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The Impact of Personal Relationships on Bribery Incidence in Transition Economies

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Prior work on corruption has largely overlooked personal relationships as an essential determinant of bribery incidence in transition economies. In these countries, relationships with public officials are instrumental in enabling transactions and lowering transaction costs, due to incoherent and ever-changing business regulations. Our study examines the impact of personal relationships on bribery incidence in Vietnam, finding that relationships with central government officials decreases the likelihood of bribery, while relationships with local government officials increases the likelihood of bribery. The results provide convincing support for the alleged importance of public-private relationships in contemporary transition economies.

Keywords: corruption; bribery; personal relationships; central officials; local officials; Vietnam

Introduction

In recent work on firm-level bribery it has been shown that firm characteristics (e.g., size, age, profit and ownership structure) and the business environment (e.g., the quality of government service, the quality of the legal environment, competition, regulatory burden) influence a decision to bribe (Svensson, 2003; Clarke and Xu, 2004; Gaviria, 2002; Martin *et al.*, 2007; Chen *et al.*, 2008; Wu, 2009; De Jong *et al.*, 2012; Birhanu *et al.*, 2013). This finding has interesting implications for the literature on corruption. First, it focuses on the firm as opposed to conventional macro or country-level determinants of bribery, and second, it shifts the focus of the analysis from the bribe demanding agent (i.e., the public official) to the bribe-offering agent (i.e., the manager of a firm). Despite all efforts, however, the persistent nature of bribery is still the subject of ongoing debate due to inconclusive findings. While the volume of macro-level corruption research is substantial and theories on corruption are abundant, the inadequacy of our current understanding of firm-level bribery continues. Thus, while the corruption research domain is broad, it has not yet reached maturity and there is a need to disentangle the underlying causal structure of firm-level bribery in general and in relation to transition economies in particular. The aim of this study is to study whether

there is a relationship between personal relationships with government officials and bribery incidence. The relationship-bribery microlevel perspective is largely overlooked in existing corruption research that is dominated by country-level studies incorporating macro-level causes and consequences of macro-level corruption. Our study aims to fill this research gap by introducing new theoretical foundations and new empirical evidence for the research question at hand.

One of the most important dimensions of transition economy contexts that may have an impact on the behaviour and decision-making of firms is the firm's relationship with government officials. Particularly in the context of a transition economy, cultivating a personal relationship with government officials can be viewed as a unique type of entrepreneurial capital, which is expected to improve the performance of new and other ventures (Peng and Luo, 2000; Peng and Zhou, 2005; Fan *et al.*, 2007). For example, building relationships with government officials can help firms to obtain goods and services, win contracts, cope with bureaucratic constraints and obtain favours and protection not otherwise available (Xin and Pearce, 1996). Relationships with government officials are important in every country but particularly in transition economies because of the peculiar weak institutional environments that characterize states in transition; entrepreneurs adapt to these circumstances and personal relationships with officials is one of these.

We add depth to the understanding of corruption in transition economies by adding the relational dimension

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as a crucial determinant of bribery incidence. Firm managers do not operate in a vacuum. They are embedded in networks of personal relationships (Coleman, 1990; Uzzi, 1997; Sinani *et al.*, 2008; Chavis, 2013) and these relationships matter, not only to firm survival and growth (Adler and Kwon, 2002; Fan, 2002; Carreta *et al.*, 2012; Lin-Hi and Blumberg, 2012) but also, as we argue, regarding the likelihood of paying a bribe. We emphasize the role of entrepreneurs as the unit of analysis in examining the possible effects of personal relationships with government officials on bribery in the context of an institutionally weak transition economy. Not all entrepreneurs in transition economies pay bribes, and entrepreneurs respond to bribery demands differently. Entrepreneurs may vary in the relationships they initiate and maintain with public officials. Thus, the paper's key aim is to determine whether variations in these public-private relationships lead to variations in bribery incidence. We differentiate between relationships between entrepreneurs and local government officials and between entrepreneurs and central government officials.

The outline of this paper is as follows. We begin by reviewing research that serves as the foundation of our framework of bribery. We offer a definition of our key concepts and characterize the public system in transition economies. Building on this research background, we then develop an argument that explains how personal relationships between entrepreneurs and government officials affect bribery incidence. In particular, we explain how relationships with different groups of government officials in transition economies, that is, central and local government officials, influence the likelihood of bribery. We will then introduce the paper's research methodology, addressing issues related to our data collection and measures of the variables. For our study of firms in Vietnam we use cross-sectional data and while such data may suffer from endogeneity and prevent a causal analysis of processes that determine the outcomes that were observed with the use of a questionnaire, given that our study is one of the first of its kind, the data set offers an opportunity to explore the relationship between personal networks and bribery incidence. Following the presentation of the research methodology, we will present our empirical evidence. Finally, we will conclude with an appraisal, discussing policy implications, research limitations and opportunities for future research.

Theory and hypotheses

Concepts and definitions

We need a fine-grained perspective to define corruption in nondemocratic societies, the more so when a country is in a transition process from a centrally-led government to a market economy (Luo, 2002; Hodgson and

Shuxia, 2007; Guerrero and Rodríguez-Oreggia, 2008; Li, 2009). The word 'corruption' is used to mean different things in different countries and different global contexts (Bardhan, 1997; Collier, 2002; Kurer, 2005; Kwok and Tadesse, 2006). The term's definition ranges from an *ad hoc* individual act of an illegal payment to the endemic malfunction of an entire political system. The definitions used in studies of corruption vary from 'the misuse of public power' and 'moral demolition' to more strict legal definitions such as 'an act of bribery concerning a public servant and a transfer of wealth' (Heidenheimer and Johnston, 2002; Lancaster and Montinola, 1997; Philp, 1997). Our conceptualization of corruption relates to that used by the World Bank (2000: 10), which defines corruption as 'the abuse (misuse) of public power (entrusted power) for private gain'. Corrupt transactions take place at the interface of the public and the private sectors (Rose-Ackerman, 1978), through which public goods are illegitimately transferred into private payoffs (Luo and Han, 2009).

In the preceding definition, the determination of misuse or abuse typically involves applying a legal standard, revealing a breach of legal norms (Johnston, 1996; Kaufmann and Wei, 1999). Public (entrusted) power/office refers to the power the public delegates to officials. Corruption occurs when the officials use the power to further their own interests at the expense of the common good. The misuse of public power for private gains may be traditionally understood either as private wealth-seeking behaviour that deviates from the formal duties of a public role (Khan, 1996), or as a response to situations in which opportunities for gain and discretionary power to appropriate that gain are available (Misangyi *et al.*, 2008). Public power, on the one hand, is abused for private benefit when an official accepts, solicits or extorts a bribe. On the other hand, it is also abused for personal gain when officials actively offer bribes to other high-level bureaucrats to circumvent public policies to gain competitive advantage. Even without a bribe transaction, public power can be abused for personal gain through other forms of corruption, such as nepotism, patronage, embezzlement of state assets, and the diversion/distraction of state revenues.

The above-mentioned definition of corruption may broadly capture, for example, the sale of government property by government officials, kickbacks in public procurement, bribes (i.e., an offer of money or other favours aiming to influence a public official), embezzlement of government funds (i.e., stealing money or other government property), fraud (i.e., cheating the government through deceit), nepotism (i.e., favouritism shown by public officials to relatives or close friends) and extortion (i.e., money or other resources extracted by the use of coercion, violence, or the threat of force). These concepts are used interchangeably, but 'corruption' is

the most frequently used term and is defined in the tradition of the World Bank.

The term ‘corruption’ is often used interchangeably with ‘bribery’ or a closely associated phenomenon (Weber and Getz, 2004). In the definition of the World Bank, bribery is defined as ‘the offer or solicitation, promise or gift of undue pecuniary or other advantages whether made directly or through intermediaries, to (foreign) officials or to a third party with the aim of influencing the actions of a public official or the official’s duties’. This definition thus captures several features: (1) giving, offering, or soliciting, which encompasses both sides of the transaction (i.e., the supply (the private sector or the supplier) and demand (the public sector or the receiver) sides of bribery); (2) something of value, including money, services, jobs, favours, payoffs or promises; and (3) influencing the actions of a public official or the official’s duties, which implies that the action goes against the law, formal regulation, moral standard or other legal agreement. From the above-mentioned definition, bribes can be understood as payments made to induce a government official to act contrary to his or her duties (James, 2002).

Thus, bribery is a bilateral event that involves a person from the public sector (a bribe receiver) and a person from the private sector (a bribe payer) (Treisman, 2000; Cuervo-Cazurra, 2006; Birhanu *et al.*, 2013). This paper focuses on the bribe payer; that is, entrepreneurs (in a transition economy), who are the unit of analysis (Aidis and van Praag, 2007). In part, entrepreneurs can choose whether or not to engage in bribery activities and use them, for example, to manipulate officials to obtain contracts or loans. This choice is challenging because it is sometimes related to the survival of their firms: sometimes if firms bribe they may stay in business and at other times when they do not they may go out of business. We do not imply that all entrepreneurs actively engage in bribery; however, of those who do some are more involved in bribery than others. In other words, entrepreneurs do not pay the same amount of money to the same officials for similar services or products at the same time. In Svensson’s (2003) study of Ugandan firms that reported positive bribes, for example, the average amount of corrupt payments was about USD 8,300 with a median payment of USD 1,800 (in 1997). In our sample of Vietnamese firms, the average amount was about USD 5,273 with a median of USD 280 (in 2009). One of this paper’s aims is to understand this variation.

A further distinction can be made between administrative or petty corruption, which refers to paying bribes (between bureaucrats and the political elite or between bureaucrats and the public) for services involving the implementation of regulations, and state capture or political corruption/grand corruption, in which firms or the political elite attempt to influence the formulation of

laws, regulations, decrees or other government policies to their own advantage (Fries *et al.*, 2003). Grand corruption is often associated with substantial amounts of money and high-level officials, whereas petty corruption involves smaller sums of money and usually junior officials. The subject of this study is petty corruption. It refers to the extent to which firms offer payments to public officials to ‘get things done’ with respect to public services, such as customs, taxes, licences, regulations and services.

In summary, depending on the context, the word ‘bribery’ can have different meanings. According to the World Bank (2000), ‘bribery’ is the abuse of public office for private gain. In our research we begin with this definition by the World Bank but adapt it to the particular circumstances of a transition economy, more specifically the uncertainty associated with weak institutional environments and the independence and discretionary power of public officials. We define bribery as the payment of cash by an organization with the aim of influencing the actions of a public official. This definition is relevant because it specifically accounts for: (1) the type of bribery (i.e., money rather than, for example, visits to bars); (2) the unit of analysis (i.e., a firm offering a bribe); and (3) the aim of bribery (i.e., to make arrangements for the firm in question).

Personal relationships in a transition economy

In the context of a transition economy, personal relationships with government officials at various levels – such as officials in industry departments, regulatory and supporting organizations (Peng and Luo, 2000) – can be viewed as a unique entrepreneurial resource that may improve the performance of both new and established ventures (Larson, 1992; Li and Atuahene-Gima, 2001), as well as fostering private firm survival (Xin and Pearce, 1996). Personal ties help firms compensate for institutional failures. In a transition economy, with weak institutional support and distorted information, managers may cultivate personal ties and use them when entering exchange relationships (Burkhardt and Brass, 1990; Pfeffer and Salancik, 1978; Powell, 1990), obtaining resources or protection not otherwise available (Xin and Pearce, 1996).

In a discussion of the relationship between personal ties and bribes, the context of a transition economy in general and the characteristics of existing government systems in particular cannot be neglected. The current institutional setting in many transition economies is one of duality: firms – often based on arbitrary legal requirements – need to interact with local and central government officials in order to run the business. This also applies to our research context, that is, Vietnam (for a detailed description see, for example, Gillespie, 2001; McMillan and Woodruff, 2002; CIEM, 2005).

In a dual public system, central government officials have an inherited legitimacy to impose regulations on business. For a long time, entrepreneurs in transition economies have developed relationships with central government officials in order to overcome obstacles imposed by central government officials that may hamper their activities. Institutional change in a transition economy also fosters the legitimacy of local officials, due to the creation of the institutional voids that result from the decentralization of decision-making power in government administration, among other things. Such decentralization usually results in local administrators supervising the region, district, province or village, and these officials have discretion to raise taxes or process licences, for example, even though this authority may be constrained (albeit imperfectly) by formal central legislation. Thus, both local and central government officials are able to create complicated administrative procedures, which may be a burden to and confuse entrepreneurs because of unclear and overlapping regulation and lack of transparency (Shleifer and Vishny, 1993).

In addition to the formal institutional voids, there are informal deficiencies. Processes of institutional change may lead to the segmentation of society as a result of the deterioration of institutional trust and increased uncertainty (Rose, 1995). In such a society, there is a distinction between the upper and lower-class segments. Central public officials are usually part of or related to the upper-class segment and are thus part of the ruling elite. Such societal elites are characterized by values and norms that may be distinctly different from the lower-class segments. Local government officials are usually part of or related to the lower-class segments. Each of these segments has their own norms, values and decision-making behaviours. For example, the institutional elite may have more of a reputation to lose and more contact with outsiders, particularly international outsiders.

Taking the above into account, we argue that entrepreneurs in transition economies have personal relationships with public officials in various segments of the system. We make a distinction between relationships with local and central government officials, and argue that these different relationships are potentially subject to different norms and values that may ultimately lead to a different impact of the personal relationship on the likelihood of bribery.

Personal relationships and bribery

A personal relationship can be defined as any tie between two persons, or all possible dyads (e.g., kinship, material transactions, behavioural interactions). A direct relationship links entrepreneurs to individuals with whom they may have a tie (Melé, 2009). The three most

common relationships are social ties with friends or relatives (Granovetter, 1985), business ties with agents of other firms, that is, suppliers, buyers or competitors (Peng and Luo, 2000), and – as we highlight here – ties with public officials.

There are several reasons why the effect of personal relationships between entrepreneurs and central (upper-class) and local (lower-class) officials on bribery will vary. First, when ongoing personal interactions between government officials and entrepreneurs are extensive, the opportunities for engaging in bribery transactions increase (Buchan, 2005; Collins *et al.*, 2009). Thus, the frequency of interactions and the amount of time entrepreneurs spend with the government official are expected to positively correlate to bribery (Kaufmann and Wei, 1999). This typically characterizes personal relationships between entrepreneurs and local officials in transition economies because of the geographical proximity of the agents and the inherent need of entrepreneurs to frequently interact with local officials rather than with central government officials (Svensson, 2003). Also, due to the tacit and risky nature of bribery, government officials and entrepreneurs require time to build mutual understanding and trust before they engage in these transactions. This is in line with Lave and Wenger (1991), who claim that new members of a network remain peripheral for some time so that they can internalize tacit meanings, norms and values of behaviour in a new social context and become habituated. Again, this characteristic differentiates local from central government officials and will therefore materialize in differing effects on bribery incidence.

Second, personal relationships with local government officials are likely to foster bribery due to the reciprocal nature of these ties. When a person becomes embedded within a social relationship (e.g., a family, an organization), the identification with the group leads to shared norms and creates an expectation or obligation to support others in the group (Uzzi, 1997). Relationships with local government officials are often personalized and therefore imply reciprocity, with mutual obligations, shared interests and long-term commitments to perpetual exchanges (Li, 2007; Lin, 2007). With such characteristics, relationships with local officials are more like a friendship or a family relationship. Relationships with friends and family are characterized by frequent contact and emotional closeness. Such relationships facilitate reciprocity, mutual cooperation, high levels of trust and mutual loyalty. Consequently, this increases the likelihood of favouritism by both the entrepreneur and the local government official. Hence, entrepreneurs who have personal relationships with local government officials may more readily consider engaging in bribery out of a sense of social obligation (Coleman, 1988; Collins *et al.*, 2009; Westphal and Zajac, 1997). This is particularly relevant if government officials rely on illegal

payments to facilitate government services so as to obtain higher income levels for themselves, which is typically the case for local but not for central government officials (Kwok and Tadesse, 2006).

Third, administrative decentralization due to economic policy reforms that characterize a transition economy provides decision-making discretion to local officials. In addition, the lack of state control increases the possibility that a local official will ask for a bribe. Furthermore, as suggested above, local government officials may need to supplement their income to obtain a decent standard of living, which increases the incentive to demand bribes. Given the fact that entrepreneurs more frequently interact with local government officials than central government officials, relationships with local officials will therefore foster the likelihood of bribes. Following this argument, the opposite applies to the relationship with central government officials.

Fourth, central government officials are less likely to have the opportunity to extort bribes in daily business that is largely delegated to local government officials. Moreover, they may receive higher incomes. In addition, bribes may be culturally unacceptable in a more elite type of network, to which central government officials may belong. Consequently, the risk of losing their reputation, status and respect in the elite network is greater, which is likely to decrease the incentive to engage in bribery transactions. Given these risks, personal relationships with central government officials may be built more adroitly on the basis of value-added services, such as educational or training trips outside the country (Quelch and Tan, 1998), further reducing the likelihood of bribery transactions.

Fifth, local public officials may have more opportunities to extort bribes because they are better able to tightly manage and closely supervise firms in the local area (Walder, 1995; Svensson, 2003). Thus, a local official's interest in personal income is more likely to be translated into entrepreneurial behaviour by the local government official. For example, local tax officials are entitled to impose arbitrary tax measures on firm sales. Thus, entrepreneurs are more likely to pay a bribe to local officials to avoid an arbitrary amount of tax.

Considering all of these arguments, we hypothesize that public-private relationships with officials in different segments of the public sector will have a different effect on the likelihood of an entrepreneur paying bribes in a transition economy. In the central government sector, for example, the higher income levels of these ruling elites reduces any financial incentive to engage in bribery as a source of income, and greater exposure to media and international and other outsiders increases the danger of a loss of reputation. Moreover, bribes may be culturally unacceptable to central government officials and entrepreneurs may thus be protected from paying bribes. This contrasts with the needs and attitudes of

local officials, who are often in the lower levels of the public service, in which low incomes and reasons of reciprocity can make bribes acceptable as gift exchanges or as add-ons to business transactions. We therefore hypothesize:

Hypothesis 1 (H1): More close personal relationships with local government officials are positively related to the likelihood of paying bribes.

Hypothesis 2 (H2): More close personal relationships with central government officials are negatively related to the likelihood of paying bribes.

Research methodology

Research context: Vietnam

Among transition economies, Vietnam is one of the least studied, but it offers a worthwhile research context for our study for several reasons. First, despite market reforms, Vietnam continues to report a weak formal institutional framework, which remains a major obstacle to firms (Meyer and Nguyen, 2005). Firms are confronted with a high degree of uncertainty in the Vietnamese business environment (Boisot and Child, 1996). Although the number of private firms has increased significantly (Heberer, 2003), many are small, informal, short-term oriented companies that often have insufficient reputational capital and typically lack government support as well as market legitimacy compared with state-owned enterprises (Xin and Pearce, 1996; Li and Zhang, 2007; Le and Nguyen, 2009). The dual government mechanism in transition economies (i.e., a market economy and a government-led redistributive regime) implies that government officials at all levels still have considerable power to influence business practices (Boisot and Child, 1996; Li and Zhang, 2007) and resource allocation (Meyer and Nguyen, 2005). Vietnam, like other emerging economies, such as China, Taiwan and Eastern Europe, is no exception (Le *et al.*, 2006; Smallbone and Welter, 2001). Furthermore, the state officials' attitudes toward the private sector vary greatly (CIEM, 2005; VNCCI-VCCI, 2005). Attitudes towards entrepreneurship are important because they demonstrate whether a society accepts or tolerates entrepreneurship, which in turn affects entrepreneurial response (Welter and Smallbone, 2006; Birhanu *et al.*, 2013). For example, the four main state-owned banks account for approximately 80% of total Vietnamese bank assets and prefer to support state-owned enterprises rather than entrepreneurs, who often have insufficient reputational capital and are therefore considered high-risk borrowers (Masina, 2006). The costs and delays of setting up a business are on average much higher in transition economies. In Vietnam, an official

application takes nearly six months and can cost 150% of per capita GDP in government fees (McMillan and Woodruff, 2002; for similar findings see World Bank 2013).

Second, in Vietnam, the coexistence of the new law-based state and socialist legality has created problems in three areas: the legislative framework, the coordination of the legal framework, and the implementation of the legal framework. The National Assembly is responsible for drafting primary legislation, while ministries and people's committees at local government or provincial level are allowed to draft subordinate legislation, such as the decrees, decisions and instructions that guide the implementation of the laws. In general, the quality of subordinate legislation is low, and the implementation of legislation is not supervised or controlled by the central government. Consequently, administrators at different levels have considerable discretionary power to approve projects, including business ventures and the allocation of resources (Meyer and Nguyen, 2005). This discretionary power allocated to public officials can be used arbitrarily and manipulated. In other words, despite the formal allocation of rights and responsibilities between central government, city and provincial levels, there are inconsistencies and overlaps between higher-level and lower-level subordinate regulation. In addition, the overlapping responsibilities and poor cooperation between authorities provide considerable autonomy to local public officials, creating opportunities to manipulate rules and request bribes, particularly when private firms are involved. As a result, entrepreneurs in Vietnam face barriers across a broad range of policy, administrative and institutional realms (Swierczek and Thanh Ha, 2003). Compared with state-owned enterprises, privately owned firms receive little support from the government and typically lack market legitimacy (Xin and Pearce, 1996; Nguyen *et al.*, 2006; Li and Zhang, 2007).

Data collection procedures

The data used in this study were collected by means of an extensive survey in 14 provinces in South Vietnam. The data were collected in 2009 using face-to-face interviews with 111 of 201 contacted entrepreneurs who were willing to answer all of the questions relevant to this study. In line with common convention, we apply a conservative approach to our data set and do not use the information of respondents that did not answer the bribery question (in 21% of the cases) or one of the other questions. The interviews and data obtained enabled us to analyse the relationship between key constructs and bribery activities. In Vietnam, secondary data can be easily collected for each province using local administrative offices, such as those involved in statistics, investment and taxation; however, these data are often aggregated and thus are not applicable at the firm

level. For this reason, the key activities of this research project included the design and implementation of a business survey to collect firm-level information. Such business surveys are rare in Vietnam, which means that business managers may not be accustomed to providing confidential business information to outsiders or providing opinions on Likert-scale questionnaires (see also Aidis and van Praag, 2007).

The research proceeded in three stages. In the preparatory phase of the fieldwork, we designed a questionnaire, discussing it with researchers and business practitioners and consulting other questionnaires (including those by the World Bank). We then implemented several pilot surveys in two provinces of the Mekong River Delta (MRD), namely, Can Tho and Kien Giang. This resulted in several modifications to the questionnaire, such as adding a few questions to enliven the interview. In addition, we learned that personal interviews would be the best strategy for collecting firm-level data in Vietnam, for two reasons: first, given the sensitive nature of some of the questions (e.g., bribery, revenues), we expected a high level of non-response from a mail survey (using computerized internet surveys was not a feasible alternative at the time of the survey in Vietnam). Bribery, for example, is a well-known phenomenon and to some extent a subject of debate – but only in personal conversation. Second, the secondary data's reliability was questionable because it was not up-to-date, especially with respect to the number of newly established firms, mergers and changes in ownership type. Therefore, we decided that a personal interview with business managers would be the best strategy to collect the required data.

In the second stage, a team of interviewers was trained. It consisted of lecturers and students from the School of Economics and Business Administration, Can Tho University, Vietnam. The selected interviewers were required to have experience in conducting surveys and were trained on the key topics of the survey. They were also made aware of the importance of the data they would be collecting for the University, with the intention of motivating them to take personal responsibility for the data collection as a means of improving data quality. In general, the interviewers were younger than the participants and thus did not pose a threat to the entrepreneurs. In addition, the interviews were conducted in the local dialect, enabling interviewees to respond more easily and provide more precise answers.

In the third stage, intensive interviews were conducted with entrepreneurs from 111 firms identified in 13 provinces of the MRD, Ho Chi Minh City and Binh Duong province. Ho Chi Minh City and Binh Duong province are located in southeastern Vietnam. The reason for concentrating on the MRD, Ho Chi Minh City and Binh Duong was that they have shown a significant increase in the number of private firms in recent years, the varying

performance of which has been reflected in profit levels. In addition, the key role of private firms in this region contributes greatly to the GDP of the entire country. The provinces in the MRD were Kien Giang, An Giang, Dong Thap, Can Tho, Vinh Long, Soc Trang, Ben Tre, Bac Lieu, Long An, Tien Giang, Tra Vinh, Hau Giang and Ca Mau. The interviewers' efforts were concentrated in these provinces for cost-efficiency reasons, as those with the greatest density of firms.

A sample was not selected before the interviews; rather, it was selected on the basis of those entrepreneurs willing to cooperate.¹ The interviewees were either the owners or the persons who directly managed the company, defined in this research as 'entrepreneurs'.² Demographic studies in advanced economies tend to focus on the role of the top management team because many companies are large and are thus supervised by teams. In Vietnam, however, the entrepreneur is the most appropriate unit of analysis because decision-making power is predominantly centralized in the hands of this person, especially when they are also the owner, as is often the case. The entrepreneur has the power to make final decisions and has a direct impact on any strategy.

If the prospective interviewees agreed, the interviewers began to interview them; if the interviewee refused, the interviewer excused themselves and proceeded to the next firm. The questionnaire was administered only if the owner was available to answer the questions personally so that complete and correct information could be obtained. If the prospective interviewees were absent, the interviewer left the questionnaire and requested a new appointment. At the beginning of the interview, the interviewers presented their university employee card and an introduction letter from the Dean of the University that, among other things, assured the interviewee of full anonymity for the company and the information provided. During the interview, the main topics (e.g., work experience, education, investment, loans and industry context, bribery, personal ties, opinions about bureaucratic burdens) were discussed. Some additional questions were added to invigorate the interview and enable the respondents to tell their own story.

¹The sample selection method may possibly create biases. Nevertheless, the exploratory nature of the study may legitimize the approach as a first step (e.g. snow-balling survey methods).

²We take a broad view of entrepreneurship, not only focusing on the creation of new businesses but also on the generation of new economic opportunities (Casson, 2003). A person can be said to engage in an entrepreneurial venture if he or she perceives and creates new products, services, organizational schemes or product-market combinations and introduces his or her idea to the market in the face of uncertainty and other obstacles by making decisions on location, form and the use of resources and institutions (Wennekers and Thurik, 1999). All of the respondents met these criteria. All of the private firms in the sample were new enterprises and not *ad hoc* spinoffs from state firms.

Dependent and independent variables

In this study, bribery is defined as a cash payment made to an organization with the purpose of influencing the actions of a public official. The likelihood of bribery was measured by a dummy variable that takes the value of 1 if the firm reports having paid money to government officials to conduct their business, and 0 otherwise. The measure is similar to that used by the World Bank. The specific item dealing with this in the questionnaire was: 'Monthly, how much must your enterprise pay to "lubricate" its business affairs?' The question was asked in Vietnamese. We used the usual forward and backward translation process to obtain the English version. The expression *bôi trơn* in the original Vietnamese question literally means 'to lubricate'. This is a colloquial synonym for money paid as a bribe to government officials or administrative regulators. The closest English equivalent is 'to grease someone's palm'. In the survey, we explicitly defined 'to lubricate' as money spent. The measure does not include other forms of bribery, such as gifts that may also have monetary value. In line with previous studies (Svensson, 2005) we estimate models for bribery incidence given that the levels of corruption payments as reported by the respondents are usually less precise hampering estimations of bribery levels. This choice in favour of bribery incidence is indeed confirmed by our data (see the empirical results below).³

To test the main hypotheses, we differentiated between relationships with local government officials and relationships with central government officials. Local government officials are civil servants in local villages, who are at the lowest level of the government's hierarchical bureaucratic system and work where the company is located. Central government officials are civil servants in the National Assembly and the ministries located in and around the capital of Vietnam. Personal relationships with local and central government officials was measured by the perceived quality of the relationships the entrepreneurs had during the past three to five years (Yli-Renko *et al.*, 2001; Adler and Kwon, 2002). The question regarding these relationships was: 'What was the quality of the personal relationships of the manager with local authority/government agencies over the last three to five years?' Relationships with central government officials were measured by a five-point Likert scale (1 = 'poor quality' and 5 = 'very good quality'). Relationships with local government officials were also measured by a five-point Likert scale (1 = 'poor quality' and 5 = 'very good quality'). For local government officials, we used a dummy variable that equalled 1 for a relationship of good

³As a test of robustness, we estimated models with the level of bribery as a dependent variable using ordinary least squares. We largely find non-significant results that are due to the (skewed) nature of bribery level data. This also confirms our approach of using bribery incidence.

to very good quality and 0 otherwise. For central government officials, we also used a dummy variable that equalled 1 for a relationship of good to very good quality and 0 otherwise.

Control variables

We included several variables to control for individual and organizational characteristics, opinions about bureaucratic burden and network characteristics. In line with macro-level studies, formal higher education is expected to have a negative relationship with the likelihood of bribery. The main reason is that a more educated society would be expected to bribe less (Treisman, 2000; Gatti *et al.*, 2003). In this study, formal higher education was measured by a dummy variable that equalled 1 if the entrepreneur had a university degree and 0 otherwise. The gender of the entrepreneur was measured by a dummy variable that indicates 1 for men and 0 for women. Men are more likely to pay a bribe than women because they are more active in the labour market than women and are thus expected to be more frequent targets of bribery (Swamy *et al.*, 2001; Mocan and Rees, 2005; Mocan, 2008). In addition, men tend to take more risks (Paternoster and Simpson, 1996) and take a lesser stance on ethical behaviour (Glover *et al.*, 1997). Entrepreneur age was measured by subtracting the year the respondent was born from the current year. Because of their experience, older entrepreneurs are expected to be less prone to corruption because they are less involved in bureaucratic procedures (Gatti *et al.*, 2003; Cabelkova and Hanousek, 2004).

We also controlled for the phase in the life cycle of a company. For this, we constructed a dummy variable (labelled 'start-up firm') that equalled 1 for firms two years of age and younger (and 0 otherwise) to understand whether there are differences in the propensity to bribery practices between young or old firms. We expected that bribes help start-up firms to develop relationships with government officials, which, in turn, helps them overcome the liabilities associated with being new, as well as to achieve legitimacy (Peng and Luo, 2000). We also controlled for type of ownership, in particular for sole proprietorship. Sole proprietorship was measured by a dummy variable that equalled 1 if the firm was a sole proprietorship and 0 otherwise. A single proprietor has a strong motive to maximize his or her company performance, which offers more incentives and opportunities to bribe due to the absence of forms of supervision.

It is well known that a firm's willingness to pay bribes is a function of government-related burden (Svensson, 2003; Kuncoro, 2006). Less business-friendly institutions are more likely to increase an entrepreneur's likelihood of becoming involved in corruption (Tonoyan *et al.*, 2010). We measured this element on a five-point Likert

scale (1 = 'strongly disagree' and 5 = 'strongly agree') concerning the statement: 'In the last three years, all business licences have been difficult to obtain, they are time-consuming to obtain and involve other costs'. Bribe enforcement in this study is indicated by the degree of enforcement involved in paying a bribe, measured on a five-point scale (1 = 'completely involuntary bribe payments' and 5 = 'completely voluntary bribe payments') regarding the statement: 'Paying an amount of cash to "lubricate" your business affairs is completely involuntary . . . [or] completely voluntary' (Chen *et al.*, 2008).

We also controlled for the diversity of ties, which refers to the heterogeneity of an entrepreneur's network of partners. Each entrepreneur maintains ties with people in different groups. This study measured the diversity using a count variable that was derived from asking respondents about their connections to other groups: 'Are you now a member of (a) a youth union, (b) the communist party, (c) a labour union, (d) trade union and/or (e) social organization?' and 'Do you have a relative or close friend who works for (a) a government agency, (b) state-owned enterprises, (c) private enterprises?' The score was the number of different groups with which an entrepreneur had ties. Using Marsden's (1987) index of qualitative variation, we measured the ego-centred network diversity for the i th ego with N alters, where alters are classified into K discrete or ordered categories, considering the square of the proportion (p_j^2) of alters in the j^{th} category. We measured network diversity as the probability of randomly choosing people with two different attributes from the possible eight attributes mentioned above.

Finally, we controlled for a change of member status in social groups, which was defined as the difference in membership status at present from that in the past. This variable was measured by subtracting the existing number of direct ties of an entrepreneur in various social groups (e.g., political parties, youth unions, labour unions, clubs, social organizations) from the number of direct ties that an entrepreneur had previously. A positive value indicated an increase in the number of new direct ties. It is argued that when the number of personal relationships increases, entrepreneurs are more likely to engage in bribery because of the increase in risk of malfeasance and increasing conflicts of interests (Buchan, 2005; Velthouse and Kandogan, 2007).

Results

We used a logit binary choice model to empirically test the hypotheses (Svensson, 2003; Chen *et al.*, 2008) while controlling for individual characteristics, organizational characteristics, opinions about the bureaucratic system and network characteristics. To interpret the coefficients of the explanatory variables, we estimated

the standardized coefficients. We performed the regular tests to assess the validity of our estimation procedures. First, to check whether the logit model was suitable, we used the Hosmer-Lemeshow test for goodness-of-fit, which measures the predicted and observed frequencies; they should match closely, and the more closely they match, the better the fit. This was confirmed in the model (Hosmer-Lemeshow $\chi^2 = 10.97$; non-significant with $p = 0.20$). Second, before running the logit model, we also investigated whether being corrupt is driven by a different process depending on the level of corruption, given that entrepreneurs are corrupt. For this, we used the Heckman two-step or Tobit-2 procedure, which included two submodels to explain the amount of bribery: the probit (or logit) and the ordinary least squares. The idea is that if the second ordinary least squares model is estimated and we ignore the link to the first logit model, the estimators would not be consistent (Cameron and Trivedi, 2005). The results from the Heckman model, however, showed no connection between these two stages, with insignificant values for the Mills ratio ($B = 48.23$; and non-significance with $p = 0.45$). Thus, the sample selection issue is of less concern and, thereby, we concluded that logit models are an appropriate choice. Third, we applied Harman's (1967) single factor test to assess whether or not the data featured significant common variance (Podsakoff and Organ, 1986; Podsakoff *et al.*, 2003; Chang *et al.*, 2010). An unrotated factor analysis using the eigen-value-greater-than-one criterion revealed five factors, with the first factor explaining 47.30% (which is below the threshold value of 50% recommended by Podsakoff *et al.*, 2003). If a substantial amount of common-method variance was present, the factor analysis would have resulted in a single factor accounting for the majority of the covariance among the variables.

Thus, in our case, it is unlikely that the findings can be attributed to common-method bias. Finally, in preparation for the regression analyses, we also performed the

regular tests to obtain reliable estimates. The latter tests gave satisfactory results: neither heteroscedasticity nor non-normality were an issue. We tested for possible biases caused by collinearity among variables by calculating the variance inflation factor (VIF) for each of the regression coefficients. Calculations of VIF ranged from a low of 1.09 to a high of 1.93. The VIF values were well below the cut-off value of 10 recommended by Neter *et al.* (1985).

Table 1 provides descriptive statistics and correlations for our sample of 111 observations. Table 2 presents the hierarchical (logit) regression results. Model 1 includes the control variables. In Model 2 the main effects are added to the control variables. Of the respondents, 60% reported that they did pay bribes. According to our data, for the firms reporting positive bribes, the annual average amount of bribes paid was VND 94.03 million (USD 5,273.10 with the official exchange rate of VND 17,832 to USD 1).

The various fit parameters show that our model increasingly fits the data better. The R^2 index significantly improved from 26.3% in Model 1 to 29.4% in Model 2. The data convincingly support Hypotheses 1 and 2, which consider the relationships with government officials. For Hypothesis 1, the parameter estimate of relationships with local government officials was positive and significant ($\beta = 0.183$; $p < 0.05$), indicating that these types of relationships make firms in a transition economy more susceptible to using bribery. For Hypothesis 2, which predicts that a relationship with officials from the central government will decrease the need to pay bribes, the parameter estimate was negative and significant ($\beta = -0.192$; $p < 0.05$).

The results were obtained while controlling for a substantial number of other bribery determinants. Some of these determinants are worth highlighting because they provide insights into firm-level bribery in transition economies. For example, we found that the impact of bribe enforcement on the likelihood of bribery was

Table 1 Correlations, Means and Standard Deviations (SD)^a

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12
1. Bribery														
2. Relationships: local officials	0.91	0.28	0.14	1.00										
3. Relationships: central officials	0.69	0.46	-0.07	0.49	1.00									
4. Change membership status	-0.08	0.58	0.11	0.03	0.10	1.00								
5. Network diversity	0.98	0.01	0.01	-0.12	-0.23	-0.39	1.00							
6. Bribe enforcement	3.49	0.85	-0.19	-0.04	0.12	-0.06	0.01	1.00						
7. Government burden	2.51	0.89	0.22	0.11	-0.01	0.07	0.00	-0.29	1.00					
8. Entrepreneur age	44.23	9.39	0.06	0.10	-0.05	0.12	0.06	0.11	0.00	1.00				
9. Entrepreneur gender	0.84	0.37	-0.18	0.01	-0.07	0.01	-0.03	-0.12	-0.05	-0.06	1.00			
10. Entrepreneur higher education	0.42	0.50	-0.06	-0.07	0.05	0.04	-0.13	0.20	0.04	-0.09	0.05	1.00		
11. Firm start-up status	0.24	0.43	0.00	-0.05	0.17	-0.15	0.04	-0.04	-0.05	-0.29	-0.06	-0.11	1.00	
12. Firm sole proprietorship	0.33	0.47	0.28	0.11	-0.09	-0.05	0.12	-0.01	0.04	0.11	-0.14	-0.27	-0.16	1.00

^aCorrelations larger than |0.15| are significant at $p < 0.05$ (two-tailed) and larger than |0.20| at $p < 0.01$ (two-tailed).

Table 2 The impact of personal relationships on bribery incidence^a

	<i>Model 1</i>	<i>Model 1</i>
Main effects		
Relationships with local officials		0.183** (0.102)
Relationships with central officials		-0.192** (0.106)
Controls		
Change in member status	0.148** (0.089)	0.155** (0.089)
Bribe enforcement	-0.250*** (0.098)	-0.225*** (0.098)
Government burden	0.105 (0.090)	0.113* (0.089)
Entrepreneur age	0.15** (0.093)	0.146* (0.092)
Entrepreneur gender	-0.226*** (0.088)	-0.239*** (0.087)
Entrepreneur higher education	0.114 (0.100)	0.129* (0.099)
Firm start-up status	0.21** (0.093)	0.263*** (0.096)
Firm sole proprietorship	0.268*** (0.095)	0.249*** (0.094)
Entrepreneur's network diversity	0.001 (0.087)	0.013 (0.089)
Constant	-1.703 (1.675)	-1.196 (1.745)
Pseudo R ²	0.263	0.294
Log Likelihood	-55.439	-50.709
Wald Chi ²	28.960***	28.520***
Observations	111	111

^aStandardized parameter estimates. Robust standard errors in parentheses. *** $p < 0.01$; ** $p < 0.05$, * $p < 0.10$

negative and significant ($\beta = -0.225$; $p < 0.01$): the higher the level of voluntariness, the less likely entrepreneurs are to pay a bribe. In line with expectations, we find a significant and positive effect of bureaucratic burden on the likelihood of bribery ($\beta = 0.113$; $p < 0.10$). Table 2 reports that older managers are more likely to pay bribes ($\beta = 0.146$; $p < 0.10$). One potential reason for this is that older people become more sensitive to the threat of sanctions, more dependent on the reactions of others, and more susceptible to the potential costs of sanctions if a bribe is not paid. In line with our expectations, a change of member status is indeed positively related to the likelihood of paying a bribe ($\beta = 0.155$; $p < 0.05$). We also found significant evidence for the impact of the firm's life cycle on the likelihood of bribery ($\beta = 0.263$; $p < 0.01$). This result confirms that young firms are more likely to pay bribes than established firms: bribery helps young firms to overcome the liabilities associated with newness. In addition, we found significant support for single proprietorship and the incidence of bribery ($\beta = 0.249$; $p < 0.01$), confirming the importance of this control variable.

Conclusions

This study theoretically and empirically investigated the relationship between two different types of personal relationships – relationships with local government officials and relationships with central government officials – and the likelihood of bribery. The results suggest that personal relationships with local government officials positively affect the likelihood of bribery. These relationships are characterized by frequent interactions and by individuals who know each other well. Such relationships reinforce exclusive identities, encourage loyalty and particularized trust. These factors increase the incentives and the opportunities for bribery, which is illegal in transition economies but common practice between entrepreneurs and local government officials. Entrepreneurs who have relationships with local government officials may engage in bribery because they accept the norms of reciprocity or 'normative rules' that are strictly enforced (Della Porta and Vannucci, 1999). If they break such rules, there may be personal costs (costs of not paying bribes) and other risks (e.g., being excluded from the network, getting caught or punished by authorities or outsiders). In local relationships, the moral cost associated with corruption is likely to be reduced, because bribery is considered 'a good return to favour' (Choi, 2007). This significant finding on the impact of relationships with local officials on bribery also confirms the results of Lipset and Lenz's (2000) macro study, which indicated that corruption is greater in countries with high scores on familism. Hence, what we aim to address is a tension between paying bribes and personal relationships. To some extent, relationships and money can be thought of as substitutes or complements. If these are substitutes, firms with relationships are less likely to pay bribes while if these are complements relationships will lead firms to bribe more. On the one hand, entrepreneurs in transition economies do not want to pay bribes but it is the nature of their personal relationships with government officials that in part explains whether or not they are (less) likely to pay bribes. Arguments for similar tensions have also been reported for other studies in transition economies. Johnson *et al.* (2002), for example, use a similar line of arguments and show that entrepreneurs in Eastern Europe reinvest less of their profits when faced with paying bribes.

In line with our second hypothesis, we also determined that entrepreneurs who have relationships with central government officials are less likely to engage in bribery. This result confirmed our assumption that there are different effects of personal relationships on bribery with respect to the two different groups of public officials. Entrepreneurs who have personal relationships with central public officials may not engage in bribery because central public officials may earn higher incomes and thus do not need a bribe in return. Moreover, relationships

with central government officials may offer protection from bribery demands by local government officials. In addition, bribe payment is less culturally accepted in the elite network, to which central government officials often belong, because these public officials face a high risk of losing their reputation and position, which is likely to lower the incentive to engage in bribery transactions. The results suggest that researchers should conceptually differentiate between the two segments of government officials – that is, local and central public officials – especially when conducting research in transition economies, where government still plays a key role.

This paper developed and tested hypotheses to investigate how personal relationships matter to firm-level bribery activities in the context of Vietnam's transition economy. Such investigations of dyadic determinants of bribery are scarce and theoretically underdeveloped. Few management scholars have taken on the challenge of specifying whether and how personal relationships contribute to the incidence of bribery by entrepreneurs. This research is a first step in this direction. We have explained the link between public-private relationships and the likelihood of bribery, and by so doing have extended the theory of corruption. The data allowed us to measure bribery at the organizational level and to measure the key concepts. Although case study literature on corruption provides insights into single bribery-related events, processes, structures and methods of bribery in practice, it is limited with respect to the generalization of results. Our efforts to acquire a broader sample of companies have resulted in information regarding the role of personal ties and bribery in entrepreneurship.

Our study enriches empirical insights into bribery activities by entrepreneurs active in a transition economy, the more so because these countries have a large informal sector. Although the existence of an informal economy in Vietnam has been recognized for decades, its size and function remained relatively unknown, primarily due to a lack of data. Recently, the International Labor Organization (ILO) estimated that 20% of Vietnamese gross domestic product derives from the informal sector (Cling *et al.* 2010), and the sector accounts for almost 11 million out of 46 million jobs. This study contributes to these ILO findings by disentangling a part of the underlying causal structure that influences entrepreneurial behaviour. The dual government mechanism in transition economies (that is, a market economy and a government-led redistributive regime) implies that government officials at all levels still have considerable power to influence business practice. In Vietnam, for example, the coexistence of the new law-based state and socialist legality has created problems in the coordinating and implementing of the legislative framework. As a result, entrepreneurs in Vietnam have to face considerable uncertainty in a broad range of policy, administrative and institutional realms. In this context, our research explains whether and how

entrepreneurs in a transition economy with a large informal sector are involved in bribery.

Our study offers various implications for managers that already operate in transition economies or about to do so at a short notice. Our research shows that bribery is indeed common practice in such economies but with substantial variations. Benchmark information of bribery incidence in transition economies is scarce. Our study offers managers an opportunity to estimate costs of bribery and, following this information, make a decision whether or not to operate in transition economies balancing such costs against future revenues. Additionally, managers are informed about differences in consequences of personal relationships with government officials: the effects of personal relationships are not uniform and one-directional. Again, such awareness and information can help managers to make conscious decisions about their existing or planned business activities in such countries the more so given the increased importance of corporate governance in home countries of Western investors.

From a policy perspective, the question is how corrupt agreements can be circumvented, given that at the macro level, they have negative effects on growth and welfare. We believe that our research has implications for policies seeking to curb illegal behaviour. First, a weakening of particularized trust between the bureaucrat and the businessperson is necessary to limit corruption. Lambsdorff and Nell (2006) suggested the implementation of legal sanctions that destabilize corrupt deals by introducing regular staff rotation into public administration. Second, if public relationships facilitate bribery practices, this may cause harmful effects for outsiders (potential bribe payers). This also means that to circumvent bribery practices, entrepreneurs need to arrange collective action against bribery, with everyone better off if they all mutually agree not to pay bribes. This is in line with Kingston (2005) who, for example, suggested that the level of corruption in Indian states actually decreases when citizens build up informal norms against bribery or make commitments not to pay bribes.

Third, our firm-level line of research illustrated that in many situations acts of bribery are mutually beneficial and foster tacit collusion between exchange partners. Consequently, to stimulate new firms, for example, government policies should seek to reduce the benefits of bribery for both officials and entrepreneurs. Policies may attempt to improve the working conditions of local government officials and the quality of institutions. Government policies seeking to improve the skills and competences of new entrepreneurs in transition economies may also offer them alternatives which help them successfully manage their enterprise without depending on informal relationships. Fourth, our research illustrated that firms respond differently to pressures and demands to engage in corrupt behaviour: not all firms

pay a bribe to get things done. These different responses suggest the need for a more fine-grained policy designed to incorporate firm-specific heterogeneity. Generic policies may not be able to address firm-specific drivers of bribery. We found that the likelihood of bribery activities is determined by public-private relationships but also by the age and gender of the entrepreneur and the firm's position in its overall life cycle. If governments want to address corruption in a meaningful way, they should be aware of the multiple determinants of bribery, both for existing and new firms.

Fifth, public policies aimed at detecting and addressing bribery must be sustained over long periods of time in order to build up credibility. In societies such as Vietnam, tightly knit family and business structures are an integral part of informal Vietnamese society. It is widely accepted that social relationships have to be fostered through favours. Changing the established patterns and habits of business exchanges may take considerable time.

Sixth, public policies should focus on the negative consequences of deregulation in the government sector. When institutions are weak and the economy expands and becomes increasingly complex, public officials may see more, rather than fewer opportunities to use public authority to their own ends. Our research suggests that bribery may also flourish as a consequence of decentralized local government, with poorly trained and poorly paid bureaucrats who operate in a poorly developed institutional framework.

Seventh and finally, public policies cannot be developed without empirical evidence. Our research shows that firm-level information on illegal activities can be collected by means of a carefully designed questionnaire. Bribery tends to take place in secret. No contracts are written, which makes it difficult to detect in the first place. We suggest that business-level research like ours helps to quantify the issue and to a certain extent makes corruption a more empirical phenomenon, rather than a purely ethical consideration that dominates policy discussions on this matter.

Our study is not without limitations that offer opportunities for future research. The first limitation of this study is that cross-sectional data from Vietnamese entrepreneurs in the Mekong River Delta was used, which limits the generalization of the results. We believe that the quality of the survey and the interview process ensured sufficient confidence in the quality of the data set (for an extensive discussion of related methodological issues in entrepreneurship research, see for example, Coviello and Jones, 2004). Nonetheless, the use of cross-sectional data prevents intertemporal, causal analysis of processes that determine the outcomes that were observed with the use of a questionnaire. Cross-sectional data may suffer from endogeneity that can be addressed through instrumental variable estimation methods. Further research could look for a longitudinal or international firm-level panel study

that incorporates bribery events over time so that any direct causality between individual preconditions and firm-level corruption may be identified. Such new data enable to study the potential dynamic relationship between experience with bribery and personal relationships that, in interplay with other firm, relational or context characteristics, may reinforce each other in co-evolutionary processes. Second, due to data limitations this study did not investigate indirect links between government relationships and the likelihood of bribery. Personal relationships may affect corruption both directly and indirectly through, for example, potential mechanisms that reduce the opportunistic behaviour of the bribers and thus make corruption more predictable. Further research could fill this gap by investigating whether entrepreneurs are confidently able to predict that the goods will be delivered as agreed in a corrupt transaction. Future research might also add complexity at the firm level by estimating moderator effects (Bennedsen *et al.*, 2011). In robustness analyses, we were not able to find significant relationships in models with moderator specifications. Although this seems to suggest that moderator effects are of little importance, future research is needed in order to overcome some of the data limitations in the present study that may hamper extensive two-way or three-way moderator specifications. In a similar vein, it would be interesting to learn to what extent firm size matters in the management of personal relationships with different segments of government officials. It has been suggested that very small firms with only a few employees can hide from bribery activities and the same applies to very large firms while medium sized firms are the most vulnerable in bribery. Future research with more and new data on different dimensions of firm size may investigate whether, and if so, how, this matters in the personal ties between entrepreneurs and government officials.

Third, future studies could replicate this research in other Asian or transition economies. Although weak institutional frameworks are a common characteristic of many states in transition, variations in the quality of government services, attitudes and behaviour exist. This implies also that roles and outcomes of personal relationships between entrepreneurs and government officials in different transition economies or other Asian countries may vary and need to be accounted for in future research. Fourth, in this study, bribery was only measured in terms of cash payments. It would be worthwhile to investigate other forms of bribery. For example, entrepreneurs may indirectly spend money on bribery through gifts or invitations to bars. New data on other bribery measures would enable researchers to test the role of different forms of bribery.

In this study, the measure of the quality of personal relationships between the entrepreneur and government officials was valuable but not so specific as to which

central or local government the respondent referred to in their response to our survey. New data collection would enable researchers to ask respondents more precisely about the particular government official they deal with when running their business. Future research could also develop alternative measures of the quality of the personal relationships, following, for example, the measures used for network heterogeneity. Such alternative measures would also enable opportunities to investigate the direct and moderating effect of the entrepreneur's political affiliation or the presence of a family member in government offices on the incidence of paying bribes. In a similar vein, it would be interesting to classify entrepreneurs into specific groups stratified according to a combination of the type of relationship with government officials. This would result in, for example, entrepreneurs that have good relationships with both, local and central government officials or those that have good relationships with either of them. The present study has insufficient observations to make such meaningful classifications. Future efforts building on new data could study whether and if so how a refined classification of personal relationships matters for bribery incidence.

In conclusion, bribery will remain important for entrepreneurs who operate in transition economies and a thorough understanding of the determinants of bribery incidence remains central to entrepreneurship and management research. With the above limitations acknowledged, we are confident that this study makes an important contribution to bribery research at the firm level by explaining the connection between different types of personal relationships and the likelihood of corruption.

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