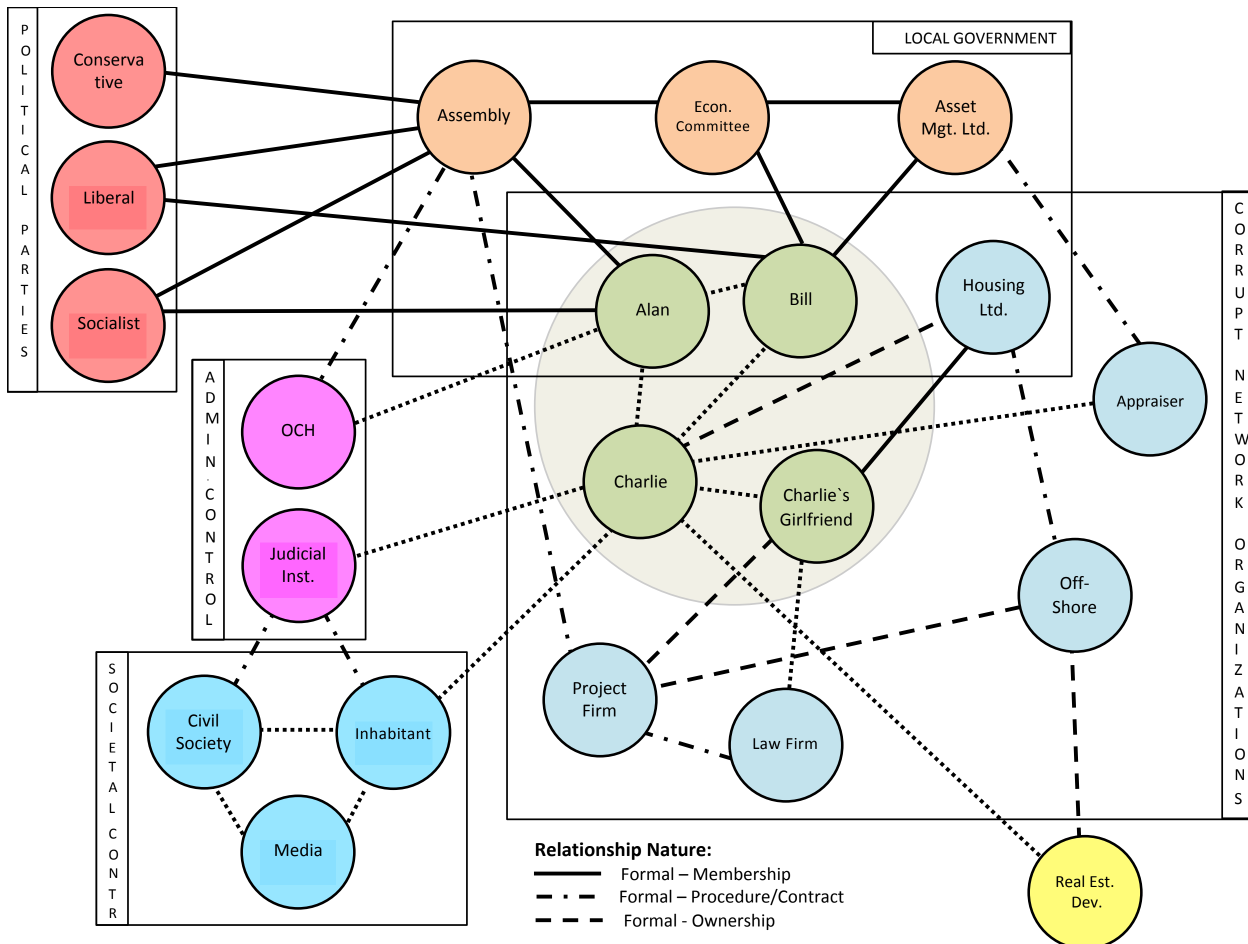
One week after the contracts were signed between the local government and the project firms, the firms were sold to an offshore company. The ownership structure of the buildings did not change according to the Land Registry Office, since only the companies' ownership changed. Finally, the offshore company sold the project firms to actual real estate developers, and the purchase price disappeared in the offshore companies with anonymous owners. Sometimes the corrupt clique used Housing Ltd. as a project firm. A small amount of this money was used for tenants' compensation and the middlemen's (lawyers, appraisers etc.) payment.

After the local government issued the demolition and building permits, the developers demolished the old houses, built new office buildings and residential parks, and then sold them at great profit. It was Csaba's task to contact the potential international real estate developers, offer to sell them the buildings to buy and negotiate the price. Therefore the future buyers had been

chosen months before the assembly even discussed the projects and voted for the sale of the buildings. Csaba gave instructions informally to the appraisers about the prices for the properties. He also went from apartment to apartment and persuaded the tenants to move out. In cases when the tenants resisted leaving, Csaba obtained a false documentation of imminent hazard for the building from the local government, and the police then forced the residents to move out immediately.

There is an ongoing public debate in Hungary whether some of the illegal profit from these real estate deals landed in party coffers. It is a fact that two main actors, Antal and Béla were party members. Some journalists noted the opposition conservative party's responsibility because local governmental members remained silent. The opposition party supported the socialist mayor several times in keeping the local regulations favorable for real estate corruption and also voted in favor of the sales. Moreover, the local opposition faction was also able to buy one property from the local government, with the permission of the Economic Committee, at a price well under the market value. It is also interesting that the government never sold buildings where both opposition and ruling party assembly members lived. Figure 7 shows a link diagram that visualizes the corrupt network and the characteristic of relations.

Figure 7. Corrupt Real Estate Network



Cash Cow

In the following sections using this real estate case I specify the main elements of corrupt networks but I also add some examples from my own interview material to illustrate the findings.

My empirical findings suggest that the fundamental elements of inter-organizational corrupt networks are core cliques, who have opportunities to pump resources over a long period

of time from the formal organizational system. Without available resources, corruption would not be possible. Corrupt networks need cash cows, points from where they are fed; they also need powerful actors who can control and manage this "milking" process. However the cash cow and the point where the corrupt profit is extracted are not necessarily the same location. Therefore, actors often have to build hidden routes through which the resources are transformed and finally received. Although I found several corrupt cases inside the private sector, the prototype of the inter-organizational corruption in Hungary can be found at the local governmental level. The cash cow is typically in public organizations.

Marketable resources transmitted from one actor to another are not always monetary; they may take many different forms, such as rights over decisions; licenses; permissions; funding projects; tendering and selecting partners, suppliers and subcontractors; control over accelerating, slowing down, delaying, or manipulating administrative processes; insider information about future plans; informal contacts with influential actors; or ability to move and mediate among different elite groups.

In my real estate example the cash cow was in local government. The main marketable resource was two actors' (Antal's and Béla's) decisional power over selling publicly owned buildings to private entities. Although they were able to control the cash cow, the decisions of the Economic Committee and the assembly, they did not have enough power to obtain cash directly and securely from the transactions. They needed to create a complex structure with mechanisms to convert the exchanged resources into material forms in a seemingly legal way and also to deactivate control mechanisms. The third main actor, Csaba's, main resource was his social capital and his ability to link and mediate among different actors. He was the broker and the entrepreneur of the network. He managed the corrupt system, negotiated with the tenants,

found the possible developers, and controlled the project firms' acquisitions through his girlfriend. According to journalists we interviewed, Csaba even bribed judges and police to delay trials and investigations filed by inhabitants and civil groups against the local government.

Deactivating Control

There is a common concern of secret societies, dark networks, and corrupt networks they try to keep their activities secret from internal and external observers. Their biggest challenge is how to get around the massive control efforts that exist. There are several different forms of formal control mechanisms in organizations, such as internal administrative control units (compliance management, supervisory boards, financial controllers, quality assurance etc.) and external institutions (regulatory agencies, judicial institutions, chambers, auditors, and other watchdogs). Other outside controls may be competitors and actors in the society such as local communities, civil society groups, and the media. Sometimes formal control systems do not work because they are inadequate and counterproductive (Anechiarico and Jacobs 1996; De Graaf and Huberts 2008). However we found that the most important thing in successful corruption is that corrupt elites can intentionally "turn off" crucial control mechanisms, inside and outside the organization. These cliques encroach on control points or build informal ties to control points, sometimes through corruption brokers.

Outside Controls

In my example the corrupt clique was able to turn off external administrative controls such as the National Office of Cultural Heritage, whose control function would have been to preserve historical buildings. It is the task of the OCH to protect historic buildings in Budapest; however,

the office acted in the opposite way when it lifted the protection abruptly and provided expertise that supported the demolition of certain buildings. According to an investigative journalist, the mayor talked several times in person to high-level officials of the OCH and "persuaded" them to grant permission for the demolitions.

An important local governmental control mechanism, the control of the opposition political faction was also deactivated. The main actors "bought" their votes by selling them a property, which become local party-headquarters, at well below the market price.

A lawsuit, filed by tenants and city protection advocacy groups, was also frozen for unexplained reasons. It seems that the corrupt group was able to build an informal tie to the court system, bribed the appropriate judge, and froze the trial. In this case the network's broker, Csaba, accomplished the control deactivation. Sometimes Csaba also broke down the tenants' resistance by using the police to force them out from the apartments because of immanent hazard declarations. My case also showed that although the main actors were able to defend the corrupt network against the joint effort of tenants and advocacy groups, they could not handle the control activity of the media. An investigative journalist revealed the case, and after many media publications, the corrupt operation could not be kept secret or be maintained.

Inside Controls: "Legalizing" Corruption

Corrupt networks need mechanisms to make corrupt deals seem legal. This is a special form of deactivation of internal administrative control mechanisms, but it also provides participants with documentation that is legally defendable against external watchdogs. The actors, who are usually middle-level professionals, convert the illegal deals and decisions made by the elite into technical formats, numbers, processes, rules, and legally correct contracts, using their expertise

and professional knowledge. In this way corrupt actors “technicize” the informal agreements (Jávor 1988). They hide illegality behind normal and legitimate organizational operation. In my example I identified two major points where the network needed this transformation. In the first case the mayor, Antal, had to turn off the control of the assembly and persuade to the members that the buildings were obsolete and worthless; Antal argued that the best way to utilize this area was to replace the old houses with new, modern, and trendy buildings. Therefore the government’s asset management company ordered false estimates from seemingly independent appraisers who then calculated very low market prices for the buildings. The illegal deals were transformed into numbers, in this case inaccurate, but seemingly official and legitimate, property values. I found other control deficiencies in this case. In Hungary there is an obligation that all local governments must have an inside auditor who reviews not only the bookkeeping but also the entire governmental financial management. I did not find any evidence that in my example an official auditor have reviewed the district’s property sales. Moreover usually the local governments’ own internal law office designs and reviews the government’s contracts. Since this activity was “outsourced” to outsider law firms, the corrupt clique significantly weakened a crucial internal control mechanism.

How to Receive Profits

The central actors within corrupt networks have to find ways to realize profit. These mechanisms often, but not always, convert the exchanged resources into material form. Sometimes corrupt transactions take the form of barter when cash is not exchanged at all (Della Porta and Vanucci 1999:50). There are also cases when actors profited from corruption by achieving status or impressing others (Jávor and Jancsics 2011; De Graaf and Huberts 2008).

Since in my case study the corrupt profit vanished into offshore bank accounts, I do not know exactly how the money was ultimately withdrawn. However the interviews provided examples of monetizing corrupt profits. For example, an investigative journalist told me this story when corrupt cliques founded fictive enterprises, transferred the money through them, and then found people to withdraw the cash from a bank:

"In the case of X company, [a multinational engineering firm], the CEO of the company paid a kickback to the ruling political party in return for generous public tenders. They kicked the money back to the politicians through companies which were 'founded and managed' by homeless people. The X Company signed contracts with these fake companies for consulting and project writing work. The homeless people regularly took less than 2 million HUF out of the fake companies' bank accounts. This is the amount that the banks have to report to the authorities as a possible suspicious money laundering activity. Five homeless 'company owners' had accounts in six banks and they did a round in all branches every week. Now, you can estimate how much money was pumped out. A lot of people were involved. There were bodyguards who escorted them to avoid stealing, the employees of the bank branch, and the cashiers of the political party, and so on."

Connecting and Organizing the Networks: Brokers and Entrepreneurs

I found that brokers in corrupt governmental networks differ somewhat from those who facilitate low-level corrupt transactions. High-level brokerage is more professional and more entrepreneurial. Such brokers do not just link different actors, but also do the operative "dirty"

work and manage some parts of the network. They find potential buyers for the corrupt "goods" and negotiate with them.

Middlemen in corrupt networks often have special skills to recognize informal holes in formal structures, so they do not just link different actors, but often become designers, organizers, and traders of corrupt systems. They sell the methods needed to construct such structures or exchange complete corrupt structures. These actors are not simple brokers but corruption entrepreneurs who recognize the opportunity, take the risks, create a corrupt structure with proper functions and units, and organize its operation or simply sell the services of the entire network. A retired chief financial officer of a town municipal administration said this about these corruption entrepreneurs:

"This guy [corruption entrepreneur] goes through the whole local government, the mayor, the deputy mayor, the notary, and the members of the municipal assembly and makes a deal with each of them. Obviously he has an easier job when the mayor can guarantee all municipal assembly votes. It depends on the situation. So he buys the land and bribes everybody to change the status of the land from agricultural to a legally buildable area. Then he sells this whole package with all permissions to multinational department stores. In this way the multinational literally outsources the corruption. It does not make its hands dirty and gets land that would have been much more expensive if it had negotiated directly and officially with the local government. I think in Hungary 90 percent of large shopping malls are built in this way."

People who want to design and operate sophisticated corrupt systems must have comprehensive knowledge of formalities, especially the regulatory and legal systems. It is not

surprising that many corruption entrepreneurs are lawyers, law firms, or legal consulting firms. My real estate case study also provided examples of lawyers who helped the corrupt network at several different points: founding project firms, creating a tailored contractual framework, transferring corrupt know-how among different actors. A CEO of a real estate development company explained the role of a lawyer in a business when his company wanted to obtain a building permit for a property under environmental protection:

"We went to the notary's office in the local government and told them that we wanted to change the status of the land. They took note of our request, and we walked home. Two days after our visit a lawyer called us. I had never heard about him before. He invited us for a meeting in his office. So we went. The conversation was very short, no longer than five minutes. The lawyer told us that a politician from the Socialist faction of the local government would contact us. It happened just as he said. We met with the politician in a café of a hotel and made the deal. He wanted 120 million HUF [about $ 600,000) for the building permit and we paid it. Technically the transaction was easy. A week after this meeting we went to the lawyer's office with a briefcase of cash. It has a real power [laughing]. We sat at the lawyer's desk and used his money-counting machine. Then he put the money in his safe. The cash stayed there until we received the permit from the local government."

Lawyers have an important role in "legalizing" corrupt transactions. With some corrupt deals, lawyers are the only actors who understand the rules of the game. They are often asked to create the legal frameworks for corrupt contracts, which are legally defendable. They are also embedded into the court system; they know bribable judges or prosecutors. According to my

interviews, when a corrupt network needs to contact judges or public prosecutors, lawyers always mediate among the actors.

Corruption Franchise: Selling a Whole Corrupt System

I discovered that an elaborate model and time-tested corrupt network may be sold just as easily as a commercial product. Sometimes only the idea, the technique, and the know-how about a corrupt model are sold, but in other cases, real personal contacts, as working networks, are exchanged. For example, in Budapest a neighboring district created almost the same corrupt structure as the one presented earlier. Moreover, not only were the mechanisms (know-how) identical but, as an investigative journalist revealed, Csaba also started his "broker career" in this neighboring district. He participated in the large-scale property privatization wave in the early 1990's and became a real estate corruption entrepreneur by the 2000's.

Actors who buy the services of a network obtain a complete system of social relations, with well established procedures such as, trustworthy personal ties, corruption legalizer functions, deactivated control mechanisms, and profit realization techniques. There are no further costs of partner searching, trust building and problem management. As a head of a real estate developer firm put it:

"If you have a potentially profitable project, they will come and find you. You do not have to seek them. If they feel that a there is an investor with capital and expertise, they come like hyenas…and they can offer you everything from bankers, lawyers, politicians, and judges to chief architects. To build a shopping center you need exactly 53 permits from local governments,

planning councils, bureau this and bureau that. They offer this all together in one package [laughing]…believe me, if you 'hire' them your life will be much easier as an investor."

Forms of Corrupt Networks

Based on my empirical data and the corrupt cases published by investigative journalists in Hungary, I created a corrupt network typology. I identified four types of corrupt governmental networks:

- Cannibalistic Networks
- Exploiter Networks
- Parasitic Networks
- Monopolistic Networks

The following table summarizes the main characteristics of these four different types.

Table 9. Types of Corrupt Networks

	Cannibalistic	Exploiter	Parasitic	Monopolistic
Main Characteristics	Cash cow & main actors are in the same organization	Cash cow is in a subordinate contractor entrepreneur Long vertical chain of exploited entrepreneurs and employees	Main actors collude to find a cash cow and build a complex network to milk it Some actors may be in the milked organization Corruption brokers and entrepreneurs (often lawyers) manage the system	Corrupt cliques of political and economic elites manipulate legal regulations and build monopolistic insider quasi-markets
Controls Deactivated	Mostly internal controls: legalization by of middle level professionals	Manipulation of technical quality assessments by outsider experts	Several external as well as internal controls: judicial system, watchdogs, media, civil society, etc.	Controls often deactivated by legal regulations Total control of the judicial system and
Relationship Between the Actors	Relatively equal Often based on pre-existing legal business relationship	Strong dependency between the powerful corrupt clique and the exploited firms	Cooperation of equal actors for a common goal They fulfill different functions for the corrupt network	Closed strong ties between top elite groups
Main Beneficiaries	The corrupt clique and the "buyer" side	The corrupt clique	The corrupt clique	The corrupt elite clique The insider firms
Main Losers	The milked focal organization	Several exploited entrepreneurs and employees	The milked focal organization Local communities	The excluded competitors General public
Forms of Costs & Loses	Financial loses Biased decisions Spread of corrupt culture	Financial loses Loss of quality Vertical spread of exploitation Chain reaction of bankruptcy	Financial loses Loss of quality Spread of corrupt culture	Extremely high level of financial loses, e.g. 90% of the project costs disappears
Extract the Profit	Overcharging Kickback	Forced bribe	Siphoning off through complex formations: Project firms, Offshore firms, consulting firms	Through legal contracts

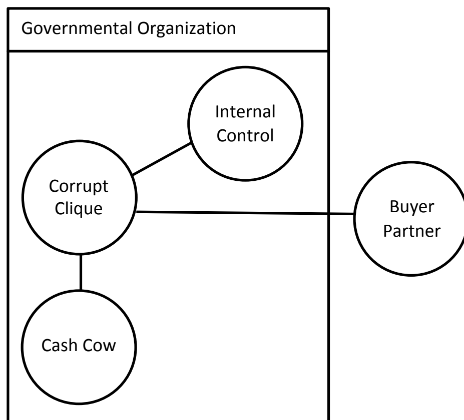
I found that the cash cow's location in the network and the actors' power relations determine to a large extent the structural characteristics of the network. The power differences among the actors may determine whether the corrupt act is extortive or consensual (Graycar and Villa 2011). In my typology, the cannibalistic, the parasitic, and the monopolistic forms of corruption may be considered consensual, since both the seller and the buyer, and their allies, are beneficiaries of the transaction. My exploiter type has an extortive aspect. Here I will briefly describe the four types, provide some examples, and review the main beneficiaries and losers of the corrupt transactions, and the forms of loses.

This is not a comprehensive typology, only a description of several types of corruption I witnessed in Hungary. It should also be noted that, although I believe that in governmental corruption the biggest losers are the general public and members of local communities, here I try instead to define the losers from the aspect of the actual corrupt network.

Cannibalistic Networks

In this type, the actors illegally "sell" their own government organization's resources, usually to outsiders. The participants are formal members of the organization where resources are extracted; indeed, they eat up their own organization. Typically the corrupt cliques of the organizational elite and middle-level managers use their power positions and control over critical resources, information, and decisions for their own benefit. The cash cow is in the focal organization together with the main actors. Main actors have an opportunity to use the organization as if it was their own. Figure 8 shows the basic form of cannibalistic corrupt networks.

Figure 8. Cannibalistic Corruption



A typical example of cannibalistic corruption occurs when a leader who controls the selection of suppliers asks for kickbacks in return for contracts. A head of division in a governmental department told me he had a corrupt deal with the sales manager of the department's stationary supplier. They regularly over-invoiced office products and then shared the illegal profit.

The main beneficiary here is both the corrupt elite clique and the "buyer" side. However, elites often collude with middle-level managers and professionals who help them to cover up and turn off insider controls. Thus middle-level actors need to be compensated or threatened to get them to participate (Jávor and Jancsics 2011). It is common for corrupt cliques to start corruption with outsider business partners with whom they already had had legal contractual relationships (Rose-Ackerman 1999 12; Lambsdorff 2002). This reduces the risk and other transaction costs of partner searching.

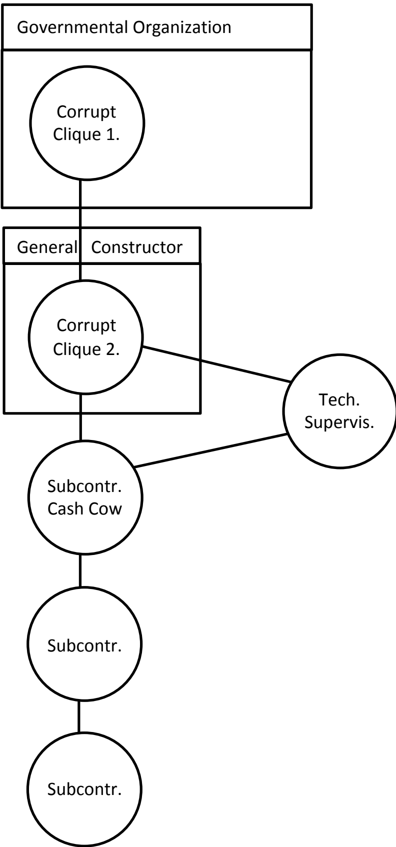
The main loser here is the focal organization. However, there are not only monetary loses. The organizational decision making system also becomes biased and departs from the

optimal because of corrupt interests. Cannibalistic Corruption weakens internal organizational controls, which may contribute to the emergence of a widespread corrupt organizational culture.

Exploiter Networks

This type refers to corrupt networks in which actors are able to exploit inter-organizational dependency relations. The main actors in the focal organization can force less powerful actors, typically in subordinate organizations that have some formal contractual relation with the focal organization, informally to pass over extra resources. Here, the cash cow is located in a different organization. In exploiter corruption, the illegal network may appear as an inter-organizational structure. Figure 9 shows a possible form of exploiter corruption.

Figure 9. Exploiter Corruption



We often see this type of corruption in vertical chain contracting structures when the suppliers are too dependent on the focal organization. Winning a contract is a matter of life and death for the contractor. During this research project I met some entrepreneurs who were forced by powerful state-owned monopolies to compete with each other on two fronts. First, they competed fiercely in order to win a formal tender; however, at the same time, they competed in the informal zone to offer the highest bribe for the contract. They have to offer the best — legal and illegal — bid to win a "slavery" position in the vertical chain or network. A founder CEO of an IT company that often wins public tenders from a certain governmental ministry through paying kickbacks told me:

"OK, here is an example, our latest project. See how these deals go: A government department publishes a call for tender for 100 computers. There are 20 bidders and they start to compete. Finally the price is under the frog's ass [Hungarian phrase for a very gloomy outlook]. They [the government] start to get rid of the firms, and in the end four of us remain. Then another bidding phase starts: who can offer the highest bribe?...and as I said, the price is already very low. This is the bad corruption…I hate it…They force you into a killer competition, and you still have to pay the jatt [Hungarian slang for huge tip or bribe]…And do you know why I am doing this, even under these shitty conditions? Because I do not want them [other competitors] to get in."

Another example of exploiter corruption is when the corrupt actors from the focal organization simply blackmail the contractor, threatening that if he/she does not pay the bribe, they will not pay for the work because of (bogus) "quality complaints."

The corrupt clique usually continues long after the legal contract was signed between the partners. In this case, outsider technical supervisors often help them to provide false assessment, and turn off the quality assurance control, for example claiming poor quality work. The exploiters timed their action beyond the irreversibility point of the project, after the contractor had finished a considerable amount of the work, for example, installed the 80% of radiators in a construction project. Thus the contractor faced two bad choices, either pay a bribe and get paid after the work is done, or refuse to provide a bribe, sue the contracting party, and after several years of an uncertain lawsuit against a powerful organization in a corrupt judicial system possibly be paid.

A 'bogus claim of bad quality' is not the only way to pass over extra resources from exploited companies. The planned bankruptcy of a "friendly" firm at the middle of a contractor chain is also a widespread technique for corruptly making money in Hungary. In the infrastructure sector it is typical for powerful investors or tender winners in public projects to intentionally create long corrupt chains of exploited contractors, extremely dependent entrepreneurs. After the construction project is mainly finished, the corrupt organizers "cut" the chain. This means that one firm, owned or controlled by corrupt clique members, in the middle of the chain or network deliberately goes bankrupt. All the other entrepreneurs, suppliers, and transporters below this firm in the chain will never be paid. Banks that provide loans for such projects are often involved in this game. Perfectly timing their activities to a point after the majority of the project work is done, the bank charges a considerable amount to the corrupt firm. This firm becomes "insolvent" and cannot pay for the contractors' work, while the bank gets all its money back. The owners of these deliberately bankrupted firms often re-appear in new infrastructure projects with newly established companies that go bankrupt again and again.

Recently several big public projects ended up in this way. The biggest scandal involved the Megyeri Bridge project. In this case, a general contractor went bankrupt and was unable to pay more than 1 Billion HUF to its subcontractors even after the bridge was finished.

The main beneficiary here is only the corrupt clique, and the losers are the exploited entrepreneurs or organizations. However, the subcontractor often tries to transfer the loss elsewhere. I found that the exploited party attempts to extract its profit somehow from this unpleasant situation. One possibility is to exploit even less powerful actors and thus push the extortion down in the vertical structure. The contractor can force its own subcontractors to pay bribes and kickbacks, and do the work under market price. It might also hire employees illegally without paying their pension and health insurance, or any payroll tax for them. This is especially typical in the Hungarian infrastructure sector, in large-scale highway and bridge projects. Thus the range of losers is much wider than one single subcontractor, since this kind of corruption creates long chains of exploited firms and employees. These subordinate firms and entrepreneurs are in constant financial uncertainty. Since they have to advance building materials, which they often finance by loans, they are totally financially reliant on the project. If the corrupt clique cuts the chain or does not pay for the work, it often results in a domino effect of the spread of bankruptcy.

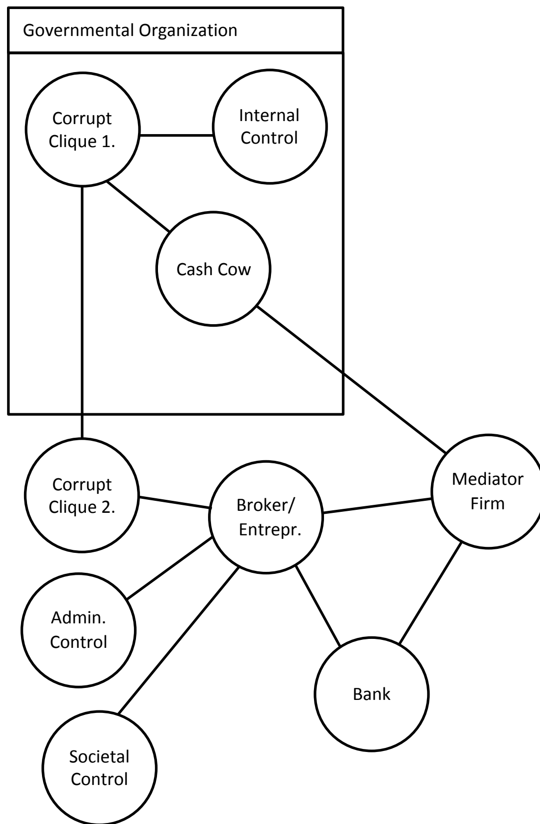
When a company is forced into a bad contract and no other subordinate actors can be exploited, a firm sometimes compensates by saving money on construction materials or degrading the operation of its professional technical system. In this case, the quality of the products significantly worsens, and the organization starts to eat itself up. For example, a road construction entrepreneur explained how he sacrificed the organization's professional quality in a corrupt deal:

"They [local governmental officials] told me that I can win all road reconstruction in the [Budapest] district if I undertake if for a very depressed price. Then they also wanted some kickback. I said yes, so I got the job. But I had to earn money from somewhere. So I built the roads…20 cm asphalt was needed…instead we spread 7 cm. But I did not steal only the asphalt from the road, I stole the bitumen from the asphalt too. The whole stuff hardened in three days, and the asphalt quickly cracked. A year later I had to build roads again. I paid the bribe and got the same money again [laughing]."

Parasitic Networks

Parasitic corruption emerges when some powerful actors collude in order to find a cash cow and build a corrupt system that encroaches on it. My detailed real estate case discussed previously falls into this category. In cases of parasitic corruption, the cash cow is likely located in some main actors' organization, but several outsiders are also needed. This is the most complex type in my typology because the corrupt clique does not have enough power to control the system entirely, as in my monopolistic case (to follow). However, they want to milk, hide, and successfully maintain the corrupt network for a longer term. Therefore the organizers build and operate a relatively complex network of equal actors that has different elements with important functions. Figure 10 shows one possible form of a parasitic network.

Figure 10. Parasitic Corruption



The main functions I discussed earlier in this chapter — legalize corruption, deactivate controls, and extract profit (or money laundering) — are necessary for the smooth operation of parasitic corruption. As my real estate case showed, if the organizers of the system do a good job, everything seems legal and legitimate, but in fact everything is corrupt. The local government assembly members, who decided it was the best solution, legitimated the sale of the buildings. Their decision, the need for the sales, was legalized and legitimated by the Economic Committee's statement, the appraisers' phoney valuation, and the National Office of Cultural Heritage's supportive expert reports. The mayor's signature was legitimated by the assembly's

decision. The informal support of all big Hungarian political parties also provided a wider legitimation of the corrupt project.

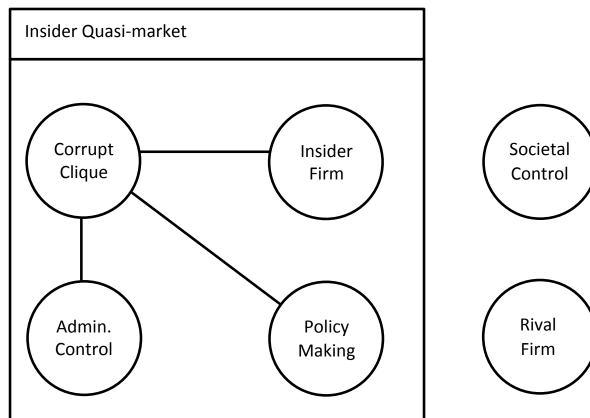
Nielsen (2003) also used the term parasitic network and noted that parasitic win-win corrupt deals can be beneficial for several of the players within an exclusive network. However, according to the author, these relations are very bad for those excluded and for society in general. In my type, the main beneficiaries are the members of corrupt clique, who constitute a much wider circle than in cannibalistic or exploiter cases. Parasitic networks need several brokerage functions. Real entrepreneurial skills and substantial knowledge of the legal structure are also necessary to create and manage such a complex network. Professional corruption brokers appear who know the procurement procedures and legal framework perfectly, and have a widespread social network connecting different political and economic elite groups. Since there is a demand for this kind of knowledge, a market for corrupt services emerges where ideas, information, social relations, corrupt models, and complete corrupt structures are exchanged. Sometimes legal organizations (law firms, consulting companies) emerge to assist in finding loopholes and creating corrupt networks. Bankers are often involved to hide and manage the money transfers. These networks reach the judicial systems and the media, and deactivate their external controls.

The loser is the milked organization. Since in Hungary many parasitic networks siphon off huge resources systematically from the local governmental structure, as in my real estate case, this type is a more common experience for local citizens than, for example, cannibalistic corruption. Although parasitic networks are professionally designed for the longer term, they may face exposure and threat from local communities, the media, and civil society.

Monopolistic Networks

It is a typical characteristic of governmental corruption that officials are able to abuse their monopoly power over a good or a service needed for citizens or business organizations (Shleifer and Vishny 1993; Klitgaard 1998). However in my monopolistic corruption type, the main actors have more power than simple control over the allocation of particular goods. They have control, not simply over individuals and over economic transactions within a given organizational structure, but over a wider structure of social relationships. They create their own small world where they are the rulers. Figure 11 shows the basic elements of corrupt monopolistic networks.

Figure 11. Monopolistic Corruption



Scholars who have studied mega-events, such as the Olympic games, have recognized such monopolistic corruption situations (Dollinger et al. 2009). The central organizing authority of mega-events is in a position to act as a monopolist because it has the power to create a rent-generating cartel, distort normal market competition, limit the access of business organizations to the network, and set both the prices it receives and the quantities it demands. State capture, a form of grand corruption when powerful firms are able to influence state laws, policies and

regulations, is also discussed in the literature (Hellman and Kaufmann 2001; Cepiku 2004; Graycar and Villa 2011).

Monopolistic Corruption is at the top of the corruption food chain: the king of the corruption jungle. In this case, elites are able to manipulate municipal or national-level rules and regulations. They can exclude outsider competitors, often seemingly legally. The main actors do not seek a cash cow but create it. They build a monopolistic insider quasi-market in which they can arbitrarily determine the prices of exchanged resources.

According to my interviewees, public mega-tenders in Hungary, especially large-scale motorway and metro projects, are totally controlled by closed circles of powerful political and economic figures. They are extremely overpriced. Readers may raise their eyebrows when they hear that in 2005 the cost for 1 km of a four-lane motorway in Hungary was 250% of the Eastern European region average (Snell 2005). In the monopolistic type, the corrupt interest overrides any rational economic consideration. An owner of a midsize construction firm gave an example of monopolistic corruption at the local government level:

"This example is also about my firm, but this time we were the suffering party. The municipal government had a tender to change 1500 windows in several public buildings. Insiders warned me that it would not be impossible to get this business, but I was a greenhorn at the time. So, we followed the official tender documentation and submitted a bid which was 270 million HUF. They rejected us without any serious justification. The rival firm won with a 810 million HUF bid. Can you imagine it? A three times higher bid....An acquaintance, who was working in that firm, whispered this....It is funny because we have never been able to get a large-

scale public project. It is a closed circle. That is why we play in the private market, here we still have to pay kickbacks but at least we can win projects."

In Monopolistic Corruption, the main beneficiaries are the highest levels of local and national political and economic elites. Those who are in the corrupt network have all the privileges of insiders; they have full access to information about national and regional level strategic decisions (e.g. highway routes), tenders (e.g. new subway lines), or monetary and fiscal policies, long before those decisions are publicly communicated. Excluding the competition is an extra advantage for firms who win projects. They use their growing power to strengthen their monopolistic positions, and to expand in other sectors and abroad. Thus, they convert the advantages obtained by corruption into real and legal economic power.

The main losers are the firms who were excluded by the monopolistic cartels. However this type of corruption also results huge public resource waste. This is the corruption when typically 80-90% of the project's value is stolen. I found that monopolistic corruption networks are often clan-controlled systems (Ouchi 1980), in which the main organizers share the same beliefs, a strong sense of community, and sometimes a political ideology. These elite members often socialized in the same colleges, student societies, communist youth movements, or in the communist secret service.

Discussion

The main insight of this chapter is that governmental corruption in Hungary, at least at the top level, mainly occurs beyond the dyadic corrupt interaction that is the predominant view of corruption in the public management literature. Large and relatively complex networks of

corruption exist that involve many people, and require deliberate design and management. The corrupt networks I discuss here are different from the network of a price-fixing scheme that Baker and Faulkner (1993) presented, where executives acted on behalf of their organization. Actors in my model are still public-choice style actors, in the sense that they are self-interested individuals. However, the main interest of chapter is to examine how these actors form corrupt networks and coordinate their actions in order to satisfy their self-interest.

Corrupt networks need cash cows, suppliers to the system. The existence of a cash cow (available resources) is a necessary but not sufficient condition for corrupt networks. Power is also a crucial element in these networks. Those who are able to build such networks must have control over significant marketable resources and the power to turn off control mechanisms at different levels.

Power over something does not mean that this power is absolute (Wrong 1968). The actors' power positions in corrupt networks determine opportunities for corruption, their roles in the illegal game and their latitude. Two kinds of power can be distinguished in organizations, positive or active power -- the ability to initiate an action -- and negative (resistance) or passive (protection) power ability to stop some activity.

Active power provides an opportunity to actively influence processes, determine the outcomes, and illegally reallocate formally distributed resources. When corrupt organizational elites mobilize control (e.g. start a police investigation based on false evidence) against investigative journalists, competitors, or activist civil society groups, they also use their active power. Other actors can only protect their position in the corrupt network structure. For example, a firm may not have enough power to prevent the tax office from investigating, but it may be informed by an insider about the investigation and this may provide enough time to destroy and

manipulate compromising documents. Deactivating controls by legalizing corrupt deals and converting them into numbers, processes, and rules is also a form of passive power.

I believe that successful corrupt networks need a combination of influence and protection, actors with both active and passive power. For example, a traffic policeman may have active power to extort bribes from speeders, but does not have passive power to defend his business; he cannot recognize which driver would be a hidden policeman. However, if his colleagues in the police department warn him about a hidden insider investigation, he can acquire a control deactivation for his corrupt little system.

Many of my examples, especially cases of exploiter and monopolistic corruption, are from the Hungarian construction sector. It has been repeatedly revealed that collusion and corruption is more widespread worldwide in the construction industry than in any other sector of the economy (Sohail and Cavill 2008; Van den Heuvel 2005; Dorée 2004). However, the Hungarian construction sector has some special characteristics. Immediately after the collapse of communism in 1989 the structure of construction industry radically changed in the country. The formerly dominant large state-owned socialist construction companies became bankrupt and by the early 2000's almost 90% of the contractors were working with fewer than 10 people (Kunszt 1998; Grosz 2002). Currently the sector has an amorphous structure with very few large firms, often associated with powerful oligarchs, and tens of thousands of micro-size businesses and self-employed entrepreneurs. The huge number of weak, dependent and vulnerable micro-companies provides exploitable fodder for corrupt networks in the construction industry.

Since the beginning of Hungary's EU accession process in 1998, the country's economy has been receiving a large amount of EU development money, much of it channeled into large-scale infrastructure projects. In several mega projects we can see the combination of two types of

corruption, when monopolistic and exploiter networks are linked to each other. These are typically large-scale motorway, subway, bridge or urban development projects when the state forms a monopolistic network with a few privileged companies often controlled by Hungarian oligarchs. These companies become the central organizing authorities of the project and delegate the work to secondary firms in the vertical chain. Then this secondary level builds the chains of exploited entrepreneurs. Many of these subcontractors will be never paid for their work. In these formations the corrupt actors can realize economic rents, since they squeeze the subcontractors or simply steal their money from an already extremely overpriced project.

Corrupt Networks vs. Dark Networks

There is a growing interest in the scholarly literature on the network characteristics of illegal and hidden organizational activities. While these efforts mainly focus on terrorist and smuggler networks, this chapter emphasizes the network features of corrupt entities. Corrupt networks are dark networks in the sense that they are illegal and covert (Raab and Milward 2003). They both differentiate vertically and functionally to respond to special survival challenges. Corrupt networks have special units distinguished by their distinct functions, such as legalizing corruption, turning off control, connecting ties and building networks, rewarding participants, and extracting profits. The main similarity is that the biggest challenge for both types of networks is to avoid legal external control. They have to create a network structure that is capable of surviving massive outsider control attempts. Another common element is the franchise. Al Qaida is often compared to fast food franchises. Knowing how to create a corrupt structure around a cash cow is also a marketable asset. However, corruption brokers “sell” not

only proven corrupt techniques and models but complete social systems with reliable ties, corruption legalizer and cover-up functions, and profit-extraction mechanisms.

A significant difference is that while the primary activity of terrorist and smuggler networks is illegal, corrupt networks need legal organizations to encroach upon and milk. Corrupt activities are intertwined with transparent and legal activities and cannot be detached. Without formal organizations, corruption would not be possible. Although terrorist/smuggler networks sometimes use open and legal activity to cover up their primary illegal activity, for example transporting drugs, laundering money or purchasing weapons, they can exist without this legal cover.

Chapter 8- Conclusion and Policy Implications

There is a longstanding debate in the social sciences about how systems – cultural, normative or material structures - interrelate with actual social action, and with individual decisions involving human agency. While the rational-actor approach, discussed in Chapter 3, represents pure profit-oriented individual decisions without any social constraints or past relations, the other end of the spectrum is the systemic approach where human action is fully determined by systemic forces. However, as Granovetter (1985) claims, actors do not behave as atoms outside of a social context (rational-actor models), nor are they driven by external social forces as robots (systemic models). Rational economic relations are indeed mixed up with social ones. Accordingly, if we want to understand any form of social action – including corruption -- we should focus on: "purposive actions embedded in concrete, ongoing networks of interpersonal relations." (Granovetter 1985). Rational-actor and systemic perspectives are very static approaches compared to the more dynamic relational perspective (Emirbayer 1997). Neither rational-actor nor systemic models can incorporate the dynamics of complex relationships and concrete transactions into their explanations and thus provide an adequate understanding of corrupt practices.

This study confirmed that the relational approach to understanding corruption has the potential to link rational actors with systemic elements, or in other words, to connect agency with structure in corruption research. My analysis of 'real world' corrupt transactions based upon qualitative fieldwork uncovered small group level face-to-face interactions of individuals while also considering macro-level institutional embeddedness. This type of research revealed important information about human agency such as the corrupt actor's motivation, negotiating, timing and decision-making processes, the role of other actors, and different forms of resources

allocated between them. However my qualitative method was also effective in identifying systemic elements, the symbolic and material patterns embedded into relational structures.

Pure systemic models provide static descriptions of social reality (Emirbayer and Goodwin 1994). Their concept of norms and structures that influence individual behavior is rather mechanical. Once we know the normative or structural factors related to an individual "everything else in behavior is automatic, since they are so well socialized" (Granovetter 1985). For example, following this logic and based on the actor's Protestant or Catholic religious preference one might clearly determine his/her motivation to be corrupt. However in the real world actors' religious beliefs as well as other external normative phenomena are not always once-and-for-all influences but rather constant processes, continuously constructed, reconstructed and altered during interactions with other people. Actors' contextual environments, cultural, normative and material structures obviously constrain them by "blocking and enabling certain possibilities of action within an actual social network" (Emirbayer and Goodwin 1994). However such environments are very flexible. They should be examined by continuously observing the actors' dynamic relational processes that shape their reality over time. In this way social networks facilitate systemic impacts but on the other hand the actors' ongoing interactions also shape the whole system, and transform and reproduce cultural and normative patterns. Therefore social relationships can explain much more about actors' motivation to participate in corruption than single macro-level variables.

The classic economic analysis of micro-level individual decisions of human agency cannot avoid social relations either. Rational action never happens outside some social context. It is always socially oriented. As Max Weber (1922: 88-115) claimed "rational" instrumental action deliberately pursues certain goals but at the same time such actors constantly take into

account the behavior of others. Agency is always "agency toward something," because actors enter into transactions with surrounding persons, places, meanings, and events (Emirbayer and Mische 1998).

The rational-actor approach is also regarded as substantialist, because given certain assumptions of the transaction, the actor's underlying interests remain unaltered (Emirbayer 1997). In such models the rather passive rational actor can choose between only a few strategies at a time. The relational approach that views social reality in dynamic, continuous, and processual terms seems to be a reasonable analytic alternative.

As my findings and other studies have argued, the pure version of market type corruption when actors have clear preferences intent on maximizing monetary profit may indeed occur (on-the-spot corruption and entrepreneur brokerage). However this is only one, and not the primary orientation found when studying corrupt action. Actors' orientations within market-type corrupt exchanges depend on the nature of personal relations such as increased social distance, low level of trust, socially anonymous partners, and dominance of cash payment. From a relational point of view, agency cannot be separated from the unfolding dynamics of situations.

This dissertation provides a comprehensive typology of corruption in post-communist Hungary and reveals several new or neglected dimensions of corrupt transactions such as the organizational context and the benefit versus constraint motivated types of corruption.

The Importance of Organizational Context

The mainstream corruption literature largely neglects the formal organizational context in corruption analysis. However my findings suggest that it is a crucial dimension of such exchanges. All corrupt transactions have organizational aspects, since at least the agent is an

organizational member or has an organizational affiliation. Also, without access to organizational resources, corruption would not be possible, because different forms of organizational resources are what corrupt actors exchange illegally.

The organizational context is also an essential factor for explaining the differences between low and high level corruption. The mainstream economic literature claims that low-level corruption occurs when there is a high degree of transparency and large number of potential contractors whose identity is irrelevant (Husted 1994; Scott 1972). In contrast to this market type petty corruption, in high-level parochial cases the relationship between the partners matters. Due to limited entry and exit, the identity of partners becomes important in parochial transactions. My study suggests that the market versus parochial dichotomy is probably not the best way to capture the difference between low and high level corruption. As we saw in chapter 4 and 5 social bonds matter, not only in high-level corruption but also in many forms of low-level corruption as well. Sometimes there is a close social relationship between the low-level client and the agent. In other cases a third party, a corruption broker, is linked socially to either the client or the agent.

I believe that organizational context has more explanatory power here. In low-level corruption the insider agent "sells" organizational resources to the outsider client, whose organizational affiliation is not relevant for to case. Rather, the client's social attributes, his/her social network structure and social status are more important factors in petty corruption. In contrast to these petty corruption cases, in high-level corruption organizational factors have crucial importance. This is the realm of formal hierarchies and informal power dynamics within formal structures. Here, actors consciously and extensively use the organization and its mechanisms and resources for their own corrupt purpose. As Perrow (1986: 14-20) notes in an

early work, an organization is always a tool for its leaders to use for private benefits. In high-level cases the client is also an organizational actor and most illegal transactions are embedded into organizational processes. Corrupt elite members collude with many other actors to maintain corrupt structures for a long term. Corrupt networks are often designed, organized, managed in similar ways as other formal organizations except that their main goal is illegal. Involved elite members actively use the organization's formal and informal structures, organizational resources, formal authorities, professionals' expertise, document manipulation and bookkeeping techniques and technological procedures, all in order to "successfully" conduct corruption. They also use inter-organizational arrangements to extract illegal profit from the system in sophisticated ways. Although corrupt agents in low-level corruption can also use some organizational resources, the whole process is far less systematic and professionally controlled than in high-level cases.

Social Benefit or Constraint

Another key dimension of corrupt transaction is whether individuals participate in the deals because they profit from such associations or they act because of external social constraints. Here I use the term profit in a much broader sense than simply monetary benefit. The corrupt actor can accumulate symbolic capital, such as recognition, honor, prestige, and even status (Bourdieu 1997) or obtain psychological benefits (Simpson 1972: 14). Sometimes people exploit the norm of reciprocity and help others in corruption in order to create a "gift-debt" that must be repaid in the future (Mauss 1954; Gouldner 1960).

Strictly economic corruption when the actors' rational calculation dictates the transaction is only one, and far least the dominant form of corruption. It happens under particular social

circumstances. Cash bribes and immediate transfer and counter-transfer is a necessary requirement when the client and the agent do not know each other and presumably will not meet again in the future. Most “on the spot” cases, discussed in Chapter 4, fall into this category. Other brokered market type transactions, reviewed in Chapter 5, when the client does not know the agent also require prompt cash return. However anytime when the corrupt transaction is based on close social relationship and there is a likelihood that the actors can meet again, opportunity emerges for delayed counter-transfer and for diverse forms of exchanged resources other than cash. This suggests that corruption is something more than a simple economic act. It is a social phenomenon, embedded in dynamic interpersonal relations.

From a relational point of view, agency cannot be separated from the unfolding dynamics of situations. Human behavior is not ‘self-action’ as rational-actor scholars view it but rather constant trans-actions in a web of actors (Dépelteau 2008). When people participate in corruption they are not simply maximizing personal advantage and avoiding punishment. They conduct a lot other fundamentally social actions making a creative effort to establish, maintain, negotiate, transform, and terminate interpersonal relations (Zelizer 2012). The relational perspective provides an appropriate framework to reveal and interpret what actually people do when they engage in corruption.

As my interviewees revealed, actors participate in corruption seeking social benefits but also because they are forced by systemic elements, structural and institutional constraints. Here external forces push the actors towards corrupt deals and in many cases they are not even aware of such pressure. This also suggests that corruption is a complex social phenomenon, deeply embedded into social and organizational structures, normative systems and power relations as well as actual relational dynamics and social networks.

Policy Implications

As this study proved, there is no such a thing as corruption in general; instead corruption has many different types. This also suggests that there is no such a thing as anti-corruption policy in general. My opinion is that anti-corruption measures should be tailored to actual forms of corruption. In this section I review the main anti-corruption strategies and show whether they may or may not fit particular corruption cases discussed in previous chapters.

Anti-corruption practices can be classified along two main dimensions, top-down/bottom-up (Lambsdorff 2008) and internal/external policies (Brunetti and Weder 2003). Table 10 shows the intersection of these two dimensions. Top-down anti-corruption policies are implemented by formal authorities, such as organizational elites, governments or legislative bodies. In contrast to this, bottom-up measures are more grassroots-type phenomena, initiated by individuals, communities, journalists, bloggers, other media workers, civil society members and activists. The internal/external dimension simply implies whether anti-corruption happens within an organization or is implemented by outsider actors.

Table 10. Anti-corruption Strategies

	Internal	**External**
Top-down	Internal Monitoring (audit) Incentives (penalties and rewards) Limiting discretion (rotation)	Regulations (criminal code, political campaign financing) Law enforcement & Judiciary External Monitoring (audit) Anti-corruption units Formal education PR campaigns Technology (online impersonal procurement)
Bottom-up	Whistle-blowing Organizational culture	Free Press Civil society, NGOs

Internal Top-down Strategy

Internal top-down measures represent the mainstream of anti-corruption policies. They are rule or repression-based strategies implemented inside the organization. The theoretical background of this anti-corruption strategy is the principal-agent model where the principal is the owner or the head of the organization and the agent is an employee who, in order to serve the principal's interest, exercises some discretion in his/her own decision-making and work. However the agent may become corrupt and collect bribes when he intentionally sacrifices his principal's, or his organization's interest to his own and betrays his trust (Banfield 1975; Shleifer & Vishny 1993; Rose-Ackerman 1975). This model views the principal and the agent as rational actors whose main goals are maximizing rewards and minimizing costs.

Internal top-down strategies try to resolve the problem of corruption by making corrupt behavior expensive and non-corrupt behavior profitable. The main anti-corruption techniques here are a proper incentive structure, strict monitoring, well-designed contracts and discretion limitation through, for example, staff rotation (Rose-Ackerman 1986; Becker & Stigler, 1974; Schulze and Frank 2003; Eisenhardt 1989; Abbink 2003).

Critics of the principal-agent approach have noted that these models rest on the assumption that corruption exists only because of the corrupt agents, and imply that it is the role or responsibility of the principal to control corruption (Persson, Rothstein & Teorell 2010; Rothstein 2011, pp. 99-104). However, the principal-agent framework and the related *internal top-down* strategies become useless where the principal becomes corrupt as well, and does not act in the interest of the organization or the public good. In that case there will be no actors able to monitor and punish corrupt behavior. Chapter 6 suggests that organizational elites (principals)

as well as middle-level professionals (agents) are involved in intentionally designed and managed corrupt networks.

In Chapter 4 I showed that bond-based corrupt relationship may become institutionalized when the participants create standard frameworks of the transaction, such as regular prices or times and places of meetings. This standardization reduces uncertainty and decreases the transaction costs of repeating negotiations and arrangements for both parties. In such institutionalized cases the identity of the agent may be irrelevant. In an example in chapter 4 parking attendants colluded and created a list, and contact information, of people and small shop owners who bribe them and they shared these lists. When they were ordered to another neighborhood, based on the list, they knew from whom they should collect the money. This example highlights the weaknesses of the discretion-limiting anti-corruption policy, staff rotation. Such measures are circumvented because once the corrupt relation becomes institutionalized the agents can be interchangeable.

The theory behind internal top-down strategies is that corruption is a market type transaction and the principal and the agent are rational actors. However examples in this dissertation proved that pure market based corrupt transactions represent only one particular segment of corrupt cases. In my examples, on-the-spot transactions and entrepreneur middleman brokerage types fall into this category. Internal top-down measures may be an efficient anti-corruption strategy in these cases. However when the relationship between corrupt actors is based on social bonds and close social distance, mechanisms other than rational decisions determine participants' behavior. This means that internal top-down policies may not work. In such cases particularistic small group norms or organizational culture of silence and cover-up

regulate relations among group members. Here rational considerations may be secondary or totally irrelevant for the corrupt actors.

Internal Bottom-up Strategy

This strategy emphasizes internal organizational context, however there are several organizational factors that work counter this anti-corruption policy. First, corrupt organizational culture and the norm of "*don't turn in an in-group mate*" can easily prevent reporting the colleagues' illicit practices because whistleblowers violate the unwritten contract of loyalty to fellow organizational members. Whistleblowers quickly become outcasts. Their life in the organization can turn into a nightmare. Such ostracized actors sooner or later will leave the organization. Therefore whistleblowing works best in 'bad apple' cases when the organizational culture is supportive and corruption is exceptional rather than normal.

Second, when corruption is embedded into organizational power structures whistleblowing may be also very inefficient. Here whistleblowers risk being fired. However some powerful boss may can use his/her influence and contacts and successfully turn down the whistleblower from all other jobs in the same governmental administration, neighborhood, district or town. A middle level HR manager, who was constrained by her boss to manipulate documents and cover up for him, told me this:

"Yes, I would have refused to cover up for my boss and moreover would have reported this case to our compliance manager. But I had conducted some research on the Internet before I decided to remain silent. Do you know what is happening with the 90% of the whistleblowers? I

realized that they just got fired. Then I thought: Why should I be so eager to be the good guy? Why should I take this risk? Why is this all good for me?"

Finally organizations do not like disloyal members. If somebody was willing to report against his/her colleagues or bosses this would be a red flag for other potential employers. This means that whistleblowers are generally unwelcome in a world where formal organizational membership is a crucial independent variable of social life.

External Top-down Strategy

External top-down measures emphasize the importance of formal actors who are empowered by authorities to regulate, monitor, audit and sanction organizational misconduct or in some cases influence the general public's attitudes toward corruption. The main lesson of corrupt elite networks, discussed in chapter 6, is that external top-down strategies are simply not applicable in systematically corrupt governments because of the strong resistance of powerful interest groups. Internal top-down measures do not work against corrupt elite networks because they are structures that include corrupt agents as well as corrupt principals. However there are also sophisticated organizational complexes able to "turn-off" external control mechanisms such as law enforcement, judiciary and external monitoring institutions and anti-corruption units.

I, along with many other scholars (Falaschetti and Miller 2001; Nielsen 2003; Diamond 2008), am very skeptical that formal external control mechanisms in systematically corrupt structures can help against corruption. Such reforms can easily backfire. For example, anti-corruption agencies are often captured by corrupt networks, and used for political and propaganda purposes (Doig, Watt and Williams 2007). It is unlikely that without a radical

change, or as Bo Rothstein (2011) calls it, a ‘‘big bang,’’ a predominantly corrupt system will self-correct. Rothstein argues that only ‘‘nonincremental’’ dramatic changes (‘‘big bangs’’) can defeat systemic corruption. Instead of targeting corruption directly, the entire general framework about the meaning of public service and political institutions must change in a country. The war against corruption should start at all fronts at the same time with extremely high intensity and only then will powerful corrupt networks realize that everywhere they turn, “there is a new game in town” (Rothstein 2007). Such a comprehensive anti-corruption campaign should be conducted as simultaneously as possible. This is nonetheless an extremely expensive strategy.

External Bottom-up Strategy

The findings of chapter 6 suggest that *bottom-up external mechanisms* are the most promising anti-corruption options, especially against sophisticated high-level corrupt networks. We saw that corrupt cliques are surprisingly effective in deactivating almost all external administrative controls. This governmental institutional system is their playground: they were socialized in this structure; they hold formal authority positions as well as informal central positions in this system. However, my real estate example in chapter 6 shows that corrupt cliques were less successful in turning off controls from outside the governmental institutions. In this case, in the end the consistent efforts of tenants, civil society groups, and investigative journalists beat the corrupt network.

More independent and less controllable actors from the civil side of society may pose a real threat to corrupt cliques. My proposition is that in CEE ‘‘indirect strategies’’ such as strengthening civil society and defending the free press may be the most promising tools against pervasive corrupt networks than public management reforms that create more audit units,

governmental watchdogs, and legal regulations. For corrupt elites, these are just new controls that can be deactivated.

Publishing corrupt and suspicious cases and statistics in the press may increase the risk of corrupt acts for the elite. The organized and researchable publication of procurement contracts and benchmark data may also force government to consider such information. Transparency is thus a crucial weapon. There are already some good examples: independent Web sites that collect and publish doubtful cases and documents on publically financed projects in Hungary (Transparency International 2012). Although I am not sure that such external forces alone are able to solve the problem of corrupt governmental networks, they might keep the state under constant pressure. One day the accumulated disapproval of the public and the pressure on the government may reach the threshold when a ''big bang,'' a fundamental change of the overall political culture, will happen.

Appendix

Hungarians have their own native term for petty corruption: "mutyi."
The following questions were asked from all interviewees:

Corruption/Mutyi in Hungary

- What do you think about corruption/*mutyi*?
- How common or widespread is corruption/*mutyi* in your opinion?
- What are the possible reasons for corruption/*mutyi* in Hungary?
- Has the corruption situation worsened in Hungary?
- What types of corruption are rated serious crimes and what *mutyi* behaviors are found acceptable or even desirable in Hungary?
- What are the typical excuses or explanations for corruption/mutyi?
- How should Hungary reduce the level of corruption/*mutyi*?

Corruption/mutyi in the participant's life

- How does corruption/*mutyi* influence your life?
- Have you ever participated in corruption/*mutyi*?
- How did you get involved in a corruption/*mutyi* transaction?
- What was your role in the transaction?
- What was the other actors' role in the transaction?
- Can you describe the main phases of the transaction?
- What was the status of the actors in the corruption/*mutyi* you got involved? Were they equal or rather unequal participants?
- Does social status have an impact on the amount of bribe in corruption/*mutyi*? (For example, wealthier people have to pay more.)
- Who can initiate a corrupt transaction; in what situations? Are there rules, codes, rituals or routines in these transactions?
- What are the main reasons and mechanisms connected with becoming corrupt?
- What are the organizational features of corruption/*mutyi*?
- Why are organizations unable to prevent and control corruption/*mutyi*?
- Are there other organizational members who are not participated in but having knowledge about corruption/*mutyi*? Why do they remain silent about it?
- Does corruption/*mutyi* have positive functions or is it always negative?
- Who are the central figures in corrupt networks? What are their roles? What are their personal characteristics?
- If rules are broken, does this spill over or affect other realms of rules and morality?

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