



Corruption and Satisfaction: SME Managers on Corruption

– Summary in English –

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Corruption and Satisfaction: SME Managers' Experience of Corruption and their Satisfaction with Institutional Environment

The following analysis was prepared within the framework of a joint quarterly research project entitled "SME Perspectives", involving the HCCI Institute for Economic and Enterprise Research (IEER) and Volksbank. For the survey a sample of about 300 small and medium enterprises with similar structures and elements were used.

In our analysis we try to find out to what extent does the perception of corruption affect satisfaction with the institutional environment, and what kind of corruption experiences have the greatest effect on this satisfaction. First, we present the company managers' perceptual changes towards corruption and also how their satisfaction with the institutional environment has evolved during the period from 2005 to 2010. Then, we search the variables that affect the development of this satisfaction. Our analysis shows that the higher the degree of corruption, the more negatively managers regard the institutional environment. Among the different corruption experiences cited, what makes managers significantly dissatisfied is, firstly, when they feel that their company has to pay bribes in order to get anywhere economically and, secondly, whether they consider corruption to be a major problem or not. Research of corruption is partly based on perception. Our analysis shows that subjective opinions are still relevant in the sense that much depends on personal experiences with corruption.

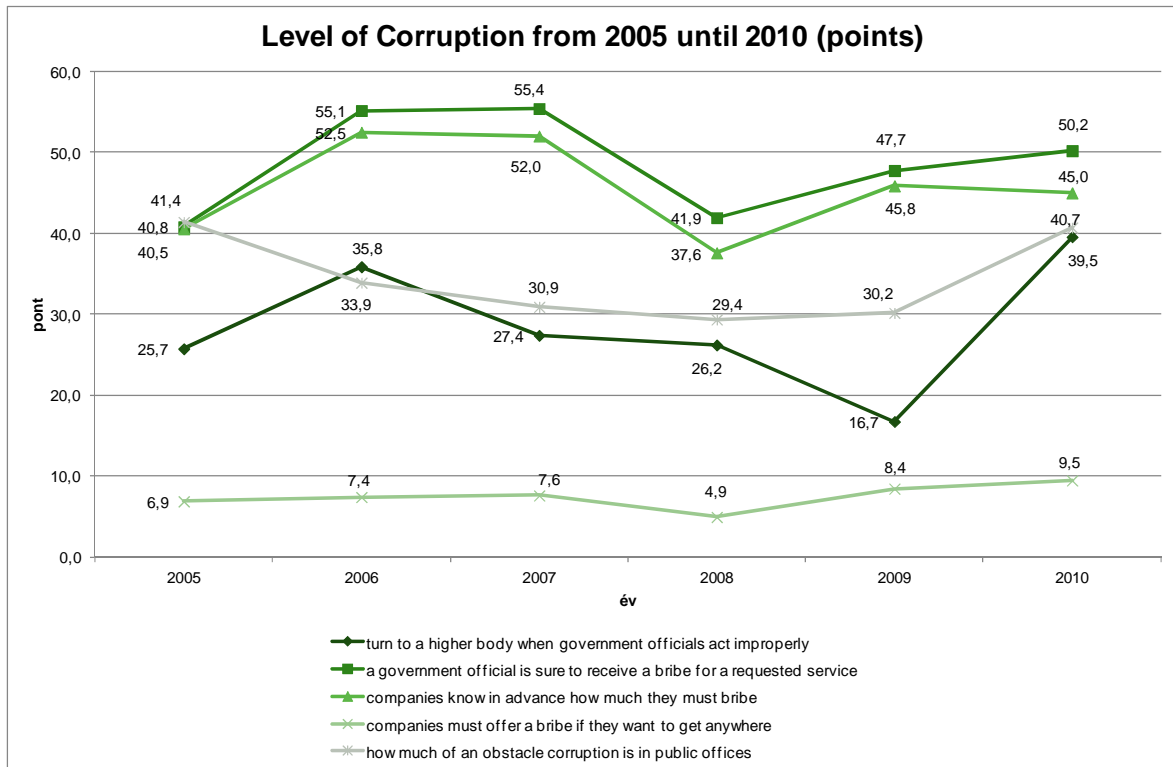
Corruption experiences and satisfaction trends

The research looked into the following questions put to small and medium business managers concerning their experiences with corruption via public agencies:

- Turn to a higher body when government officials act improperly. (How frequent is this?)
- A government official is sure to receive a bribe for a requested service. (How frequent is this?)
- Companies know in advance how much they must bribe. (How frequent is this?)
- A company must offer a bribe if they want to get anywhere. (How frequent is this?)
- Corruption in public offices. (How much of an obstacle is it?)

In the period from 2005 to 2010 the answers to these questions were the following (examined on a scale of 0 to 100 on average, where the lower the value, the less common the phenomenon was, according to managers):

For each year, most managers agreed that only by offering a bribe for the government official can they be sure to get some kind of service. The average was the lowest (42) in 2005, and in 2006 and 2007 it was the highest (55) – that is, at all the responses it was between rare and frequent. A continuous increase or decrease couldn't not be seen (as for the other questions, either.) From 2005 until 2007 we experienced an increase, then a decrease in the value for 2008, and then it increased again until 2010.

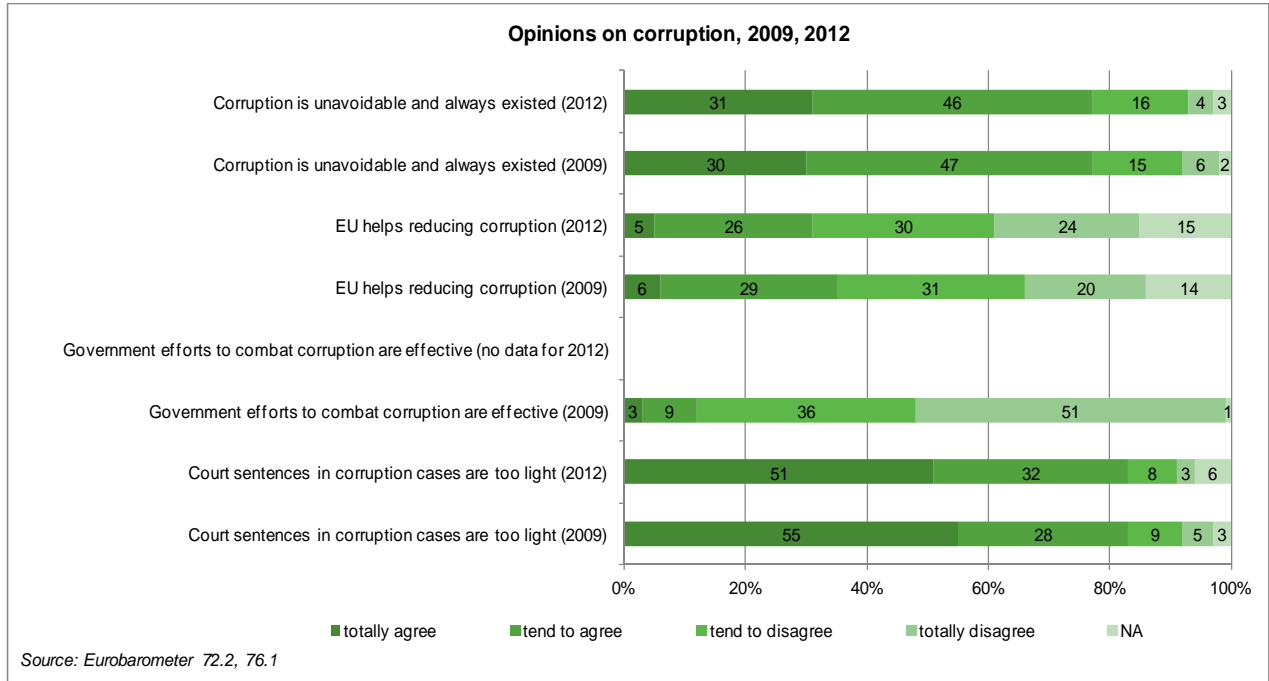


Executives consider the second most common phenomenon to be that firms know in advance how much they must bribe. Here the average moves in virtually the same way than in the previous question, albeit at a slightly lower level.

In average, managers feel the presence of corruption in public offices to be a small obstacle, the average score was between 29 and 41 and the lowest value was in 2008.

Few executives believe that companies have to pay bribes for market permits and municipal orders. Most of the "never" response to this question was given in 2008 which had the lowest average value (5), and for all years it was below 10. Thus we can see that according to managers the level of corruption decreased slightly in 2008, and from then on until 2010 we experienced growth.

Very rarely do executives turn to a higher body if they detect corruption. Each year, the average was below 40 and from 2006 until 2009, a downward trend was observed. It is important to note that for every year the proportion of those who never turn to a higher body is extremely high (up to over 50%) and of those who would do so in any case is very low (often less than 10%).



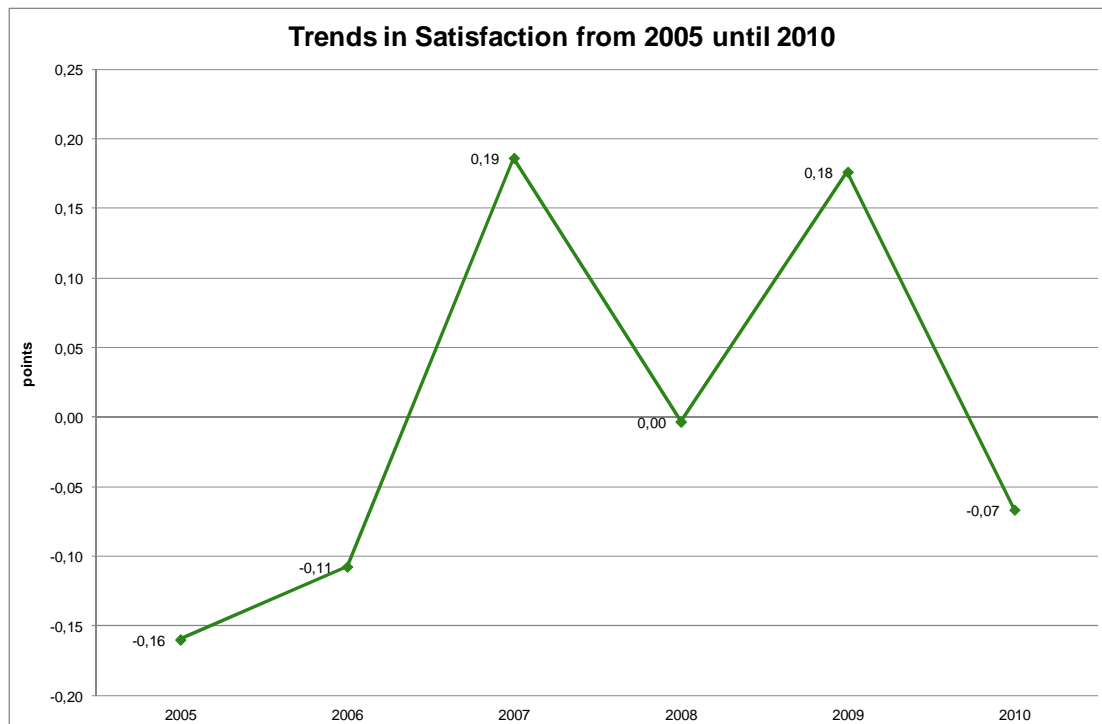
Based on the answers to the questions of corruption, we created a variable of five degrees, which shows how often a manager reported corruption. In every year it is a thick layer where the answer is that there isn't a perceived degree of corruption. In 2008 and 2009, this rate was over 50%. The second layer (20-25% of the sample) is when there was a case of perceived corruption for one of the questions; fewer than this had two; still fewer who had three; and the least likely is to have perceived corruption in all the four cases.

Comparing the years there are not very big differences. We find that 2008 had the smallest layer (4%) which experienced corruption for every question, and 2009 had the highest proportion (52%) who did not perceive any corruption. In 2005 and 2006 the majority that had a perceived level of corruption in at least one case; in 2010 the rates were similar to this.

Overall, from 2005 to 2008 and 2009 there was a slight decrease in the level of corruption experienced by managers, and then it increased again in 2010.

Satisfaction with the institutional environment

We created a variable principal component analysis based on eight questions in order to measure satisfaction with the institutional environment, in which the average of the year under review was as follows (for all years the average of the variable is 0): in 2007, executives were the most satisfied with the institutional environment, and in 2005 the most dissatisfied. From 2005 until 2007 there was an increase in satisfaction, and then it declined in 2008; in 2009 it rose close to 2007 levels again. In 2010 the satisfaction of managers went below the six-year average once more.



What determines satisfaction with the institutional environment?

The above established satisfaction variable was divided in three equal groups for executives: the institutional environment is relatively bad, average and good. After, an ordinal regression analysis was performed to investigate how the institutional environment affects satisfaction. The independent variables were company size, export ratio, the proportion of foreign ownership, economic sector, and the extensiveness of corruption. The model revealed a statistically significant correlation and showed that economic sector and the perception of corruption is influenced by the level of satisfaction. The higher the level of corruption you experienced, the more dissatisfied you are with the institutional environment. Managers in the manufacturing sector have proved to be the most dissatisfied while those in the services sector are the most satisfied.

We were also interested in finding out that among the different experiences with corruption, which one influences the most satisfaction with the institutional environment. Again an ordinal regression analysis was used, and company characteristics (size, foreign ownership ratio, etc) were examined. Of the six questions previously mentioned, two may significantly affect the level of satisfaction. One such question refers to the need of a company to pay bribes if they want to get something (e.g., a license or government orders). The more often this happens to a manager, the more dissatisfied they are with the institutional environment. The other significant question was how much of a significant obstacle was corruption to company management. The more of an obstacle it was the greater the dissatisfaction.