THE IMPACT OF CORRUPTION ON ORGANIZATIONAL DECISION-MAKING PROCESSES - THE CASE OF ROMANIA

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Abstract: Corruption is a phenomenon with a significant history, having different and sophisticated types of occurrence, in time and space. Usually, the professional literature approaches the issue at the level of public authorities.

This article aims: to precisely define the impact of corruption in a given geographical area on the decisions of a company operating in that space; to assess whether certain organizational contexts can be placed in the sphere of corruption or even diagnosed as unethical; to identify the extent to which its own corruption acts inhibit or stimulate the economic performance of a company.

This article is intended to be a literature review, on the established research topic. Each of the theoretical elements identified will be considered in relation/reference to a series of pragmatic, concrete elements drawn from the present Romanian society.

JEL classification: D73, D81

Key words: decision making, decision maker, decision environment, corruption, governance

1. INTRODUCTION

Corruption, which can be very widely defined as the abuse of public power for private interests, is a malignant phenomenon (although there are authors who associate some positive dimensions to it – see Gould and Amaro-Reyes, 1983) which affects, on different scales, every country in the world.

With respect to the economic life, the (negative) effects of corruption may be seen both at the macro and the micro level. Synthetically, at the macro-economic level, corruption can generate: the increase of public expenses and their inadequate allocation, the decrease of public income (through tax evasion), discouragement of foreign investments, inhibition of economic growth.

At the micro-economic level, corruption can lead to: obstructions in the development of companies in a greater extent as compared to usual taxes; increase of the relative cost of capital (amounts paid as bribery being added to the interest rates); increase of the costs needed to entering a market; distortions of competition (the competitive advantage is not given to the most economically efficient competitor, but to
the competitor that has the best developed personal connections); encouragement of fiscal inequality (honest companies are being disadvantaged).

In the present approach, we start off with the premise that it is impossible to talk about a completely “sterile” business environment (from the point of view of corruption), even when restricting it to a certain area (and even less so in the context of globalization).

The organizations that are immersed in such environments cannot ignore this phenomenon. Even if they do not intend to involve in such actions, even if they choose to comply to certain ethical standards, the organizations should not ignore corruption as an environmental factor which may distort (and sometimes, as shown, favor or catalyze) the organizational decision processes. They have to identify and understand the mechanisms of corruption specific to the area where they carry out their activities.

2. Objectives and Methodology

The present paper aims to identify the way in which corruption influences the decision processes at the level of a company (by distorting and, possibly, facilitating these processes). For this purpose, we shall first break down these decision processes into fundamental elements. Then, based on the analysis of the most relevant studies in this field, we shall try to highlight the influence of corruption on each of these components. Finally, we shall analyze, correlate and synthesize these influences at organizational level. All elements taken into consideration shall be discussed within the particular Romanian context.

3. Analyses

There are several opinions in the literature with respect to the elements that compose decision-making processes. However, in this plethora of approaches, a convergence point can be identified: the decision maker and the environment of decision are considered, by the majority of researchers, to be the primary factors of decision.

We will start off from the relations between corruption and the decision maker, respectively we will identify the determining factors for the possible positioning of decision makers in relation to corruption acts.

Nicoleșcu (1998) considers that, from all points of view, the most important influence on the decision is played by the decision maker, namely “the person or group of persons which, by virtue of the tasks, competencies and responsibilities given to them, make the decision”.

Firstly, each decision maker may be circumscribed in a certain category. Thus, in general, two categories can be taken into consideration: individual and, respectively, multiple decision makers. The individual decision maker may be a person or a computer. As for the multiple decision maker, it can be represented either by a team, or by a group. To this end, Holsapple and Whiston (cited by Alenljung) consider that there are two categories of decisions with multiple participants: negotiated decisions and unilateral decisions. In case of negotiated decisions (in groups), all participants agree to the decision (which is made by consensus or vote). In case of unilateral decisions (in teams), even though several participants are involved, only one of them makes the decision, to which the others may or may not agree.

Our research is focused on the individual decision maker. It is a somewhat narrow perspective, taking into account the fact that in the modern organizations, the
important strategic decisions are the result of participative management bodies. A more
thorough analysis of this level constitutes a future subject of our research.

When discussing the decision maker, another distinction can be made, as two
disjunctive categories of decision makers can be distinguished: owners – generally, in
case of small and medium enterprises, and managers – when there is a separation
between ownership and management.

The decisions made by a person, as a member of an organization, are the result
of the influences exerted by a combination of factors, both from the inside and from the
outside of the organization, as well as strictly circumscribed to the individual. In more
concise words: “what I expect depends on where I come from and the meaning I give to
what I experience” (Trompenaars and Hampden-Turner, 1997).

There aren’t many available works on management that analyze the role played
in the corruption processes by the decision maker, who, in this context, is defined by
Roy (2005) as the “supply side of corruption”.

There are two sides in every act of corruption: the corruptor and the corruptee
(and the initiative for such an act can belong to either side). From the point of view of
the manager of a company, two situations can be identified: active or passive
corruption. In the first case, the manager initiates the corruption process, and in the
second the manager is forced to such an act (Roy, 2005). The same author further
divides the acts of passive corruption into two categories: type A, which affects
“fundamental human rights, the environment or issues of sustainable development” and
type B, which does not entail serious effects on the above mentioned aspects.

In this context, Roy suggests a new definition of corruption, focusing on the
managerial dimension: “A phenomenon that involves illegal, immoral gratification in
cash or kind in exchange for securing an unethical advantage over others in business
and/or in society.”

Based on these accounts, and taking the same position as the promoters of
ethical business, our research will further focus on the acts of passive corruption.

A series of authors place the individual at the origin of any act of corruption (a
point of view to which we subscribe): “Corruption begins first in the individual’s heart,
first as thoughts and then these thoughts are translated into concrete actions. When
these acts are repeated over time, they become habits, these habits in turn become
character and almost one’s second nature.” (Ochulor, Bassey, 2010)

An element of protection against acts of corruption, at the individual level, may
be represented by the development of a moral consciousness.

The moral and civic consciousness is “constituted by a system of values, norms, moral rules and knowledge related to the values, laws norms that govern the
relations between the individual and the society, state institutions, and his fellows, as
well as by a set of feelings towards these”. (Barna, Antohe, 2006)

According to the same authors, the development of a moral consciousness is
achieved, for the most part, during the preteen years and the adolescence (between 12
and 18 years). The Romanian educational system, to speak only about the institutional
environment where the moral consciousness can be developed, has not been so far very
efficient in this respect.

Bădeliță (2010) points out that the moral education has suffered a “fundamental
deviation during the communist rule and turned into a politically moral education”.
The regime was not concerned in any way with the formation of a moral character in
youths; it was concerned only with its own preservation. By a simple inference, the youths formed within this system are the most active entrepreneurs today.

Even after 1989 the moral and civic education was not conducted in a systematic, responsible manner. Classes of ethics, religion and civic education still remain a marginal area of the Romanian pre-university education. In the context of the moral deterioration of the social environment in post-revolutionary Romania, and the absence of role models for the young generation, it is not surprising that this generation lacks a moral compass.

A survey conducted within the project “Youth against corruption”, launched in February 2011 and coordinated by the Bucharest School Inspectorate, the General Anti-Corruption Direction and the “Pro-Democratia” Association, a survey that was made on a sample of 1300 youths with ages between 16 and 26, from Bucharest, Timişoara, Cluj Napoca and Focşani, has shown that only 11% consider corruption as a “bad, harmful and immoral act” [37].

Taking into account some of the arguments previously presented, drawing a parallel between the moral deviancy and corruption, and also resorting to the approach suggested by Basarab (2010), the following may be regarded as main causes of corruption acts at individual level (organizational decision maker):

- the individual does not know the desirable behavior. Lack of education (with respect to the economic activity, management and legislation), and also the existence in society of role-models represented by successful businessmen involved in corruption acts (referring specifically to Romania), can generate situations in which the individual does not have an accurate knowledge of what a corruption act is or is not;

- the conflict between the personal objectives and values, the organizational objectives and values, and/or the social norms;

- lack of motivation (positive or negative) to not get involved in acts of corruption. Moreover, there may be a substantial motivation to accept involvement in some corruption acts (obtaining a significant bonus correlated to the financial performance of the enterprise, rescuing one’s business).

In studying the decision making process, the following aspect should not be ignored: the decision maker (individual or a group) is not isolated, but is placed in a certain environment. The decisional environment “is represented by the factors and situations, internal and exterior to the organization, which influence directly or indirectly, the managerial decision” (Pricop et al., 2003).

The precise determination of the components which form the internal decisional environment is a rather difficult issue, given the current organizational changes and developments.

In this respect, Nicolescu (1998) discusses the contextualization of decision making processes, defined as “the substantial extension of elements within and outside the organization which significantly influence the content and the results of decisions”. Nicolescu also identifies two divergent tendencies which affect the decisional environment. Thus, on one hand, there are a series of developments meant to provide better premises for a more efficient decision making process (the increase in the level of general and specialized training of decision makers, the computerization of activities) and, on the other hand, the environment tends to become more and more complex, which also complicates the organization’s decision making processes.

Considering the objective of the present paper, the analysis is focused on the external environment. Managers constantly receive subtle “impressions” or “snapshot
images” from the environment outside the organization (Roosevelt Thomas jr., 2000). Based on how they are perceived, interpreted and gathered, these images create a picture of the current environment and serve as a framework for making decisions within the organization. The less predictable the environment becomes, the more these images differ from one another. In this case, the manager will have to periodically change the image of the external environment and reconfigure his activities accordingly.

A subject frequently discussed in the literature is the typology of the decisional environment. Different classifications have been made according to the number, the nature and the evolution of factors which are construed as part of this environment. Ionescu et al. (2001) thus distinguish two characteristics of the environment, namely uncertainty and generosity.

The uncertainty of the environment is a state of the environment in which future circumstances that affect the organization are not predictable. The level of uncertainty depends on two main factors: complexity and dynamism. The complexity refers to the number of elements in the organization’s environment and the degree to which they are similar. The dynamism of the environment refers to the pace and possibility of prediction of the changes that occur in its elements.

Corruption generates a series of additional costs for a company. Sometimes, the impact of those costs recedes to a secondary position, the more visible effect being the uncertainty of transactions (Wei, 1997). In situations where corruption has a predictable nature, it can be perceived as ordinary taxes. But most of the times, its secret nature and volatility do not allow such an approach, and the negative effects are preeminent.

In correlation to these last elements, Rodriguez et al. (2005) identify two characteristics that may explain the differences between states with view to corruption: pervasiveness (“the average firm’s likelihood of encountering corruption in its normal interactions with state officials”) and arbitrariness (“the inherent degree of ambiguity associated with corrupt transactions in a given nation or state”). Before entering a market, a company must determine its correct position in terms of these two elements and assume the adequate behavior.

In what follows, we will provide a brief analysis of the manner in which every component of the exterior environment (political, economic social, technological) can influence the level of corruption in a country and, implicitly, the decisions of the organizational decision makers.

The political/legislative environment

Often politicians (meaning of course the top-level ones) may be involved in acts of corruption, a phenomenon which is known in the literature under the term of “grand political corruption”. The main actors in this phenomenon and the interactions between them are illustrated in figure 1 (inspired from Cisar, 2002, and being, in fact, an adaptation from Della Porta and Vannucci, 1999).

For countries in transition (a category in which Romania can still be included), grand corruption takes a specific form – “state capture”. The concept was coined by Hellman and Kaufmann (2001) and can be defined as “the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials”. In such circumstances, illegal practices intervene not only in the implementation of different regulations, but also in their drafting (Hellman, Kaufman, 2001).
The two authors further analyze the situation of firms which are involved in the acts of influencing the regulations or the legislation – called “captor firms”. Thus, based on the studies that have been conducted, they conclude that these firms obtain substantial gains, as compared to other firms. In high capture economies, captor firms grow twice as fast as the others. In contrast, in low capture economies, corruption is only survival strategy for firms with poor results.

Unfortunately, in this situation of state capture, honest companies have little leverage to significantly intervene, even though the situation of capture state affects more strongly the big companies (Anderson, Gray, 2006).

Focusing on Romania, the first report issued by the World Bank (2000) in which the index of state capture was determined, placed Romania in the high capture economies category. A subsequent report (Anderson, Gray, 2006) did not show any major changes.

The same conclusion was reached by an internal report, conducted by the Romanian Academic Society (2011), which analyzed the period between 2004 and 2011. The authors of the study concluded that neither the transition, nor the accession to EU reduced “the capacity of the government to allocate the benefits in a particularistic manner”.

The same report analyses the political class. It is observed that a limited number of parties dominate the political scene. The proposed reform of the political class (determined mainly by the introduction of the uninominal vote) has not brought any significant changes.

A survey conducted by the Social Studies Group 2000, between 13th to 20th of May 2010 on a sample of 1101 people (only in Bucharest) shows that 41% of the respondents believe that none of the political parties is able to eradicate the corruption, bureaucracy and criminality. [35]

The conclusions presented in the SAR report (2011) illustrate, to a certain extent, the same coordinates: given the circumstances in which “all governing parties proved unwilling to change the rules of the game, new political players are necessary, otherwise the system will continue to reproduce”.
A distinct discussion refers to the specific legislation meant to prevent corruption. In the Report on the evolution of the accompanying measures in Romania, after the accession, the European Commission emphasized the fact that the juridical area concerned with the prevention of corruption is deficient as far as enforcement is concerned. Moreover, it was emphasized that a just, objective assessment of the phenomenon does not exist (Raport Transparency, 2008-2010).

The SAR report (2011) cited above emphasized the fact that Romania was one of the performers of the anti-corruption preparation, and dozens of laws were adopted prior to accession. But this resulted in a longer “distance between the real country and the legal one”.

In the last years, the mechanisms of corruption have become more and more sophisticated. For this reason, the legislation against corruption should adapt to the complex transactions (such as the one in the energy field) that, under the concealment of a defective management often hide more than the simple offer and acceptance of bribery (SAR, 2011).

**The economic environment**

While the influence of corruption on the economic environment is frequently studied, the opposite relation is more rarely approached in the literature or, better said, the approach is somewhat unsystematic.

In our opinion, beyond the political and social determinants, probably the most significant influence on corruption is exerted by economic determinants.

The main economic factors influencing the level of corruption are (Shabbir, Anwar, 2008):

- the level of economic freedom of citizens (see also Marinescu, Stancu, op. cit.);

  In the annual ranking on economic freedom released by the Heritage Foundation, Romania is ranked 63rd, same as 2010, even though the index increased from 64.2 to 64.7. Romania’s score reflects improvements in five of the ten criteria based on which the index is calculated. Compared to 2010, the score was higher with respect to trade freedom, fiscal freedom, monetary freedom, investment freedom and labor freedom. The score was lower with respect to business freedom and government spending. The score on financial freedom, property rights freedom and freedom from corruption remained the same.

- the degree of the economy globalization (in inverse proportion to the level of corruption);

  According to the KOF Index of Globalization (determined by KOF Swiss Economic Institute), Romania is ranked 39th with 71.51 points (as compared to 45th and 63.34 in 2007) in a ranking of 181 countries.

- the country’s level of economic development;

  A survey conducted by Ernst&Young at continental level (2365 participants from 25 European countries, including Romania, were interviewed in January-February 2011) indicated that 56% of the Romanian respondents believed that the recession created conditions for the increase of corruption practices.

- inequalities of income.

  Romania is one of the European Union member states with the highest level of inequality. In 2008, the Gini coefficient for the distribution of money income available in Romania (56%) was 11 percent points higher than the income estimated for the
Czech Republic and Hungary (the lowest score among the EU member states), and the proportion between incomes of the “richest” and incomes of the “poorest” 20% inhabitants (7:1) was two times higher (Molnár, 2010).

**The socio-cultural environment**

The cultural environment (national, regional) in which the individual developed or in which he had professional experience may exert an important influence in his relation towards acts of corruption.

Burke and Cooper (2009), summarizing several works concerned with this issue, show that values such as trust at a social level, religion and acceptance of hierarchy are factors which may influence the level of corruption in a certain country. Thus, the countries which are less affected by corruption are countries with a higher level of social trust, where the dominant religion is Protestantism, respectively with a population that accepts hierarchies easily. Also, citing Hofstede, the two authors show that there is a positive correlation between the power distance and the level of corruption.

In Romania, the social trust is low, the majority of the population is orthodox and the power distance is very high (according to Hofstede); in such circumstances, the country seems to constitute a favorable environment for corruption.

Another important element of social nature in the proliferation or inhibition of corruption is its position in the collective mentality. In less developed countries, with a low level of incomes (Romania included), acts of corruption are not condemned because of their nature, but the participants become a target of the public contempt or, more precisely, the envy of the other community members because of their higher incomes.

Within the same coordinates, a survey conducted by CSOP upon the request of the Association for the Implementation of Democracy (on a sample of 1122 people throughout the country, between 25th of May - 5th of June 2010) revealed that 73% of the respondents believe that they can not succeed in Romania without resorting to less licit means (such as bribery, traffic of influence). [33]

Another approach on corruption, from the social perspective, is represented by the “anomic” phenomenon, which provides a different understanding. Anomic is a contradiction between the “normative aspirations and lack of means to attain the valued cultural objectives in a licit manner” (Popescu, op. cit.)

From an objective point of view, anomic means lack of shared social rules, and at the subjective level it refers to a disoriented behavior. Adaptation to anomic is achieved through (Popescu, op. cit.):

- conformity – the prescribed cultural objectives and the licit means for their achievement are accepted;
- innovation – individuals accept the cultural purpose, but not the licit methods for achievement. In this case, the problem which is raised concerns the creative use of illicit methods for achieving the licit valued objectives;
- ritualism – they do not adhere to the objectives proposed by the dominant culture, but comply to the licit methods of achievement;
- withdrawal – neither the objectives, nor the means proposed by the institutions are accepted. The individuals become asocial, not antisocial.
- rebellion – the objectives and means of institutions are abandoned.
**Technological environment**

The relation between corruption and technology is less apparent at first sight. The spectacular evolutions in informational and communication technologies represent an adjuvant for different acts of corruption: privileged leak of information from public agents to certain private agents; easier transfer of financial funds resulted from illegal transactions; “shortening” of distances; cracking/hacking.

At the same time, if we look at the full half of the glass, the technological evolutions, mainly with respect to informational and communication technologies, provide considerable assistance in the fight against corruption, and contribute to the increase of transparency of certain public transactions and actions (regarding the financing of political parties, in the legislative field, the juridical field) (Cisar, 2003).

Also in the category of positive effects, in case of some public services, man has been replaced by the computer, and the human decision has been replaced by the one assisted by the computer, which can not be influenced by corruption. Moreover, through informational technology, the access to certain confidential public information can be secured and controlled.

5. **Conclusions**

Corruption is a constant presence in all the world’s countries. In a modern organization, this phenomenon can not be ignored when aiming to establish a correct foundation for policies and the strategy. Success in business depends (sometimes to a great extent) on the involvement/lack of involvement in acts of corruption.

The options available for the decision maker may present many subtle shades (influenced by a multitude of variables), from the avoidance of involving the organization in any acts of corruption whatsoever, to a massive involvement, for a higher degree of certainty with respect to performance, possibly under the motivation, honorable for that matter, that this must be done in order to keep up with the competition (which, on its turn, is also involved in such activities), and respectively as a self-defense solution (Zekos, 2004)

In Romania, both due to factors related to private decision makers, as well as due to those that define the business environment, corruption seems to enjoy a very fertile territory.

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