

# Korupcija kao prepreka poslovanju u zemljama Zapadnog Balkana: stavovi poslovnog sektora

---

**Budak, Jelena; Rajh, Edo**

*Source / Izvornik:* **Radni materijali EIZ-a, 2011, 1 - 22**

**Journal article, Published version**

**Rad u časopisu, Objavljena verzija rada (izdavačev PDF)**

*Permanent link / Trajna poveznica:* <https://um.nsk.hr/um:nbn:hr:213:528540>

*Rights / Prava:* [In copyright](#)/[Zaštićeno autorskim pravom.](#)

*Download date / Datum preuzimanja:* **2024-07-14**



*Repository / Repozitorij:*

[The Institute of Economics, Zagreb](#)

Jelena Budak and Edo Rajh

# Corruption as an Obstacle for Doing Business in the Western Balkans: A Business Sector Perspective

Prosinac . December 2011

Radni materijali EIZ-a . EIZ Working Papers

Radni materijali EIZ-a  
EIZ Working Papers  
EIZ-WP-1104

Corruption as an Obstacle for Doing Business in the Western Balkans:  
A Business Sector Perspective

**Jelena Budak**

Senior Research Associate  
The Institute of Economics, Zagreb  
Trg J. F. Kennedyja 7  
10000 Zagreb, Croatia  
T. 385 1 2362 228  
F. 385 1 2335 165  
E. jbudak@eizg.hr

**Edo Rajh**

Senior Research Associate  
The Institute of Economics, Zagreb  
Trg J. F. Kennedyja 7  
10000 Zagreb, Croatia  
T. 385 1 2362 298  
F. 385 1 2335 165  
E. erajh@eizg.hr

[www.eizg.hr](http://www.eizg.hr)

Zagreb, December 2011

**IZDAVAČ / PUBLISHER:**

Ekonomski institut, Zagreb / The Institute of Economics, Zagreb  
Trg J. F. Kennedyja 7  
10000 Zagreb  
Croatia  
T. 385 1 2362 200  
F. 385 1 2335 165  
E. eizagreb@eizg.hr  
www.eizg.hr

**ZA IZDAVAČA / FOR THE PUBLISHER:**

Sandra Švaljek, ravnateljica / director

**GLAVNA UREDNICA / EDITOR:**

Željka Kordej-De Villa

**UREDNIŠTVO / EDITORIAL BOARD:**

Ivan-Damir Anić  
Valerija Botrić  
Edo Rajh  
Paul Stubbs

**IZVRŠNI UREDNIK / EXECUTIVE EDITOR:**

Josip Šipić

**TEHNIČKI UREDNIK / TECHNICAL EDITOR:**

Vladimir Sukser

Tiskano u 80 primjeraka  
Printed in 80 copies

ISSN 1846-4238  
e-ISSN 1847-7844

Stavovi izraženi u radovima u ovoj seriji publikacija stavovi su autora i nužno ne odražavaju stavove Ekonomskog instituta, Zagreb. Radovi se objavljuju s ciljem poticanja rasprave i kritičkih komentara kojima će se unaprijediti buduće verzije rada. Autor(i) u potpunosti zadržavaju autorska prava nad člancima objavljenim u ovoj seriji publikacija.

Views expressed in this Series are those of the author(s) and do not necessarily represent those of the Institute of Economics, Zagreb. Working Papers describe research in progress by the author(s) and are published in order to induce discussion and critical comments. Copyrights retained by the author(s).

# Contents

---

Abstract	5
<b>1 Introduction</b>	<b>7</b>
<b>2 Theoretical Background</b>	<b>8</b>
<b>3 Data and Methodology</b>	<b>11</b>
<b>4 Results</b>	<b>13</b>
<b>5 Conclusions</b>	<b>16</b>
Appendix	18
References	20

---



---

## Corruption as an Obstacle for Doing Business in the Western Balkans: A Business Sector Perspective

---

### **Abstract:**

This paper investigates business people's perceptions of corruption as an obstacle for doing business and their attitudes towards corruption. It is based on a survey conducted on the sample of over 1800 business owners and managers in the Western Balkans region. Using the original survey data collected in 2010 for seven countries – Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia – the paper explores business people's views on the ways in which the business sector is dealing with corruption as well as on the perceived role of private and government agents in curbing corruption. The factor analysis produced three distinct factors: (1) Understanding corruption as "grease in the wheels"; (2) Individual action can contribute to the curbing of corruption; (3) Corruption is a government-related issue. The main research question was whether the respondents' attitudes towards corruption are related to the following variables: country of origin, their own corruption experience, perceptions of corruption as an obstacle for doing business and the general corruption prevalence trends. The results of the analysis of variance show that the country of origin strongly determines business people's attitudes on corruption. Respondents with corruption experience tend to justify corruption as "grease in the wheels" more than "clean" respondents. Business people who believe that corruption is on the rise or that it poses a big obstacle for their business put greater emphasis on the government dealing with the issue of corruption than on individual or private anti-corruption initiatives. The findings provide useful policy recommendations for countries in the Western Balkans region to design a more entrepreneurship-friendly environment.

**Keywords:** corruption, business sector, attitudes and perceptions, corruption experience, Western Balkans

**JEL classification:** D22, D73

---

## Korupcija kao prepreka poslovanju u zemljama Zapadnog Balkana: stavovi poslovnog sektora

---

### **Sažetak:**

U radu se ispituju percepcije poslovnog sektora o korupciji kao prepreci poslovanju u zemljama Zapadnog Balkana – Albaniji, Bosni i Hercegovini, Crnoj Gori, Hrvatskoj, Kosovu, Makedoniji i Srbiji. Istraživanje se temelji na anketi provedenoj 2010. godine na uzorku od više od 1800 vlasnika tvrtki i menadžera. Analizom podataka ispituje se mišljenje gospodarstvenika o tome kako se poslovni sektor suočava s korupcijom, te koja je uloga privatnog ili javnog sektora u suzbijanju korupcije. Rezultati faktorske analize ukazuju na postojanje tri različita faktora: (1) razumijevanje korupcije kao sredstva za «podmazivanje kotača»; (2) individualne inicijative doprinose suzbijanju korupcije; i (3) korupcija je stvar vlade. Glavno istraživačko pitanje je utječu li pripadnost pojedinoj državi, eventualno korupcijsko iskustvo, kao i različiti stavovi o korupciji na formiranje mišljenja gospodarstvenika. Analiza varijance je pokazala da pripadnost pojedinoj državi u znatnoj mjeri određuje stavove gospodarstvenika o korupciji. Gospodarstvenici s korupcijskim iskustvom skloniji su opravdavati korupciju kao sredstvo za «podmazivanje kotača» od ne-korumpiranih ispitanika. Gospodarstvenici koji smatraju da je korupcija u njihovoj zemlji u porastu i oni koji korupciju vide velikom preprekom poslovanju skloniji su mišljenju da je suzbijanje korupcije posao vlade, a ne jačanja individualne ili privatne anti-korupcijske inicijative. Rezultati istraživanja nude preporuke za antikorupcijsku politiku u zemljama Zapadnog Balkana i mogu pomoći u stvaranju poticajnog poduzetničkog okruženja u regiji.

**Ključne riječi:** korupcija, poslovni sektor, stavovi i percepcije, korupcijsko iskustvo, Zapadni Balkan

**JEL klasifikacija:** D22, D73





# 1 Introduction<sup>1</sup>

---

Extensive research over the last two decades<sup>2</sup> has shown that corruption has multiple adverse impacts on entrepreneurship and business in general (Kaufmann and Wei, 2000; Méon and Sekkat, 2005). Hellman et al. (2000) base their analysis on the Business Environment and Enterprise Performance Survey (BEEPS) results and argue that governance, corruption and state capture shape business environment in transition countries. Despite various initiatives to combat political and administrative corruption that have been put in place both internationally and locally, in many countries corruption still stands as an obstacle for doing business. One could assume that the modest results are related to the lack of country-specific measures to eliminate corruption. This paper aims to assess attitudes and opinions of business people on corruption and to provide a better understanding of factors associated to these attitudes. The approach applied in this study should help policy-makers to better target measures to fight corruption as an obstacle for doing business.

The paper investigates corruption as an obstacle for doing business in the Western Balkans. It covers one historical and geographical region and offers a multi-national comparative perspective on seven countries: Albania, Bosnia and Herzegovina, Croatia, Kosovo, FYR Macedonia, Montenegro and Serbia. The issue of corruption as a hindrance to the development of the business sector is explored by surveying local business people's views. We investigate the ways in which the business sector is dealing with corruption as well as the perceived role of private and government agents in curbing corruption. Our main research question is whether different opinions and attitudes of business people are related to the country of origin, individual corruption experience, their perception of corruption and its trends. This study adds to the existing literature by providing the results that could help the Western Balkans countries to create a corruption-free business environment.

The next section elaborates on the rationale and conceptual framework used in this research. The methodology and data are presented in section three, while the results of empirical analysis are provided in section four. The concluding section offers preliminary policy recommendations and indicates the lines of future research.

---

<sup>1</sup> The survey was conducted within the project "Responsible youth entrepreneurship: creating a culture of anti-corruption in the private sector", [www.yes.org.mk](http://www.yes.org.mk). The authors would like to thank the YES Foundation, FYR Macedonia and Partnership for social development, Croatia for supplying us with the original database for this research.

<sup>2</sup> For a review of corruption studies, see Jain (2001).

## 2 Theoretical Background

---

Corruption is broadly defined as “a misuse of public power for the private gain” (The World Bank, 1997) that distorts the allocation of resources by transferring them into the hands of the private elite. Corruption hampers social and economic development by increasing inequality and poverty (Hassan, 2004), yet the main negative impacts are seen in the poor performance of the public sector (Mauro, 1995; Tanzi, 1998). Corrupt rent-seeking reduces state revenues and leaves limited funds for public services such as health, education and infrastructure (Shleifer and Vishny, 1993; Tanzi and Davoodi, 1997). Driven by personal benefits corrupt public officials make decisions opposite to the public interest they should serve. If policy priorities are not chosen on the basis of development criteria but according to rent-seeking opportunities, the economic policy would be inefficient (Kaufman and Wei, 2000). Growing bureaucracy and malfunctioning institutions (North, 1990) go hand in hand with corruption, thus affecting citizens’ daily life as well as business sector development.

In the corrupt environment costs of doing business increase significantly in terms of resources needed to cope with expenses and risks. Corrupt rent works as a tax arbitrarily imposed on business agents. A corruption fee is required to enter the market, to ensure compliance with regulations, to cope with the excessive bureaucracy, or to get political protection. Modalities of corrupt transactions include bribery, influence peddling, embezzlement, fraud and extortion, cronyism and patronage (Klitgaard, 1998; Amundsen, 1999). Entry to new markets, for example, may be subject to corruption if export or import quotas are to be obtained. Firms may be exposed to corrupt pressure on the global market due to an unfair competitive advantage gained by other companies that offer corruption deals to a third party. Companies doing business with the public sector may use corrupt practices more often because public procurement is especially sensitive to corruption (Ateljević and Budak, 2010; Grødeland and Aasland, 2011).

Besides bribery and similar, rather simple modalities of corrupt rent-seeking, more sophisticated corruption deals may include political financing arrangements, conflict of interest and lobbying, nepotism and cronyism, such as hiring personnel or loyal partners to ensure institutional or political support. Grand corruption is associated with the shadow economy, tax evasion, money laundering and even international crime and terrorism. Illegal corruption transactions require complex financing schemes and networking. Whether it consists of “small” or “big” deals, corruption increases transaction costs of doing business. Indeed, this argument goes against theories that justify corruption as “grease in the wheels” that helps firms to get things done when public administration is inefficient (e.g. Leff, 1964; Dreher and Gassebner, 2007). Instead of doing the core business and being focused on innovation and development, in a corrupt business environment firms need to allocate significant human, financial and time resources to handle corrupt pressures. Large companies have more capacities to cope with corruption and protect their

business interests (Tanzi, 1998). Corruption, therefore, more strongly affects new firms as well as small and medium enterprises.

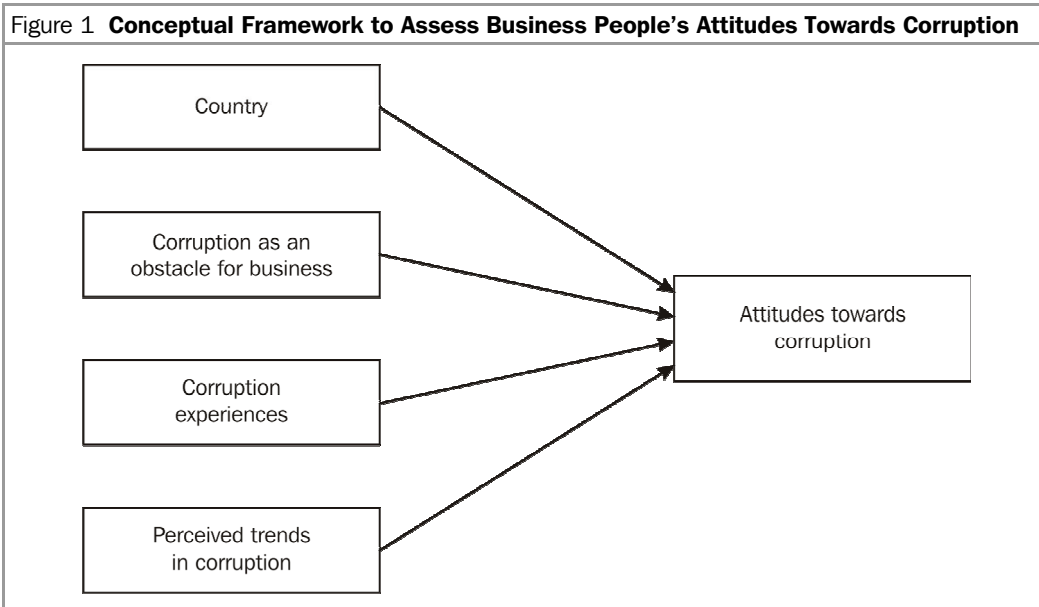
Country	2003	2004	2005	2006	2007	2008	2009	2010
Albania	2.5	2.5	2.4	2.6	2.9	3.4	3.2	3.3
Bosnia and Herzegovina	3.3	3.1	2.9	2.9	3.3	3.2	3.0	3.2
Croatia	3.7	3.5	3.4	3.4	4.1	4.4	4.1	4.1
Kosovo	-	-	-	-	-	-	-	2.8
Macedonia, FYR	2.3	2.7	2.7	2.7	3.3	3.6	3.8	4.1
Montenegro*	2.3	2.7	2.8	3.0	3.3	3.4	3.9	3.7
Serbia*	2.3	2.7	2.8	3.0	3.4	3.4	3.5	3.5

Notes: CPI at a scale from 0 (highly corrupt) to 10 (highly clean); \*data for 2003 to 2006 are for Serbia and Montenegro.

Source: Transparency International, <http://www.transparency.org>.

The Western Balkans is perceived as a region of high corruption (Table 1). Despite slight differences in the Corruption Perceptions Index (CPI) scores for particular countries, the problem of corruption is common to the entire Western Balkans region (UNODC, 2011). With the 2010 CPI score of 4.1, Croatia and FYR Macedonia have the best results in the group. FYR Macedonia is the only country whose annual CPI score was improving throughout the 2003-2010 period. Starting from the very low 2003 CPI score, Albania, Montenegro and Serbia showed slight improvements in curbing corruption. Since the CPI scores for Bosnia and Herzegovina were around 3 in the period observed, it seems that the country faces serious difficulties in fighting corruption. Finally, Kosovo, which has been only recently included in the CPI observatory, has a long way to reach at least the regional 2010 CPI average of 3.5.

Corruption is perceived as a major hurdle to investing in the region and doing business efficiently (EUROCHAMBRES, 2009). National studies also point out that corruption creates considerable difficulties for doing business (e.g., see Budak, 2006 for Croatia; Džafić et al., 2011 for Bosnia and Herzegovina; Stošić, Nikolić and Đukić, 2011 for Serbia). Although there is a common view on the regional prevalence of corruption and its adverse impacts on business sector development, there are many outstanding research and policy issues to explore the nexus of corruption and the business climate. Our approach is to assess business people's attitudes towards corruption using the conceptual model developed and presented in Figure 1.



Traditions of business culture and corporate social responsibility differ among countries (Ware and Noone, 2003), thus shaping opinions on what kind of behaviour is acceptable in a particular country. Business activities may be exposed to various obstacles (e.g., restrictive business regulations<sup>3</sup>), where corruption is one of them. In the business environments where barriers other than corruption (such as poor ICT infrastructure, lack of funding, etc.) hinder everyday business activities, business people may see corruption as a less important obstacle. Furthermore, business people with bribery experiences may tend to act in a more opportunistic way and justify corruption as a proven mechanism to get things done. On the contrary, experience with corruption may encourage victims of corruption to confront corrupt practices and to refuse to pay the extra rent. Tendencies in the perceived prevalence of corruption are related to the level of anti-corruption awareness. In the circumstances where perceptions of corruption decrease and anti-corruption efforts show results, the business community may be more aware of adverse impacts of corruption. However, an increasing or high level of corruption may lead to public resignation to corruption.

The empirical analysis will explore whether the respondents' attitudes towards corruption are related to the following variables: country of origin, their own corruption experience, their perceptions of corruption as an obstacle for doing business and general corruption prevalence trends. Survey data and methodology used for the empirical analysis are presented in details below.

<sup>3</sup> See The World Bank Doing Business, <http://www.doingbusiness.org/>.

### 3 Data and Methodology

This quantitative research is based on the survey conducted by the YES Foundation on the sample of 1849 business owners and managers in the Western Balkans region. The original data were collected by conducting a telephone survey in seven Western Balkans countries in the February-June 2010 period (Podumnjak, 2010). The methodology provided by the YES Foundation indicates that in the sampling procedures the following characteristics were taken into account: the size of national economies and the business sectors represented. The sample includes both small and medium enterprises as well as large companies. The respondents were selected from the companies that differ by age and the type of business activity. The sample covered entire national territories so the criterion of regional distribution of respondents was followed as well. The main characteristics of the sample are shown in Table 2. We hold that the sample in our survey, due to its large size, provides a reliable database to conduct the empirical analysis.

<b>Respondent profile</b>	<b>%</b>
1 Gender	
1.1 Male	65.7
1.2 Female	34.3
2 Country	
2.1 Albania	10.7
2.2 Bosnia and Herzegovina	15.6
2.3 Croatia	22.2
2.4 Kosovo	8.6
2.5 Macedonia, FYR	15.1
2.6 Montenegro	7.8
2.7 Serbia	20.0
3 Respondent age	
3.1 18 to 30 years	20.4
3.2 31 to 40 years	33.6
3.3 41 to 50 years	24.7
3.4 51 to 60 years	17.0
3.5 61 years or older	4.3
4 Company size	
4.1 1 to 9 employees	61.3
4.2 10 to 49 employees	28.7
4.3 50 to 249 employees	7.9
4.4 250 or more employees	2.2
5 Company age	
5.1 1 to 5 years	20.6
5.2 6 to 10 years	24.1
5.3 11 to 20 years	45.0
5.4 21 years or older	10.2

The share of respondents per country roughly reflects the size of economies, with two largest economies - Croatia and Serbia - representing about 20 percent of the respondents, respectively. The respondents are 66 percent male and 34 percent female, which is assumed to be in line with the male domination in the business sector in the region. Over half of the respondents are under the age of 40. Their opinions are valuable to the findings of the survey. Young business people would be affected most by the future developments in creating a corruption-free business environment. Over 98 percent of the firms represented in the survey sample are small and medium enterprises (SMEs). Regarding the company age, 20 percent of the firms in the surveyed sample are young companies established five years ago or less. The largest share (45 percent of the respondents) is associated with the firms with a longer experience of doing business in these business environments (companies established 11 to 20 years ago). Business people from established companies may have a broader past experience with corruption and can estimate its effects on business as well as the effectiveness of anti-corruption initiatives and past developments.

The instrument for measuring attitudes towards corruption included nine questions. The respondents were asked about corruption pressures faced by private companies and the potential efficiency of corrupt means in their business operations. Further, we have collected their opinions on the perceived role of the private sector and/or government agents to combat corruption, as well as general opinions on the origins of corruption. Business people rated each statement on the 11-point Likert-type scale anchored by strongly disagree (0) and strongly agree (10). Independent variables were measured with a series of multiple-choice questions (see Appendix for the full questionnaire).

The data were analyzed using descriptive statistics, exploratory factor analysis, analysis of variance (ANOVA) and Tukey's post hoc tests. Exploratory factor analysis (EFA) was performed to assess the underlying factor structure. Principal component factor analysis with a varimax rotation was used to obtain the factor solution. The Kaiser-Guttman rule was used to determine the number of factors to extract.

## 4 Results

Items	Means	Std. Dev.
i1 The private (business) sector cannot fight corruption, because corruption stems from the government	6.9	3.4
i2 Private companies can refuse to get involved in corruption without consequences to their operations	5.1	3.7
i3 Private companies are the ones that initiate corruption by offering bribe to get benefits they do not deserve	4.5	3.6
i4 A certain (small) degree of corruption is useful for business	3.4	3.6
i5 Corruption is rooted in our culture; people believe they should grease someone's palm to get the job done	6.8	3.5
i6 The basic instrument in the fight against corruption is an effective policy for its identification and punishment	8.1	3.1
i7 The fight against corruption is primarily an obligation of state authorities	8.5	2.6
i8 The fight against corruption is primarily an obligation of citizens	7.3	3.2
i9 Each individual and organization can make a strong contribution in the fight against corruption	8.2	2.9

The mean values (Table 3) provide the first insight into business people's opinions. Business people most strongly agree (mean value over 8) that fighting corruption is primarily government's responsibility as it should implement effective anti-corruption measures (including more repressive actions). However, each individual and organization can contribute to these efforts. On the other hand, the respondents most strongly disagree that corruption is effective as "grease in the wheels" (mean value 3.4). These results indicate that the business sector perceives corruption as a negative phenomenon. Next we proceed to a more detailed factor analysis.

Nine items from the questionnaire were selected for the factor analysis, each in the form of a statement. Two items (i2 and i6) were removed from further analysis since they had significant cross-loadings (high factor loadings on more than one factor). Three distinct factors were extracted, with 58.4 percent of the explained variance (Table 4).

Items	Factor 1	Factor 2	Factor 3
i1	0.18	-0.16	<b>0.71</b>
i3	<b>0.68</b>	0.01	0.06
i4	<b>0.73</b>	0.03	-0.12
i5	<b>0.63</b>	-0.05	0.35
i7	-0.10	0.23	<b>0.73</b>
i8	-0.02	<b>0.81</b>	0.21
i9	0.02	<b>0.82</b>	-0.14

As presented in Table 5, the description of factors corresponds to the items attributed to each factor: (1) Understanding corruption as “grease in the wheels”; (2) Individual action can contribute to the curbing of corruption; (3) Corruption is a government-related issue (Table 5).

Table 5 <b>Description of Factors</b>	
<b>Factor 1: Understanding corruption as “grease in the wheels”</b>	<b>Factor means</b>
i3 Private companies are the ones that initiate corruption by offering bribe to get benefits they do not deserve	4.9
i4 A certain (small) degree of corruption is useful for business	
i5 Corruption is rooted in our culture; people believe they should “grease” someone’s palm to get the job done	
<b>Factor 2: Individual action can contribute to the curbing of corruption</b>	
i8 The fight against corruption is primarily an obligation of citizens	7.8
i9 Each individual and organization can make a strong contribution in the fight against corruption	
<b>Factor 3: Corruption is a government-related issue</b>	
i1 The private (business) sector cannot fight corruption, because corruption stems from the government	7.7
i7 The fight against corruption is primarily an obligation of state authorities	

Statements related to understanding corruption as “grease in the wheels” (items i3, i4 and i5) form Factor 1. Factor 2 contains statements on the potentially significant individual contribution to the success of anti-corruption initiatives (items i8 and i9). Finally, statements reflecting opinions on corruption as an exclusive responsibility of state authorities (items i1 and i7) are grouped in Factor 3.

In the next step, the analysis of variance is performed to test the effects on the factor means of independent variables showed in Table 6.

The analysis of variance indicates that the attitude on corruption as “grease in the wheels” is affected by the country of origin, by perceptions on corruption as an obstacle for business, by experience with corruption and opinions on corruption trends in the past decade. Furthermore, a perspective that an individual action can contribute to the curbing of corruption is affected only by the country of origin, while the attitude that corruption is a government-related issue is affected by the country of origin, perceptions on corruption as an obstacle for business and by opinions on corruption trends in the past decade.



<b>Table 6 ANOVA Results</b>			
<b>Independent variables</b>	<b>Dependent variables</b>		
<b>Country of origin</b>	<b>Understanding corruption as “grease in the wheels”</b>	<b>Individual action can contribute to the curbing of corruption</b>	<b>Corruption is a government-related issue</b>
Macedonia, FYR (n=279)	5.0	7.5	7.2
Serbia (n=370)	5.3	7.5	7.8
Croatia (n=410)	4.9	7.9	8.1
Montenegro (n=144)	4.6	8.6	6.9
Kosovo (n=159)	3.1	8.3	7.7
Bosnia and Herzegovina (n=289)	5.6	7.8	8.1
Albania (n=198)	4.4	7.3	7.2
All groups (n=1,849)	4.9	7.8	7.7
ANOVA	F(6, 1842)=22.56 p=0.000	F(6, 1842)=6.22 p=0.000	F(6, 1842)=10.48 p=0.000
<b>In your opinion, is corruption an obstacle for your business?</b>	<b>Understanding corruption as “grease in the wheels”</b>	<b>Individual action can contribute to the curbing of corruption</b>	<b>Corruption is a government-related issue</b>
It is not an obstacle at all (n=409)	4.6	7.8	6.9
It is a small obstacle (n=660)	5.1	7.8	7.6
It is a big obstacle (n=497)	4.9	7.7	8.1
It is an enormous obstacle (n=283)	4.7	7.8	8.5
All groups (n=1,849)	4.9	7.8	7.7
ANOVA	F(3, 1845)=4.23 p=0.005	F(3, 1845)=0.04 p=0.988	F(3, 1845)=37.78 p=0.000
<b>In the last year, did you or anyone in your company pay bribes in any form?</b>	<b>Understanding corruption as “grease in the wheels”</b>	<b>Individual action can contribute to the curbing of corruption</b>	<b>Corruption is a government-related issue</b>
Yes (n=347)	5.7	7.5	7.8
No (n=1,491)	4.7	7.8	7.7
All groups (n=1,838)	4.9	7.8	7.7
ANOVA	F(1, 1836)=46.11 p=0.000	F(1, 1836)=3.29 p=0.070	F(1, 1836)=1.66 p=0.198
<b>Do you think that corruption in your country in the past decade has:</b>	<b>Understanding corruption as “grease in the wheels”</b>	<b>Individual action can contribute to the curbing of corruption</b>	<b>Corruption is a government-related issue</b>
been growing (n=809)	5.1	7.8	8.2
been declining (n=279)	4.6	7.9	6.6
remained unchanged (n=642)	4.9	7.7	7.6
does not know/refuses to answer (n=119)	4.4	7.9	6.8
All groups (n=1,849)	4.9	7.8	7.7
ANOVA	F(3, 1845)=4.53 p=0.004	F(3, 1845)=0.412 p=0.744	F(3, 1845)=47.33 p=0.000

Results presented in Table 6 enable a comparative analysis of respondents' characteristics. The results show that the country of origin affected all three attitudinal factors. Tukey's post hoc test indicates that business people from Bosnia and Herzegovina have the greatest tendency to perceive corruption as "grease in the wheels", while business people from Kosovo have the least tendency to do so among the observed countries. Tukey's post hoc test also indicates that respondents from Montenegro and Kosovo more strongly emphasize that individual efforts could contribute to the curbing of corruption, while business people from Croatia, Bosnia and Herzegovina and Serbia think that the problem of corruption stems from the government and, therefore, should be solved by official authorities.

Furthermore, Tukey's post hoc test indicates that corruption is primarily a government-related issue for business people who perceive corruption as either a big or enormous obstacle for business, and for those with recent corruption experience. An interesting finding is that business people who believe that corruption has been declining in the past decade have firmer and more positive attitudes about the contribution of individual actions in fighting corruption. This group of respondents would not blame only the government for corruption prevalence.

---

## 5 Conclusions

The analysis based on the business-sector survey shows that there are three distinct factors of attitudes towards corruption: (1) Understanding corruption as "grease in the wheels"; (2) Individual action can contribute to the curbing of corruption; (3) Corruption is a government-related issue. The respondents' association to the one of the factors mostly depends on their country of origin, whether they had experience with corruption and the perceptions they have about corruption prevalence in their respective country.

The country of origin strongly determines the respondents' attitudes on corruption as measured on all three factors, probably due to different social and economic set-up and heritage. Business people with corruption experience tend to justify corruption as "grease in the wheels" more than the "clean" respondents with no corruption experience. It implies that in some business environments, the corruption culture is deeply rooted while in others there is already a ground for strengthening corporate social responsibility. Generally, business people who see a rise in corruption in their country would attribute this problem exclusively to the government. Accordingly, this group of respondents expects state authorities to take the initiative in fighting corruption. Respondents who perceive corruption as either a big or enormous obstacle for their business put more emphasis on the government's response to the corruption issue than on strengthening individual or private anti-corruption initiatives. The results of this study provide useful policy recommendations, especially having in mind that a large majority of companies in the survey sample are young and small enterprises up to 50 employees which should generate economic development in the coming years.

In the Western Balkans countries where business people express a firm opinion that a substantial individual effort is needed to combat corruption, the key component in curbing corruption activities should be raising the public anti-corruption awareness. In countries where the business sector mostly perceives corruption as a government-related issue, “clean” official practices of governmental institutions would increase trust in institutions and are considered to be a good starting point for anti-corruption activities. The business sector recognizes efforts in combating corruption. This is supported by an important finding: business people who see a decrease in corruption do not expect the government to take an exclusive responsibility in curbing corruption.

To conclude, policy measures to eliminate corruption as an obstacle for doing business in the Western Balkans should be focused on raising anti-corruption awareness and promoting transparency and openness of public services to business. For example, increased transparency of public procurement procedures or licence issuing process would raise the transaction costs of manipulation so the misuse of public power would not pay off. Governments have to prove their commitment in combating corruption; however, the results would be visible in the long run. Probably the fastest results can be achieved in increasing trust in institutions and encouraging business persons and public employees to report on corruption incidence. These findings can help the Western Balkans countries to design a more entrepreneurship-friendly environment. In this respect, a more detailed business survey on corruption modalities and bribery experience would provide a useful basis for future research.

## Appendix

---

### Questionnaire

1. Company Name .....
2. City .....
3. Country .....
4. Gender
  - a) Male
  - b) Female
5. What is your age .....
6. Main activity of your company: .....
7. Number of employees in your company: .....
8. For how many years has your company operated .....
9. Do you think corruption in [Country] in the past decade has:
  - a. Been growing
  - b. Been declining
  - c. Remained unchanged
  - d. Does not know/ Refuses to answer
- 10-18. I will read the following statements referring to corruption as a phenomenon in the private sector. Can you please give me your opinion on a scale from 0 to 10, whereby 0 means *I completely disagree* and 10 means *I completely agree*.
10. The private (business) sector cannot fight corruption, because corruption stems from the government .....
11. Private companies can refuse to get involved in corruption without consequences to their operations .....
12. Private companies are the ones that initiate corruption by offering bribe to get benefits they do not deserve .....
13. A certain (small) degree of corruption is useful for business .....

14. Corruption is rooted in our culture; people believe they should grease someone's palm to get the job done .....
15. The basic instrument in the fight against corruption is an effective policy for its identification and punishment .....
16. The fight against corruption is primarily an obligation of state authorities .....
17. The fight against corruption is primarily an obligation of citizens .....
18. Each individual and organization can make a strong contribution in the fight against corruption .....
19. In your opinion, is corruption an obstacle for your business?
- a) It is not an obstacle at all
  - b) It is a small obstacle
  - c) It is a big obstacle
  - d) It is an enormous obstacle
20. In the last year, did you or anyone in your company pay bribes in any form (gift, money, service)?
- a) Yes
  - b) No

## References

---

- Amundsen, Inge, 1999, "Political Corruption: An Introduction to the Issues", CMI Working Paper, No. 7, Bergen: Christian Michelsen Institute.
- Ateljević, Jovo and Jelena Budak, 2010, "Corruption and Public Procurement: Example from Croatia", *Journal of Balkan and Near Eastern Studies*, 12(4), pp. 375-397.
- Budak, Jelena, 2006, "Corruption in Croatia: Perceptions Rise, Problem Remains", *Croatian Economic Survey*, 9(1), pp. 35-68.
- Dreher, Axel and Martin Gassebner, 2007, "Greasing the wheels of entrepreneurship? The impact of regulations and corruption on firm entry", CESifo Working Paper Series, No. 2013, Munich: CESifo Group, [http://www.cesifo-group.de/portal/page/portal/DocBase\\_Content/WP/WP-CESifo\\_Working\\_Papers/wp-cesifo-2007/wp-cesifo-2007-06/cesifo1\\_wp2013.pdf](http://www.cesifo-group.de/portal/page/portal/DocBase_Content/WP/WP-CESifo_Working_Papers/wp-cesifo-2007/wp-cesifo-2007-06/cesifo1_wp2013.pdf) (accessed August 17, 2011).
- Džafić, Zijad, Sejfudin Zahirović, Jasmina Okičić and Amra Kožarić, 2011, "Internal and External Obstacles to the Development of SMEs in Bosnia and Herzegovina", *Croatian Economic Survey*, 13(1), pp.143-171.
- EUROCHAMBRES, 2009, "Obstacles to investing in the Western Balkans: The view of the private sector", <http://www.eurochambres.eu/Content/Default.asp?PageID=1&DocID=2071> (accessed August 16, 2011).
- Grødeland, Åse Berit and Aadne Aasland, 2011, "Fighting corruption in public procurement in post-communist states: Obstacles and solutions", *Communist and Post-Communist Studies*, 44(1), pp. 17-32.
- Hassan, Shaukat, 2004, "Corruption and the Development", *Journal of Development Policy and Practice*, 1(1), pp. 25-41.
- Hellman, Joel S., Geraint Jones, Daniel Kaufmann and Mark Schrankerman, 2000, "Measuring governance, corruption, and state capture - how firms and bureaucrats shape the business environment in transition economies", Policy Research Working Paper Series, No. 2312, Washington, DC: The World Bank.
- Jain, Arvind K., 2001, "Corruption: A Review", *Journal of Economic Surveys*, 15(1), pp.71-121.
- Kaufmann, Daniel and Shang-Jin Wei, 2000, "Does "grease money" speed up the wheels of commerce?", IMF Working Paper, No. WP/00/64, March 2000, Washington, DC: IMF.

- Klitgaard, Robert, 1998, "International cooperation against corruption", *Finance and Development*, 35(1), March 1998, pp. 3-6.
- Leff, Nathaniel H., 1964, "Economic Development Through Bureaucratic Corruption", *American Behavioral Scientist*, 8(3), pp. 8-14.
- Mauro, Paolo, 1995, "Corruption and Growth", *The Quarterly Journal of Economics*, 110(3), pp. 681-712.
- Méon, Pierre-Guillaume and Khalid Sekkat, 2005, "Does corruption grease or sand the wheels of growth? ", *Public Choice*, 122(1), pp. 69-97.
- North, Douglass C., 1990, *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.
- Podumnjak, Munir, 2010, "Attitudes and perceptions toward corruption in the Western Balkans: Regional overview", Skopje: YES Foundation.
- Shleifer, Andrei and Robert W. Vishny, 1993, "Corruption", *Quarterly Journal of Economics*, 108(3), pp. 599-617.
- Stošić, Ivan, Draško Nikolić and Mihajlo Đukić, 2011, "Attractiveness of Serbia for foreign direct investments: tendencies, obstacles and perspectives" in Mirjana Radović-Marković, Srđan Redžepagić, João Sousa Andrade and Paulino Teixeira, eds., *Serbia and the European Union: economic lessons from the new member states*, pp. 47-60, Coimbra: University of Coimbra-Faculty of Economics.
- Tanzi, Vito, 1998, "Corruption Around the World: Causes, Consequences, Scope, and Cures", *IMF Staff Papers*, 45(4), pp. 559-594.
- Tanzi, Vito and Hamid Davoodi, 1997, "Corruption, Public Investment, and Growth", IMF Working Paper, No. WP/97/139, October 1997, Washington, DC: IMF.
- UNODC, 2011, *Corruption in the western Balkans: Bribery as experienced by the population*, Vienna: United Nations Office on Drugs and Crime, [http://www.unodc.org/documents/data-and-analysis/statistics/corruption/Western\\_balkans\\_corruption\\_report\\_2011\\_web.pdf](http://www.unodc.org/documents/data-and-analysis/statistics/corruption/Western_balkans_corruption_report_2011_web.pdf) (accessed August 16, 2011).
- Ware, Glenn T. and Gregory P. Noone, 2003, "The Culture of Corruption in the Postconflict and Developing World" in Antonia Chayes and Martha Minow, eds., *Imagine Coexistence: Restoring Humanity after Violent Ethnic Conflict*, pp. 191-209, San Francisco, CA: PON Books/Jossey-Bass.

Wei, Shang-Jin, 1999, "Does Corruption Relieve Foreign Investors of the Burden of Taxes and Capital Control?", Policy Research Working Paper, No. 2209, Washington, DC: The World Bank.

World Bank, 1997, *Mainstreaming anti-corruption activities in World Bank assistance: a review of progress since 1997*, Washington, DC: Operations Evaluation Department, World Bank, <http://www.worldbank.org> (accessed August 16, 2011).



## Popis objavljenih Radnih materijala EIZ-a / Previous issues in this series

### 2011

- EIZ-WP-1103 Alfio Cerami and Paul Stubbs: *Post-communist Welfare Capitalisms: Bringing Institutions and Political Agency Back In*
- EIZ-WP-1102 Marina Tkalec: *The Dynamics of Deposit Euroization in European Post-transition Countries: Evidence from Threshold VAR*
- EIZ-WP-1101 Jelena Budak, Ivan-Damir Anić and Edo Rajh: *Public Attitudes Towards Surveillance and Privacy in Croatia*

### 2010

- EIZ-WP-1003 Marin Božić: *Pricing Options on Commodity Futures: The Role of Weather and Storage*
- EIZ-WP-1002 Dubravka Jurlina Alibegović and Sunčana Slijepčević: *Performance Measurement at the Sub-national Government Level in Croatia*
- EIZ-WP-1001 Petra Posedel and Maruška Vizek: *The Nonlinear House Price Adjustment Process in Developed and Transition Countries*

### 2009

- EIZ-WP-0902 Marin Božić and Brian W. Gould: *Has Price Responsiveness of U.S. Milk Supply Decreased?*
- EIZ-WP-0901 Sandra Švaljek, Maruška Vizek i Andrea Mervar: *Ciklički prilagođeni proračunski saldo: primjer Hrvatske*

### 2008

- EIZ-WP-0802 Janez Prašnikar, Tanja Rajkovič and Maja Vehovec: *Competencies Driving Innovative Performance of Slovenian and Croatian Manufacturing Firms*
- EIZ-WP-0801 Tanja Broz: *The Introduction of the Euro in Central and Eastern European Countries – Is It Economically Justifiable?*

## 2007

- EIZ-WP-0705 Arjan Lejour, Andrea Mervar and Gerard Verweij: *The Economic Effects of Croatia's Accession to the EU*
- EIZ-WP-0704 Danijel Nestić: *Differing Characteristics or Differing Rewards: What is Behind the Gender Wage Gap in Croatia?*
- EIZ-WP-0703 Maruška Vizek and Tanja Broz: *Modelling Inflation in Croatia*
- EIZ-WP-0702 Sonja Radas and Mario Teisl: *An Open Mind Wants More: Opinion Strength and the Desire for Genetically Modified Food Labeling Policy*
- EIZ-WP-0701 Andrea Mervar and James E. Payne: *An Analysis of Foreign Tourism Demand for Croatian Destinations: Long-Run Elasticity Estimates*



ISSN 1846-4238  
  
9 771846 423001

