

Values of our “Home” as Fraudulent Friends – Home as a Confidence-Building Element in Corrupt Transactions

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1 ABSTRACT

Friends from home need to help each other when it is necessary. Especially when individuals who call the same area their home meet each other far away from it, the willingness to help a stranger can be bigger than at their actual home. The difference between a good deed and a crime can be obvious, but the distinction between preferential treatment and corruption is difficult to make, particularly in different cultural contexts and situations. However, corruption is not automatically defined as the exchange of money or gifts for a decision, license or preferential treatment, nor as doing a simple favour for a friend. In this paper, the theory of New Institutional Economics will be used to explain how the term “home” can be a confidence-building factor and a base for corrupt transactions.

Keywords: Corruption, Informal Transactions, Networks, Favors, Trust

2 INTRODUCTION

“Home is where the heart is” is a common saying which is related to the interpretation that “home” does not necessarily mean an origin or a place defined by latitude and longitude coordinates. Of course, home can be a concrete place or area. But it is important to note that the saying can be interpreted as home being strongly connected to emotions and feelings, which is shown by the metaphor of the heart. Due to the fact that everyone probably has their own definition of “home”, there are some similar characteristics which can be connected with this term in a positive way. Particularly, the same definition of home could be the lowest common denominator for individuals who meet each other far away from this place for the first time. The knowledge about the same definition of the place or area called “home” can increase trust in a stranger immediately. Perhaps more and more similarities are discovered and more and more confidence is developed. Later, one stranger might be in trouble, and they ask for support through a simple but dubious favour. Can this newly-built confidence be strong enough to deceive one’s own values and principles of integrity? How far will people go to help somebody who calls the same place or area “home”? This paper strives to investigate under which conditions the values associated with the term “home” can be a confidence-building factor and a basis for corrupt transactions by using the theoretical concept of New Institutional Economics. First, a definition of the term “home” will be given, and next, the role of trust in informal transactions will be explored. Finally, the difference between corruption and favours will be discussed to show how small the difference between illegal and legal informal transactions can be.

3 SHARED MENTAL MODELS AT HOME

Home can be defined as a country, a place, a city, a village or also just a district or a neighborhood. As mentioned above, home does not have to be automatically defined as a territorial area. Home can also be the space where the confidants live, yet individual definitions can vary. A premise in this paper for the term home will be that a person must have once lived in the place or area defined as home, but the focus will be more on the associated feelings than the defined time period. The person must have experienced the place actively and emotionally. Additionally, the person must have internalised the values and norms of the society living in the place defined as home. Norms, traditions and values are defined as informal institutions by the theory of New Institutional Economics.

These informal institutions and formal institutions (e.g. laws) are confidence-building when individuals interact with each other (North 1990). Both kinds of institutions have the goal of minimising uncertainties in social interactions in order to reduce transaction costs and to create structure (Pech 2009: 11). This approach is particularly suitable for contrasting the differences between formal and informal transactions (of goods) and to demonstrate how hazy the border between illegal and legal can be. Starting from this theory, the concept of shared mental models was developed (Denzau/North 1994). This concept describes homogeneity in values and norms between individuals in a society. Mostly, these informal institutions do not have a concrete author and are not constituted in written form, but they can be considered a sort of agreement

between all members of a society (Popitz 2006: 61-63). Informal institutions also have a high degree of stability, which is almost unchangeable over generations. Due to this stability, members of a society have a high level of trust in these informal institutions as informal rules (Denzau/North 1994: 25). An individual needs to behave in accordance to the informal institutions to avoid sanctions by other members of society (Becker 1981: 7). If a deviance is discerned that indicates a violation against the (informal) agreement, the individual’s social status may suffer or the individual may be excluded from the group. The violation of the agreement by the individual decreases the level of trust in a norm-conform behaviour in society (Schuhmann 1968).

Already Niklas Luhmann has characterised personal trust as something that individuals give directly to others when they believe that the others have characteristics that are categorised as important by the individual itself (Luhmann 1968). That is why individuals tend to trust other individuals who have similar values and attitudes as themselves. This can be given directly when the individuals have been socialised in the same society. A feeling of togetherness can arise when individuals share the same values and networks in a homogeneous way (Anthias 2006). This also can be interpreted as a result of familiarity, safety and community (Hage 2002). That is why home can be considered the direct location in this concrete social environment (Pfaff-Czarnecka 2012). The applicable norms and values in a society will be internalised by the individual and directly projected onto another individual from the same geographical location, which increases the level of trust without having more detailed information about the other person.

4 INFORMAL TRANSACTIONS AND TRUST

Trust is an important factor in transaction between individuals. The exchange of goods is highly developed in postmodern societies, but similar principles can be found also in archaic societies. During his studies about the function of exchange in native tribes, Marcel Mauss discovered a consistent pattern: reciprocity in the exchange of goods. This exchange system was centred on the obligation to give, to receive and to reciprocate (Mauss 1968). All involved individuals put trust in this pattern to ensure the exchange of goods between individual tribe members and also between other tribes. Trust as an object of an exchange underlies also the principle of reciprocity. Therefore, whole systems of trust can be created in which all actors give, receive and reciprocate trust as a good (Schweitzer 2009: 185-186). The trust in this reciprocity is essential for informal transactions of goods or services. In informal transactions, there are no formal institutions, like property rights, which could regulate the transaction in case of a dispute.

A special form of informal exchange of a service for another resource is corruption. The two most important framework conditions for a corrupt exchange are trust and norms (Graeff 2011: 26-27). They are essential for a successful illicit transaction. The person who bribes needs to trust that the person who receives the bribe will keep the promise that their agreement will be followed. To ensure that this transaction is successful, it is important that both parties understand and trust the convention of reciprocity. To avoid punishment, no contract exists, defining the concrete service and compensation, that could be used as evidence in court. Both parties need to trust each other that the concluded agreement will be kept a secret. Generally, corruption is associated with the payment of bribes to public officials, but in order to also include illegal transactions between business partners, corruption should be defined as the misuse of power for one’s own benefit (Wolf 2012: 119-120).

In older scientific literature, the term speed-money is synonymously used for corruption because the payment of bribes can expedite administrative processes and ensure long term business relations, which can be considered advantageous from a business administrative point of view (Leff 1964; Huntington 1968). That is why some caught perpetrators argue that they bribed someone in the interest of the company to generate higher profits (Wieland 2010a: 78). While corruption creates benefits for both involved partners, it causes strong disadvantages for third parties. Corrupt transactions made by one company can cause reputational damages in a whole business sector (Ades/Di Tella 1999). The misconduct of one market participant can cause stricter regulations, which can decrease the profits in the whole sector (Wieland 2010b: 28). Additionally, corruption has competition-distorting effects and only allows an exclusive network to participate in the market and to generate profits. For small and medium-sized enterprises it can be difficult to establish themselves at the market successfully when they are not able to pay bribes (Hallward-Driemeier 2009). Sometimes these enterprises are even forced to pay bribes to get a licence which enables them to enter and to participate in the market (Tonoyan et al. 2010). One of the characteristics of so-called market

corruption is that the party who pays the most receives the requested license, service, etc. This illicit favouritism defames the principles of market-based economy because generated profits need to be used for higher bribes and cannot be reinvested in innovations (Bliss/Di Tella 1997). Market corruption is determined by the exchange of a material resource, but there are other forms of corruption that do not need a material resource as an exchanged good. One of them is the parochial corruption. This kind of corruption is defined by the misuse of power to benefit a member of an exclusive network of close friends and family members (Kingston 2007: 85).

5 FAVOURS AS CORRUPT TRANSACTIONS

National and international laws define whether an action is illegal or not. Most of the laws do not define all concrete scenarios that can appear in reality and legislative grey areas arise. That is why some special cases are difficult to define as illegal or legal. A legal analysis for every single case is needed to evaluate if these special kinds of actions made in legislative grey areas can be officially judged as illegal or not. In particular, the informal exchange of favours in business relations can easily cross the legal border and must be considered as corruption, nepotism or misuse of power. But the informal characteristic of a transaction does not automatically define illegality. The distinction between informal and formal institutions are just determined by a missing constitution in a written form for the informal institutions (Lauth 1999: 64).

In the Russian area of the Soviet Union, for example, an informal network called *blat* existed, which was based on reciprocity but was never constituted in a formal way (Ledeneva 1998). This network arose from a lack of consumable goods for daily needs, caused by the structure of the planned economy and the arms race with the United States of America. Lemons had been a desired but scarce good. Some citizens used their *blat*-network to ensure that the responsible person in the supermarket would reserve some lemons so that they weren't sold to someone else. According to this favour, the responsible in the supermarket could expect a favour in the same way from the person who asked for the lemons (Ledeneva 1998: 115-117). Both parties put trust in the function of this network of favours. These *blat*-networks can be considered a sort of parochial corruption (Styckow 2004: 255). This network never involved a monetary exchange, but after the collapse of the Soviet Union, the *blat*-networks were replaced with direct bribery. Before, it was favours for favours between friends. In post-Soviet Russia, it became favours for money for everybody (Styckow 2004: 255-257). Although the formal institutions of the Soviet Union were replaced by the formal institutions of the Russian Federation, the norms of reciprocity in informal transactions only changed a little because the citizens were familiar with these kind of procedures at their home. A monetary component was added, but this caused a formal illegality.

This example shows, how hazy the border between illegality and legality can be. Criminal behaviour is only defined by the current norms and values that are accepted by society. The deviant behaviour of an individual is judged as a breach of the rules, which is sanctioned by the other members of society (Becker 1981: 7-14). Similarities in values and norms determine whether someone is an outsider or a member of society (Pfaff-Czarnecka 2018: 7). A detected breach of the formal rules will be punished by law by the jurisdiction. A detected breach of the informal rules will cause harm to the individual's social status, or the individual will be ostracised (Schuhmann 1968). Particularly from a global perspective, it is difficult to define when a behaviour needs to be classified as criminal because each society has its own values and accepted norms (Grafl 2011: 175). That is why there is no universal definition under which the acceptance of gifts in a decision-making position can be considered corruption or simply an expression of the mutual appreciation of interacting parties (Karstedt 2004: 388-389). These ideas are different in various cultures and areas. That is why it cannot be clearly defined at which point a simple favour turns into a corrupt transaction.

6 CONCLUSION

Individuals trust people when they assume that there are similarities in the values that they consider important. The concept of shared mental models showed that norms and values in a society are homogenous. Similarities in values and norms can determine whether someone is an outsider or a member of society. Particularly, when individuals are far away from their home, they want to be accepted and not to be considered outsiders. That is why they try to adapt the values and norms of the society they are living in. Even after years, it can be hard to assimilate and individuals continue to feel that they are outsiders. If they meet someone who also calls the same area home as they do, the individuals start to feel connected because

they assume similarities in values and norms and their interpersonal trust increases. They no longer feel that they are outsiders because there is someone who probably shares the same values and attitudes. Individuals may give this interpersonal trust to people whom they have not known for a long time. The knowledge about the others’ home is enough to feel connected. A high interpersonal trust to a stranger can be dangerous in any case because it can be the root of fraudulent activities. When the individual who is far away from home is also in a decision-making position, e.g. as the head of procurement in a medium-sized enterprise, this interpersonal trust can be easily abused by a stranger. Maybe the stranger also owns a company and asks for a simple favour, like preferential treatment in the form of selecting their company in the next procurement process, and in exchange they suggest that another favour will be done if the other one needs help some day. Maybe the head of procurement knows that it would be wrong to give the stranger’s company preferential treatment, but friends from home need to help each other. The head of procurement misuses his power at the expense of his company and other competitors in the market. The positive feelings and memories which are associated with home can cause a non-objective judgement or decision, especially when people with the same home meet each other far away. Some people forget that there are also deviant behaviours and criminal tendencies in the beloved place they call home. Perhaps the stranger knew that the head of procurement felt uncomfortable far away from his home, and so he lied, claiming to call the same place home.

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