

# The Role of Business Ethics in Transition Economies: The Case of Corruption

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**Abstract:** This paper is an attempt to prove that the characteristic social arrangements concerning corruption in Transition societies are delimited in social spaces, which Durkheim called *social states of anomy*. Especially in the case of the Romanian transition, the corruption has destroyed the social cohesion and the "trust capital" in economy, the main cause being identified as the absence of moral individual values, thus affecting and delaying the modernization processes.

Many economists and sociologists argued that the malfunctioning of governmental institutions constitutes barriers for the process of attracting foreign investors and for the economic growth. North (1990) emphasized the importance of an efficient judicial system, for applying the laws and protection of economic contracts, considering it a defining factor for the economic performances of a system; the debates concerning the effects of corruption are particularly frequent, some authors such as Huntington (1968) suggested that this phenomenon is stimulated by modernization, through the change of fundamental values in society, by creating new sources of wealth and enrichment and through the changes occurred in the political system (1). The problem is, that as long as the benefits from corruption are perceived to be greater than the costs involved (consisting in penalties or years of jail), the resources will be embezzled from the official sphere of economy into the unofficial one.

The transition from a socialist economy toward a market oriented one, implies, besides other phenomena, a sophistication of corruption, together with tax avoidance, free-riders, black markets, thus lowering the economic performances and the trust capital of businessmen in the economic environment.(2)

As Hirschman emphasized: "No economic, social or political system is able to guarantee that the individuals, the companies or organizations will generally always act in a functional manner and that they will constantly have an efficient rational conduct, in the virtuous respect of law".(3)

Every society learns to survive with a certain degree of dysfunctional behaviors up to the point where these attitudes cause too high costs to be carried out by government or citizens.

Some time before Hirschman, Veblen stated that human behaviors cannot be clearly outlined as belonging to the delinquency area or to the moral and legal one (4); otherwise stated, such behaviors will be framed within an *empty zone*, without reglementation and normativity, giving birth a social state named by Durkheim *anomy*. Moreover, irrespective of time and place, the empty zones are interfering the logic of social and what becomes interesting to be studied for the transition societies is the proportion and how this empty zone is manifesting. The idea that it is going to be sustained, even though it is ordinary in the sociological thought, is that the anomy area is growing in moments of ample and fast social changes, constructing a social arrangement typical for corruption.

In this framework, the corruption can be approached using three different paradigms: the paradigm of social chaos or disorder, the normative paradigm and the labeling paradigm.

The paradigm of social disorder or chaos allows us to frame corruption in the phenomenon of desacralization and desinstitutionalization; characteristic for all the ex-socialist countries, the institutional and valuable destructuring used to depend on their degree of enclosure. Concepts such as: management, discipline, respect for social order have been left without meaning or content, because they were impregnated with ideological meanings; quite often, those persons who acted immorally or illegally in the communist times have declared themselves as anti-communist heroes, sustaining the idea of fighting against the old regime.

In this framework of deregularization and lack of sanctions from the point of view of the civil society and of the elite concerning the institutions and the game of power (excepting the press), the movement toward reform has been performed in The Romanian transition.

One of the characteristics of reform and transition in Romania, has been the connection between the economic and the political element, a relationship that has been brought about by the desire of primitive accumulation of capital; the transfer of politization within the institutions, practiced in the communist time, the inexistence of private capital on one side and the existence of a consistent state owned capital on the other side, had influenced the vast majority of political elite, to see in the political game an opportunity of enrichment.

The institutional arrangements are built in such a manner that they should stimulate the political leaders, who are at the same time creators and actors in the economic game, the legislative part, ceasing to express the general will. (5)

This situation generates certain economic problems:

- Voting laws that serve private or group interests;

- The allowance of subsidiary and sectorial facilities, therefore sums of money oriented toward certain economic fields;
- The procrastination of the payment of taxes for certain companies;
- The obligation imposed to certain public institutions or companies to buy special products, thus introducing the official customizing.

The main problem generated by public customizing is the destruction of the market economy functioning and the idea of free competition; to speak in Hirschman concepts, the consumer (public or private) does not have the options of voice or exit, being constrained to choose some goods or services deliberately, keeping up lower quality products on the market.

The institutional arrangements have also generated financial engineerings, which consist of agreements to provide credits from the financial and banking organizations, loans advanced in the exchange of over evaluated guarantees. Moreover, “in all The East and European Countries, the previous economic and financial regimes left a legacy of bad enterprise debts that have continues to mount and have been stocked in the portfolios of the commercial banking system”. (6)

The solutions presented by Bruno, would be either the case of ex- Czechoslovakia when the Central Bank has left the commercial banks to handle themselves the situation or the other extreme, the case of Romania, when the practical pressures upon the banks (in order to continue the providing of surviving loans) had raised the moral hazard and had stimulated the practice of borrowing even if the companies knew that these sums of money will not be reimbursed. (7)

The postponement of the tax payment is significant for the uncollected budget revenues, thus influencing not only the incomes is financing the budget sector, but the whole financial system. Thus, very often the government is forced to raise the fiscal level, stimulating the growth of the black market. At the same time, there is a great amount of money, which is not circulating, an incentive for the arrears and financial blockages in the system; as Daianu is pointing out: “when the credibility of stabilization policy and of the financial discipline have a low level, the agents are tempted to produce arrears.”(8)

It is not relevant to connect the problem of arrears only to the variable of credibility in the system, but also to inefficiency, because the number of companies who should be sanctioned by the market is increasing. All these mentions are illustrating a questionable way of allocating resources, a process which is realized in any market economy by the stimulus of price and profit and where the resources are embezzled from the sectors with low productivity toward the sectors with higher efficiency and profits. These institutional arrangements have defined the economic game using parameters that contradict its definition gave by the market. As Buchanan and Vanberg pointed out:” Only a decentralized market structure of economic interaction can fully exploit the knowledge of localized circumstances required to allow a definition of the ultimate valuation that is placed on

resource use. Only the market can allow persons the effective liberty for discovering the particular localized eccentricities that give form to value.”(9) All the institutional arrangements have been envisaged to citizens as protecting their welfare, and consequently the privatization process was identified by them as bringing “pain and suffering”; only after the fraudulent management of capital, the individuals had understood that privatization is not a “public enemy” and we can identify here one of the sources of attack of decision-makers, against the social trust. We will call these types of practices “institutional corruption”, defined as those acts who are permitted by the organizational design, by law system and legitimizing instances. After the collapse of the central planning system, the institutions have been weakened (they need new rules, functioning codes or new functions adapted to the actual economic and social system), and controlled using certain political means, becoming dependent on centers of external power and without a high degree of autonomy. (10) Shortly, along with unavoidable disfunctionings of the economic system (for instance, the disappearance of the unique plan) a crisis at the level of values personalities and elites has appeared. (11) The corruption is not expressing a deviation from a normal behavior, on the contrary, for the moment it has a functional character for the establishment of a self regulator system, which is not yet organized.(12) In that case when the efficiency of an action is the most important thing and the means to accomplish the purposes are perceived to be of secondary importance, the corruption become a rational choice, thus influencing the moral order in society. The persons who are promoting the institutional arrangements are seeing in success a long line of one-round games and they find themselves in the situation that they are not able to anticipate the perverse effects of their own actions.

The normative paradigm is pointing out the idea that such phenomena or practices that can be tight by corruption are brought to surface by a deterioration of social norms and of moral values in society, being regarded as models to be followed and as a success opportunity. We have to make a conceptual distinction here: we have corruption that exists at the level of society as a surviving process and corruption of elites as a control and power mean. Using the corruption, the groups are imposing a way of mutual control, simultaneously destroying the communication in society, the failure of the social control and low signals from the civil society.

The reciprocal support between institutions in the repressive systems is destroyed by their collapse, because they remain without foundations: no organizational culture, no professional or ethical codes in terms of their social function or civil society. What we would like to outline hereby is that in Romania, the appearance of corruption is stimulated by the absence of moral values and especially by the fact that the society or the individuals are not aware of this situation.

Moreover, the individuals are not aware of the practical value of morality applied in society or in connection with business issues, their absence impeding the n-round game play and eroding

the trust capital that exists in this environment, because fifty years the individuals and the members of elite had not been challenged to take moral decisions in comparison to their effects.

Firstly, in totalitarian societies the moral judgements are suspended in a high degree and secondly, of perverse effects were taking care the state institutions, by the restrictions and constraints imposed; the mentioned case has been worsen by the culture of organizations in socialist time, these not having been endowed with professional or ethical codes to regulate private responsibilities, the distinction between private and public interests, rewards or sanctions, principle found in the society's organization itself.

The implementation of a professional ethics within institutions impose the following interventions:

- We have to set up the rules of the game, as simple as we can, in order for them to be also known and accepted by individuals;
- We have to define the procedures for applying these rules;
- We have to predict the possible offences, the manner to be judged and the consequent penalties or sanctions.

The difficulties that we might find in establishing the rules of the game consist, as we have already mentioned, in the merger between the creator and the actor of the game, therefore the actors setting up the rules in their favor, applying own preferences, values or ethical codes. We are pushed to the “veil of ignorance“ solution, from “The Theory of justice” of Rawls, which considers that persons involved in choosing the rules should not take into account their personal position or we could think of J. Jacques Rousseau's the concept of “a superior intelligence “ of that could order these problems; we can find an application of the mentioned concepts by translating them in terms of independence or autonomy of controlling institutions, the existence of legitimating institutions for each profession. These instances exist, but their mechanism has been altered by corruption and lack of morality, the remaining possibilities concerning the development of civic culture and the recourse to international legitimizing institutions (for example, institutions which protect human rights).

*The labeling paradigm* catches the corruption as a form of mutual control and as a game of power, thus explaining the confusion generated by the different definitions provided by the groups that have ruled the Romanian society and moreover questioning fundamental economic mechanisms.

We would like to mention an interesting study carried out by World Bank in Romania, regarding the phenomena of corruption; its results are confirming our research opinions and the results of the focus-groups organized in Romania (13): the practices of corruption which widely influence the economic environment are the pressures upon the members of Parliament, in order to

support laws in the voting process, in favor of certain groups, the mistakes made by The Central Bank, private contributions in the political campaigns, influences upon the court decisions, bribing public authorities in order to avoid the taxes payment. The study has been carried out by interviewing three categories of persons: civil persons, public functionaries; most of the interviewed persons declared that the phenomenon of corruption has become a normal state of affairs in the Romanian society. It is very interesting that 44% from the official persons consider that all or almost all public functionaries are corrupted, therefore the persons involved in these structures recognize the amplitude of the phenomenon; another conclusion of this study would be the fact that the control institutions are the most incriminated, thus being questioned the morality of the legalizing instances, irrespective of the form of representation (official, civil or entrepreneurs).

Concerning the identification of the causes of corruption, the results point out the external factors:

- Personal (as the desire of private gains);
- Institutional factors such as legislative weaknesses or a low level in applying the existing laws;
- Social factors such as poverty or low average wages (and again the conclusions are the same as in our sociological research) and not the moral ones, strengthening our opinion that the individuals live a self-delusion process, a myopia toward the importance of moral values and their practical applications in economy and society.

## **Conclusions**

- The society is very weak from the moral point of view, it allows corruption and the control instruments which should assist the respect for law;
- The decrease of trust capital at the level of the individual, in elites and state is reducing the social cohesion; as Montesqueieu stated, the rule is always based on certain principles or sentiments and when the rule of system is run based on trust and this sentiment is eroded, the rules become unlikely to be credible;
- The institutional design allows corruption, a possible solution being the autonomy and independence of legitimizing institutions and the creation of professional elites;
- The process of corruption is attacking the civic capital, being very hard to impose hard rules, especially if we take into account the absence of moral values, the people will not find the stimulus to adhere to these principles.

Every paradigm can constitutes a base for a distinct research taking into account the fact that corruption is not a well outlined, but a social and ample phenomenon, with institutional, political, economical or social characteristics; a study concerning corruption in Transition societies can delimits what are the particular, historical and temporal elements involved.

## Appendix

We have used focus group, as a qualitative research method in order to obtain data, attitudes and opinions about the phenomenon of corruption.

Like all forms of interviews, focus groups are limited to verbal and self-reported data, but they involve group interaction and lot of information precisely limited to the topic of interest. In comparison to individual interviews, focus groups are far more efficient especially in terms of gathering equivalent amounts of data. In combination with other methods, focus group can provide preliminary research of specific topics and clarify findings from another method.

Usually, the number of focus groups organized is related to the repeatability of results, and the optimum number of participants should be between 10 and 12 people. We used only one focus group, with 11 businessmen, who are involved in different business areas: commerce, tourism, etc., both from private and public sector.

We tried to obtain information concerning the following problems:

- What corrupt practices are used in the economic environment by companies or financial institutions;
- In what fields had mainly appeared such corruptions cases and how they have been concluded;
- What are the factors that are influencing the existence, maintenance and perpetuation of corruption;
- The reason for the existence of the following paradox: the corruption is sanctioned by society, but it is still practiced under different forms;
- What are the " positive" and negative effects of corruption?
- We try to find some methods to quantify the phenomenon of corruption
- Can we control this phenomenon and if yes, how, with what institutions, rules o institutional arrangements;
- What solutions can be provided in order to control corruption in the framework of Transition Economies.

## Notes

1. Samuel P. Huntington, *Political Order in Changing Societies*, Polirom Press, Bucharest 1968 (in Romanian), p.60-61
2. Regarding corruption, for the first time in Europe have been mentioned certain sanctions and penalties, in The Napoleonic Code (1810), in the context of not accomplishing the job tasks; the corruption can be viewed as a power abuse with the purpose of obtaining some material advantages or as practices that action like do ut des contract, closed in a confidential and illegall form. In Romania, the corruption practices are defined by the law no.78/may 2000, as follows:
  - the action of taking bribe
  - the action of giving bribe
  - the offence of obtaining unworhty outcomes
  - traffic of influence
3. Albert O.Hirschman, *Exit, voice and Loyalty*, Nemira Press, Bucharest 1999 (In Romanian), p.33
4. “ In certain cases, it is difficult, sometimes impossible, to say in front of the judges in the court, that it is all about a commercial ability worth praising or about a lack of honour which would deserve imprisonment.” (apud. Robert Merton, *Elements de Theorie et de methode Sociologique*, Paris, 1965, p.177).
5. An exemple could be the presence of the members of parliament in the Councils of administration of the big state enterprises and their opposition in changing this situation.

6. Olivier Blanchard, K.A. Froot and Jeffrey D. Sachs, *The Transition in Eastern Europe*, The University of Chicago Press, Chicago, 1994, p. 42. The financial mechanism is the following: when the process of advancing the credits is closed, most of these sums of money are not reimbursed to the bank and the financial institutions cannot dispose in a direct way by guarantees. Therefore, they have to go in court and to wait their decision, in the meantime the inflation generating the devaluation of money and losses in the balance-sheets of banks; losses in the general amount of budget revenues are caused also by undervalued cases of privatization.
7. Ibid., p.42
8. Daniel Daianu, *Transformation as a real process*, IRLI Press, Bucharest 1996 ( In Romanian), p.248
9. James M. Buchanan and Viktor Vanberg, *The market as a creation process*, p.328
10. A case of institutional corruption could be the existence of “tick companies”, which are intermediary companies, with private capital, having as object of activity, the selling of products obtained by a state company; due to the fact that managers of the public enterprise are also shareholders in the private firms, they impede over the privatization of state owned companies, because they will have to cease their activity.
11. Banciu D.Radulescu, Sorin M., *The corruption and organized crime in Romania*, Continent Publishing Press, Bucharest 1994 (In Romanian), p.72
12. Ibid., p.79
13. According to the study made by world Bank, the corruption is affecting 15% from the budget revenues and the most corrupted institutions are: Customs, Justice, Parliament, the Health System, Police, Government. The main causes of corruption has been identified as: *Low wages and poverty, the desire of personal gains, legislation weaknesses, beauraucracy, the imperfections of judicial system*. The interviewed persons identified the following consequences of this phenomenon: *decrease of personal welfare, the increasing difference of wealth between the social stratum, the moral decline in society, loosing the interest from the foreign investors etc*. The provided solutions consist of much more transparency in the public life, the repudiance of interests conflicts, a transparent process in financing the political parties, reform of institutions in order to prevent corruption.

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