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Bribing culture and rural start-up plans in transition: evidence from Bulgaria

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BRIBING CULTURE AND RURAL START-UP PLANS IN TRANSITION: EVIDENCE FROM BULGARIA

Abstract

We investigate how the perception for wide-spread bribing culture affects rural non-farm start-up plans in transition. The study contributes to the literature on rural entrepreneurship and the role of institutional factors as drivers of entrepreneurial decisions. Using primary farm household data from Bulgaria and relying on Ajzen's Theory of Planned Behavior, we tested the mediation effects of corruption perceptions over attitudes, norms and perceived control. Evidence for partial mediation through attitudes was found. Stronger corruption perception is correlated with both stronger start-up intentions and positive attitudes towards it.

Keywords

Rural entrepreneurship, corruption perception, transition, mediation analysis, Ajzen

Introduction

Rural entrepreneurs in transition economies operate in complex institutional environments characterized by imperfect adjustment of the institutions to the new market conditions, (Grodeland and Aasland, 2011, Mickiewicz, 2010). More precisely, a clash between formal and informal institutions exists (Solomon Jr, 2010). While formal institutions (laws and regulations) have been adapted to the traditions of Western democracies, informal institutions (social arrangements and norms) still carry the legacy of the socialist past (Estrin and Mickiewicz, 2011). As result, economic activity is embedded in an informal environment characterized by a general distrust towards the state as a political and economic actor, and reliance on personal contacts, bribery, informality and tax evasion (Grodeland and Aasland, 2011, Welter and Smallbone, 2006).

Considering this difficult environment for rural entrepreneurs, our paper focuses on corruption as one important factor that may fuel or hinder business start-up decisions. Corruption is defined as abuse of public power for private benefit (Rodriguez et al., 2006; Melgar, Rossi et al., 2010). Extensive empirical evidence documents that corruption is widespread and deeply rooted in transition economies' cultural norms (Andreev, 2009, e.g. Blagojević and Damijan, 2013, Dimitrova-Grajzl, Grajzl and Guse, 2012, Grodeland and Aasland, 2011, Hacek, Kukovic and Brezovsek, 2013, Ledyeva, Karhunen and Kosonen, 2013, Lee and Guven, 2013, Mungiu-Pippidi and Dusu, 2011, Tonoyan, Strohmeyer, Habib and Perlitz, 2010). High levels of corruption are found to stifle innovation and entrepreneurial activity (Aidis, Estrin and Mickiewicz, 2008, Anokhin, 2009, Djankov, Zhuravskaya and Roland, 2005, Estrin, Korosteleva and Mickiewicz, 2013).

Most of the existing studies on corruption and entrepreneurship are based on macro-data and focus on already established entrepreneurs from urban regions (Tonoyan et al. 2010; Anokhin and Schulze 2009; Estrin et al., 2013). With some rare exceptions (Marinov, 2008, McElwee, Smith and Somerville, 2011, Williams, 2011) the scarce rural entrepreneurship literature has mostly concentrated on the local embeddedness, but neglected its institutional aspects (e.g. Bryant, 1989, Mishra, 2005, Psaltopoulos, Stathopoulou and Skuras, 2005, Smith, 2008, Stathopoulou, Psaltopoulos and Skuras, 2004). In contrast, we explore the effect of corruption perceptions of rural residents (farmers) at the initial phase of the entrepreneurship process: when non-farm opportunities are recognized and a decision is made whether to pursue them or not (van der Zwan, Thurik and Grilo, 2010, van der Zwan, Verheul and Thurik, 2011).

We combine insights from Ajzen's (1991) Theory of Planned Behaviour (TPB), the literature on entrepreneurial intentions (e.g. Brooksbank, Thompson and Williams, 2008, Davidsson, 1995, Gelderen, Brand, Praag, Bodewes, Poutsma and Gils, 2008, Krueger, Reilly and Carsrud, 2000, Linan and Chen, 2006, Sequeira, Mueller and McGee, 2007, Tkachev and Kolvereid, 1999), and the literature on the social embeddedness of entrepreneurship (Granovetter, 1985, Kalantaridis and Bika, 2006, Kibler, 2012) to develop and test a model of the direct and indirect (through attitudes, norms, and perceived behavioural control) effect of corruption perceptions on entrepreneurial intentions. We test our model on survey data from potential rural entrepreneurs in Bulgaria.

Our study makes three significant contributions. First, we add to the rural entrepreneurship literature by examining ex-ante effects of perceived corrupt practices on intended rural entrepreneurship activity. Second, we explore an important contextual factor in which entrepreneurial intentions are embedded and contribute to the entrepreneurial intentions

literature. And third, we deal with a context that has not been much accounted for in prior research. The complex transitional environment with its competing institutional logics on the entrepreneurial decision is explored by bringing in fresh empirical evidence from the experiences of rural entrepreneurs in Bulgaria.

Theoretical background and hypotheses

The theory of planned behavior (TPB) and entrepreneurial intentions

Grounded in the cognitive psychology literature, Azjen's TPB (1991) was developed to model the relationship between exogenous influences (such as traits, demographics, skills and social, cultural and financial support), attitudes, intentions and behavior. In Azjen's model, intentions are determined to a large extent by three factors: (1) the personal attitudes towards a planned behavior, (2) the social norms about this planned behavior (i.e. the perceptions of what important people in the decision-makers's life think about performing the behavior), and (3) the perceived behavioral control over the intended behavior. The personal attitudes towards the behavior depend on the expectations and beliefs about the personal utilities resulting from the behavior and include outcomes such as personal wealth, autonomy, or community benefits (Krueger et al., 2000). Perceived social norms tap into the most important social influences (for example, family and friends). Finally, the perceived behavioral control deals with anticipated obstacles and facilitators; it overlaps with Bandura's view of perceived self-efficacy and with Shapero's concept of perceived feasibility (Shapero and Sokol, 1982). The TPB has been successfully used to explain entrepreneurs' start-up intentions (Gelderen, Brand, Praag, Bodewes, Poutsma and Gils, 2008, Shook and Bratianu, 2010) and outcomes (Kolvereid and Isaksen, 2006).

The institutional embeddedness of entrepreneurial intentions

Recent research has examined some of the contextual factors which determine the antecedents to the entrepreneurial intention, looking at the entrepreneurial decision as the result of the interplay between the environment and the individual decision-maker's perceptions (Sarason, Dean and Dillard, 2006, Shane, 2003). For example, Linan and Chen (2006) conceptualized the effects of national culture on the entrepreneurial decision, whereas Kibler (2012) explored its regional embeddedness.

We follow these authors' lead and look at the institutional embeddedness. by modelling the effect of perceived corruption on entrepreneurial intentions. If corruption is, indeed, pervasive, then perceived corruption will determine the course of action that individuals will choose (Olken, 2009, Weber, 2008). In other words, the subjectively held beliefs, informed by personal direct experience, vicarious learning or mass media coverage will translate into an understanding of social expectations and norms of socially accepted behavior (North, 1990), known to be 'contagious' within a particular society (Lee and Guven, 2013). Thus, we postulate that perceived corruption will act as a background factor, mediated through attitudes, social norms, and behavioral control to the entrepreneurial intention (Figure 1).

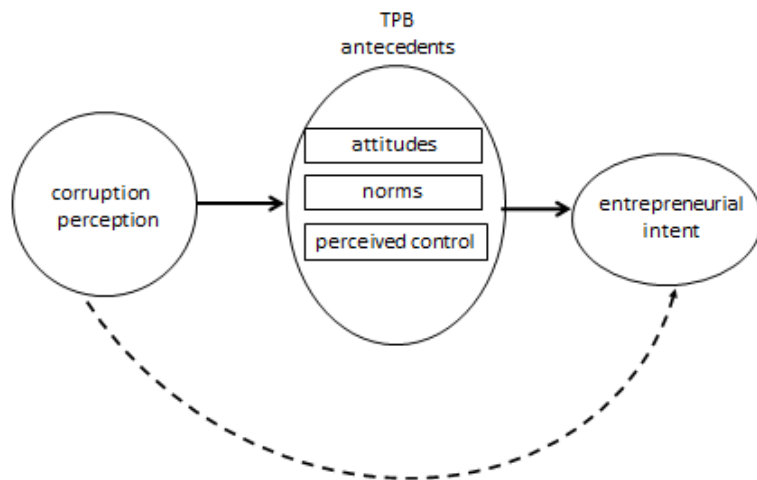


Figure 1 **Conceptual model**
Source: Own presentation.

Formally, we formulate following hypotheses:

The effect of corruption perceptions on entrepreneurial intentions will be mediated by (H1) attitudes; (H2) social norms; and (H3) perceived behavioral control.

Data and methods

Context of the study

Bulgaria was one of Eastern Europe's most orthodox communist states. Bulgarian rural people, similar to their urban counterparts, suffered massive layoffs after 1990, and witnessed how their skills, acquired over decades in the big state-owned enterprises, became outdated under the new labour market conditions. Agriculture became an important safety net for the rural population after the transition shock, and since local employment opportunities stayed scarce, it remained an important backbone of rural livelihood strategies (Möllers, Buchenrieder and Csaki, 2011). However, especially the younger generation is keen to leave the farming sector. One opportunity for this is starting a local non-farm business. Considering the inefficient formal institutions surrounding rural business activities, and accounting for the importance of agriculture for the rural economy, the study relies on farmers as research subjects.

Sample and research design

Survey data were collected in rural Bulgaria in 2008 and 2009 using a quota sampling approach. This timeframe encompasses the first years of the EU membership of the country and allows us to capture significant institutional shifts. We targeted three regions with different levels of economic development. The data were collected in face-to-face interviews in the native language, using a structured questionnaire. It covered the socio-economic characteristics of the rural household and its members, the farm characteristics, the intention to start a non-farm business and corruption perception.

The entrepreneurship literature suggests that individuals are most likely to consider a start-up while being in their thirties (Delmar and Davidsson, 2000, Lévesque and Minniti, 2006, van der Zwan, Thurik and Grilo, 2010). We started with a sample of 311 households, but after dropping pure pensioner households, and incomplete cases we arrived at a final usable sample size of n=195.. Of these 51% are male, 47% are looking for a job, 59% have secondary education, 17% have higher education. Only 29% of the respondents reported to envision start-up. The average household consists of four members.

Since entrepreneurship is an embedded phenomenon, subjective perceptions about one's environment and about the individual's relative position in that environment are very important (Jack and Anderson, 2002). Thus we rely strongly on perceptual measures and operationalized the variables based on existent entrepreneurial intentions literature (e.g. Autio, Keeley, Klofsten, Parker and Hay, 2001, Engle, Dimitriadi, Gavidia, Schlaegel, Delanoe, Alvarado, He, Buame and Wolff, 2010, Gelderen, Brand, Praag, Bodewes, Poutsma and Gils, 2008, Krueger and Carsrud, 1993); in addition we used insights gained through earlier qualitative field work in rural Bulgaria. All variables were measured by 5-items Likert style scales where 1 indicates total disagreement and 5 indicates full agreement with the respective statement. The wording is shown in Table 1.

Table 1 **Variable operationalization (Likert scales from 1-5)**

1	intent	I will start a non-farm business within next 5 years
<i>Attitudes</i>		
2	prefse2farm	Prefer non-farm self-employment to farming
3	prefse2wage	Prefer non-farm self-employment to wage
4	like_se	I like the idea to start an own non-farm business
<i>Norms</i>		
5	sup_friends	My friends would support me to start a non-farm business
6	sup_colleagues	My colleagues would support me to start a non-farm business
7	sup_family	My family would support me to start a non-farm business
8	care_friends	I care what my friends would say about my non-farm start-up
9	care_colleagues	I care what my colleagues would say about my non-farm start-up
10	care_family	I care what my family would say about my non-farm start-up
<i>Perceived behavioral control</i>		
11	i_can	I believe I can handle all the obstacles involved in a non-farm start-up
12	i_skilled	I believe I have the skills needed to master a non-farm start-up
13	fast_learn	I learn fast and can adapt to new situations as needed for start-up
<i>Perceived corruption</i>		
14	permit_bribe	Bribes are effective to get permit
15	court_bribe	Bribes are effective to influence the legal system
16	bend_law	Most of the businesses here have to bend the law in order to survive
17	contacts_need	Here without connections one cannot run a successful business
18	priv_bribe	Bribes are effective means to influence the privatization
19	police_bribe	Bribes are efficient to solve problems with police
20	funds_bribe	Bribes are efficient means to obtain public funding

Source: Own presentation.

In line with our expectations, it appears that corruption perception is strongly pronounced across the sample: 58% believe that bribes are effective means to influence the courts. Sixty one percent agree that bribes are effective for obtaining permits. For 65% of the respondents one cannot sustain a business in the region without bending the law (e.g. hiding taxes or working without contacts). Another 60% share the view that one cannot be successful without relying on connections. About the same share consider bribes as effective when dealing with police or for influencing the privatization. Slightly less than the half (49%) believe so when it comes to obtaining some public funding through support programs. But before we can continue with the analysis of these perceptions on the start-up plans, we need to check how reliable our measures are.

We conducted confirmatory factor analysis (CFA) for the theoretical construct to ensure unidimensionality (varimax rotation, Kaiser-off criterion, scree plot diagnostics). Attitudes were measured by three items, loading on a single factor (scale Coefficient Alpha = 0.72). Following Ajzen (1991), social norms were calculated as the summed products of the strength of social support and its importance. Thus, we do not report the factor structure or reliability for this measure. Perceived behavioral control was measured by three items, loading on a single factor (scale Coefficient Alpha = 0.86). Initially corruption was operationalised by seven items as shown in Table 1, but CFA yielded two instead of one factor. To solve this, we had to drop two variables: *contacts_need* and *bend_law*. This left us with five items loading on a single factor (scale Coefficient Alpha = 0.79), the content of which now reflects the perceptions about the effectiveness of bribes.

Having done this, we constructed a summated index for all constructs, but norms. For norms we first used the product for each of the three peer groups and then built the sum of the products of all three peer groups. The resulting indices, summarized in Table 2, are used for the mediation analysis.

Table 2 Descriptive statistics and correlation matrix

	mean	SD	min	max	1	2	3	4	5
1 Entrepreneurial intent	2.3	1.5	1	5	1				
2 Attitudes	10.6	4.0	3	15	0.51	1			
3 Norms	40.3	16.7	3	75	0.13	0.25	1		
4 Perceived control	11.6	4.0	3	15	0.43	0.58	0.37	1	
5 Perceived corruption	10.3	6.3	-5	23	0.32	0.32	0.08	0.13	1

Source: Own data.

Estimation technique

We aim at conducting a mediation analysis based on series of multiple regressions. The choice of the best suited regression model was not trivial. In view of the ordinary scaled intention variable, an ordered logit would have been our first choice. However, ordered logit goes with a strong assumption: each of the start-up intention levels should be equally likely (proportional odds).

But, as reported above, less than 1/3 of our respondents had entrepreneurial intentions. This skewness of the dependent variable poses a clear violation of the proportional odds assumption, and, if not accounted for, it results in biased estimates (Fullerton, 2009). Therefore, we went for *stereotype logistic regression (slogit)* (Anderson, 1984). *Slogit* is based on maximum likelihood estimation and applicable when all but the lowest outcome is rare (Kuss, 2006).

To test for mediation of the effect on bribes perception on start-up intentions, we followed the widely-used three-stem procedure suggested by Baron and Kenny (1986). Given an independent variable X, a potential mediator M, and a dependent variable Y, we conducted the following steps:

- **Step 1:** regress Y on M (M should be significant);
- **Step 2:** regress M on X, (X should be significant);
- **Step 3:** regress Y on M and X (at least M must be significant – corresponding to full mediation, or both X and M are significant – indicating partial mediation).

Results of mediation analysis

In the first step of the Baron-Kenny procedure we pooled all three intention antecedents as potential mediators, mirroring the essence of TPB (Table 3). All, but norms turned positive and significant. Already here it became evident, that norms do not explain the variance of the intentions and should be rejected as mediator. Thus, we refrained from conducting the next test steps for norms.

In Step 2 we tested separately if the perceived effectiveness of bribes explains the variance of attitudes and perceived control respectively. This yielded significant and positive result for attitudes, but insignificant results for perceived control. Hence, the analysis indicates no mediation of bribes effectiveness perception through perceived control.

In Step 3 both corruption perception (as mediated variable) and attitude (as potential mediator) were included as explanatory variables for start-up intentions. Both regressors were significant and positive indicating presence of partial mediation (not shown). That means that there is both direct and indirect effect of bribes perception on start-up intentions. The finding is robust on inclusion of remaining intentional antecedents, but also on controls. In the fully subscribed regression (Table 3, Step 3), after controlling for age, gender, and education, attitudes, perceived behavioral control, and perceived bribe effectiveness were all positively and significantly associated with entrepreneurial intentions.

Figure 2 summarizes our empirical findings. We found support for the postulated mediation through attitudes (H1) but have to reject the subsequent hypotheses suggesting mediation through norms (H2) and perceived control (H3).

Table 3 Mediated regression estimates: Predictors of entrepreneurial intent (n = 195)

Step 1: Y=M	Dependent	Entrepreneurial intent	Coef. (SE)	Coef. (SE)	Coef. (SE)
		Attitudes	0.40 (0.10)***		
		Norms	-0.00 (0.01)		
		Perceived control	0.33 (0.11)**		
Step 2: X=M	Dependent	Attitudes	Norms	Perceived control	
		Perceived corruption	0.16 (0.04)***	n.a.	Perceived corruption 0.05 (0.04)
Step 3: Y=X+M	Dependent	Entrepreneurial intent	Coef. (S.E.)	Regression function: Wald χ^2 (df = 7) = 33.22***	
		Attitudes	0.29 (0.09)**		
		Norms	0.00 (0.01)		
		Perceived control	0.32 (0.11) **		
		Perceived corruption	0.15 (0.04)***		
		Gender	0.75 (0.50)		
		Education	0.17 (0.42)		
		Age	-0.08 (0.02)***		

Note: Baron-Kenny test for mediation, *slogit* procedure (n = 195); *significant at $p < 0.05$; ** significant at $p < 0.01$, *** significant at $p < 0.001$

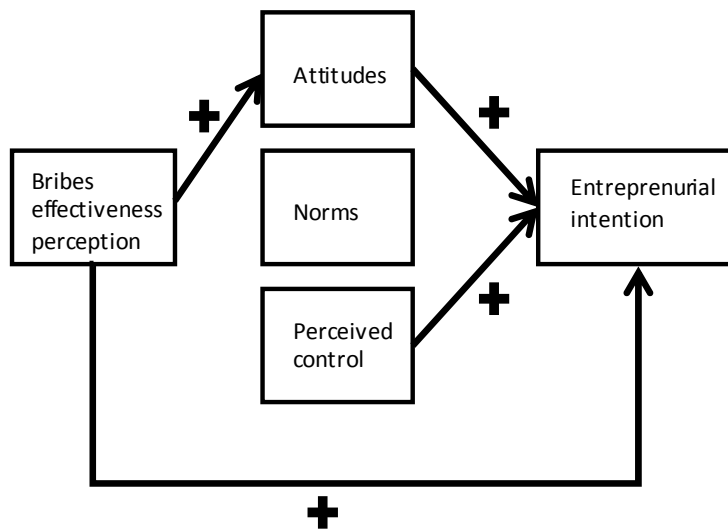


Figure 2 Results from the mediated regression model

Source: Own presentation.

Discussion and conclusions

In this paper, we set out to explore the direct and indirect effects of corruption perceptions on entrepreneurial intentions in rural post-socialist Bulgaria. We found that corruption perceptions (operationalised as bribe effectiveness) are partially mediated by only some of the antecedents to entrepreneurial intentions. More specifically, attitudes (partially) mediated corruption perceptions, but not norms or perceived behavioral control.

The result that perceived control is no mediator is counterintuitive, since it is common sense to associate bribing with easiness of getting things done in the transition context. One explanation for the insignificance could be that at the stage of intent it is too early to know what bribes will be needed in order to feel in control in the context of the perceived corrupt environment. Interestingly, perceived behavioral control, as predicted by the classic TPB model, is positively and significantly associated with entrepreneurial intentions, suggesting that aspiring entrepreneurs have the self-efficacy to deal with start-up problems, but not necessarily the self-efficacy to deal with corruption (bribing).

We link the positive and significant mediation through attitudes to the mechanism of affirming the beliefs for what is effective business practice. According to Ajzen (1991) the positive attitude is the result of weighing the expected outcomes of the envisioned start-up. The literature suggests many factors as possibly contributing to favorable start-up attitude: desire to be one's own boss (Earle and Sakova, 2000), prospects for more independence (Williams and Williams, 2012), bettering the financial situation (Gelderen, Brand, Praag, Bodewes, Poutsma and Gils, 2008), securing employment or escaping unemployment (Earle and Sakova, 2000, Santarelli, Carree and Verheul, 2009). Still, based on our extensive field experience in the country, we believe that these motives mingle also with the influence of vivid role models. They may arise through personal observation, and/or media coverage, and also inform the formation of positive attitudes. One should keep in mind that most rural businesses are necessity-motivated and embedded in the local (perceived as corrupt) business environment. As our descriptive data showed, about 60% of the sample accepted the diverse bribe types as effective. So we conclude that bribing perceptions exert a direct effect on entrepreneurial intentions.

Worrisome, this effect is significant and positive. Bribing culture consequences are well described in the literature - distrust in formal institutions, tax avoidance, keeping low profile and reliance on personal contacts if interaction with the state is inevitable (Smallbone and Welter, 2006, Webb, Tihanyi, Irland and Sirmon, 2009).

Overall, our findings strongly indicate that in the setting of rural Bulgaria, the entrepreneurial decision is socially embedded and corruption leaves a lasting imprint on entrepreneurial attitudes, as well as directly affects entrepreneurial intentions. Knowing that the business start-up is always an intentional act, it is evident that bribing perceptions influence who will be in the pool of potential, and from there later of actual entrepreneurs, shaping the rural economy.

Our study is not without limitations, which need to be kept in mind when its results are interpreted. First, the data are not representative and due to the cross-sectional design no causality can be established. In addition, the dimensions and types of corrupt activity that present the largest obstacles to economic performance are likely to vary not only across countries but also across firms within a country (Blagojević and Damijan, 2013). An examination of within-firm corruption perceptions could be an interesting extension of our work. Furthermore, we have measured perceived control reflectively and more general, so no precise information about its dimensions in corruption context is at hand.

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