

## Administrative corruption and the challenges of entrepreneurship development

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### ABSTRACT

In recent years, the study on the corruption in the governmental sector has been concerned and grown. Corruption is an endemic and global phenomenon and therefore, it should be acknowledged that the corruption and dealing with it are challenge in many countries of the world. Given the plans have been accomplished to deal with this phenomenon by the countries, but we witness its growing trend in different sectors of the society again. The entrepreneurship subject is one of the topics emphasized in the economic development. The economic development publicly and entrepreneurship specifically are from the domains which are not immune from these effects. This research explains the role of administrative corruption on the entrepreneurship development. In the first part, a summary of the concepts of corruption, entrepreneurship, correlation between corruption and entrepreneurship is presented and in the second part, the situation in Iran is examined based on data collected from International Transparency Institute and Global Development Entrepreneurship Institute. Research findings suggest that corruption can have a positive or negative impact on entrepreneurship, but its impact is more severe and more harmful. Also, according to the statistics provided, it can be concluded that with an approximate fixation of the rate of corruption over the past few years, entrepreneurship development in Iran has grown modestly .

**Key words:**

*Administrative  
Corruption, Entrepreneurship,  
Entrepreneurship  
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**Introduction**

Corruption is a common phenomenon in many developing countries. The administrative corruption is a disease. It is a cancer which eats the cultural, political and economic tissues and exterminates the function of the vital organs (Shabbir and Anvar, 2007). According to the statement of the Transparency International Institute, corruption is the largest challenge of contemporary world. It weakens the government function, basically changes the governmental policies, leads to allocate the sources incorrectly, damage the governmental, private and especially poor sectors (Amundsen, 1999). The administrative corruption always lubricates the exploitation and injustice wheels which are the characteristic of the contemporary world. Anyway, the corruption has remained as a challenge clearly. Despite the numerous policies, the researches indicate that the public combats are growing for promoting the awareness, institutional and legal reforms and improvement of the governmental management (Transparency International Institute, 2009). Entrepreneurship is very important for economic growth. Entrepreneurship development is driven by a number of factors that are predominantly social, psychological, and economic. All of these factors lead to corruption and thus can stop entrepreneurship and therefore provide a serious challenge to its development (Bassey et al, 2014). Entrepreneurship is the engine that drives economic growth, and each other feeds and complements. Therefore, any country that is interested in promoting growth should investigate factors that contribute to entrepreneurship or prevent entrepreneurship, including corruption, (Allini et al, 2017). Dreher & Gassebner, (2013) argue that it is not surprising that the "wheel lubrication" hypothesis is generally supported while looking at economic growth because there are many channels through which corruption can be Affecting growth (Bologna & Ross, 2015). It is believed that the existence of corruption would lead to inefficiencies in resource allocation and make economic development impossible if it would not be possible (Anokhin & Schulze, 2009). In the meantime, Entrepreneurship is also one of the issues that is heavily influenced by the administrative and economic corruption of the community. Administrative corruption can cause to retain the existing situation and it can prevent from change and innovation in different sub-systems of a country (Athanasouli & Goujard, 2015). The bureaucratic administrative corruption has caused to reduce the profitability of different companies and institutes by attracting a part of the production incomes and this issue in turn causes to distrust (Mokan, 2004), weaken the entrepreneurship and entrepreneurial activities. On the other hand, the administrative corruption is effective on increasing the monopolies and confirming the monopolistic power and this affair is accounted as a large obstacle on the way of innovation and entrepreneurship (Jamshidian, 2007). In Iran, the problem of corruption becomes more acute. Over four decades after the victory of the revolution, corruption has not yet been rooted, but has penetrated into the administrative structure

of the country in new ways. Investigations show that corruption in Iran is not merely due to changes and changes after the revolution, but also has deep roots in administrative culture, government and the structure of political power. Statistics and evidence show that, in spite of the many efforts and financial and human resources that have been spent on combating corruption, little or no results have been obtained (Khezri, 2008). One of the difficulties that most of entrepreneurs are facing with it includes the problems arising from administrative corruption which are as an obstacle for expansion of entrepreneurship. According to this, the main purpose of current research consists of: the administrative corruption has what effect on development of entrepreneurship in Iran? What are the solutions to this devastating crisis?

**Research objectives**

- 1: The pathology of administrative corruption and its impact on entrepreneurship.
- 2: Suggested strategies to reduce corruption and increase entrepreneurship.

**Definitions of administrative corruption**

The subject of administrative corruption somehow has entered through political and economic sciences arising from the role of government's benefits in the developing world and especially from this idea that the government is a necessary tool for economic development (Amundsen, 1999). The word of corruption from the root of «corrupt» means to prevent from doing the correct and healthy acts, also it has been taken from the Latin root of «Rumpere» which means to break and violate. What is broken or violated can be laws, provisions or administrative rules. Namely, corruption means any phenomenon which prevents a set from its purposes and functions (Hasani and Shams, 2012). Corruption occurs in many ways. Corruption can hardly be defined, but it is harder to define itself than self-definition. So far, many definitions of corruption have been found but no general acceptance (Tanzzi, 1999). According to the definition expressed in the Webster culture: «Corruption is a legitimate reward which is paid for entering the governmental person (agency) to violate from the assigned duty (Bardhan, 1997). Gunnare Myrdal believes that the administrative corruption can be referred to the different cases of deviation or exertion of personal power and illegitimate use of occupational position and situation. J.S.Nye knows the corruption as a treatment that due to the personal ambitiousness introduces the deviation from normal method of doing the duty and it is manifested in the form of deviating from provisions and doing some acts such as receiving a bribe, favoritism and embezzlement (Afzali, 2011).

The functional definition of global bank about the corruption is also to abuse of governmental power for acquiring the personal benefits (Begovic, 2005).

**Types of Corruption**

Corruption has been subdivided into various divisions, but in general, when it comes to corruption, it means political, legal, and administrative corruption, with the first two cases occurring at the macro and final case in the context of organizations.

#### **Political corruption**

This term refers to the use of political power for personal or illegal purposes. Political corruption means the acquisition of personal illegitimate resources through political power or state position. Its definition and application varies according to time, place and cultures. This type of corruption often involves the divergence of the electoral path (Amundsen, 1999).

#### **Legal corruption**

For the purpose of legal corruption, the establishment of discriminatory laws is in the interests of powerful politicians and state-sponsored classes. On this basis, the general belief that corruption involves only acts that are contrary to law is not very reliable (Khodadadhosseini et al, 2000).

#### **Administrative corruption**

In the definitions of corruption, the definition of the concept of corruption is detailed, so herein we only point out that: all of the corruptions mentioned, if they occur in the administrative system, are called administrative corruption.

Other types of corruption are as follows:

1: Organized corruption - Individual corruption 2: Financial corruption divided itself into four categories: Financial (A):corruption by reducing costs (B):financial corruption with increasing costs; (C): Financial corruption with increased revenue; (D): Financial corruption with lower income 3: corruption based on law - corruption contrary to law 4: black corruption - gray corruption - white corruption 5: active corruption - passive corruption 6: administrative corruption within government - administrative corruption in government relations with citizens 7: speculative corruption - mischievous corruption 8: defensive corruption -Investment corruption 9:ralation corruption (Ahmadi, 2010).

The forms of corruption are usually cited as follows:

1: *Bribe* 2: *Embezzlement* 3: *Unlawful seizure* 4: *Subreption* 5: *Infiltration* 6: *Commission* 7: *Extortion* 8: *Favoritism* 9: *Inappropriate political participation* (Ahmadi, 2010).

#### **The corruption levels**

Studying the corruption in different societies indicates that the corruption is often accomplished in two levels: huge and small levels (Rabiee, 2004). Corruption in the huge level is often related to the political elites, high-rank managers and senior authorities of governments. Another

interpretation of this level of corruption is the white-collars corruption (Hasani and Shams, 2012). This kind of corruption occurs in the imports, auctions, tenders, huge outsider and domestic purchases sectors, the sectors related to sell the under-ground sources and large construction projects (Afzali, 2012). Therefore, the small level of corruption which is known as the blue-collars corruption consists of: exchanges, transactions, and corrupted deals which are accomplished in the level of low-rank employees and in direct relation with clients (Hasani and Shams, 2012).

#### **The effective factors on emergence of administrative corruption**

Generally, the effective factors which cause to create and emerge the corruption in the administrative system have been divided into four classes as follow:

**1) Cultural and social factors:** Lack of work consciousness, social discipline and disregard to the value principles of society, people's unawareness or low awareness of the duties and activities limits of different organizations, inefficient social security system.

**2) The administrative and management factors:** Weakness of the controller structures and lack of necessary coordination in the control dimension, lack of conformity of laws and provisions with the tangible realities, disregard to the meritocracy, lack of motivation arising from lack of existence of proper encouragement and punishment system, monopoly of administrative activities for special groups, lack of clarity and accountability in the activities of administrative system, giving the excessive authorities and power, non-proportional distribution of incomes between the groups in the organization, management instability and ambiguity in the policies, weakness of organizational culture, disregard to the economic problems of employees.

**3) Economic factors:** The economic poverty of the society.

**4) Political factors:** The manner of division of political power, amount of political freedoms especially the power of criticizing the governance, amount of political stability, vastness of government's interferences in the economic affairs (Abzari and Faghani, 2013).

In the following diagram, the focuses and factors which create corruption in the administrative system have been drawn clearly. As it is observed, a focus which creates the administrative corruption can be one of the following quintuple factors that each one through a way can cause corruption in the administrative system: 1: Society's elites, 2: administrative system structure, 3: rules, 4: employees, 5: clients.

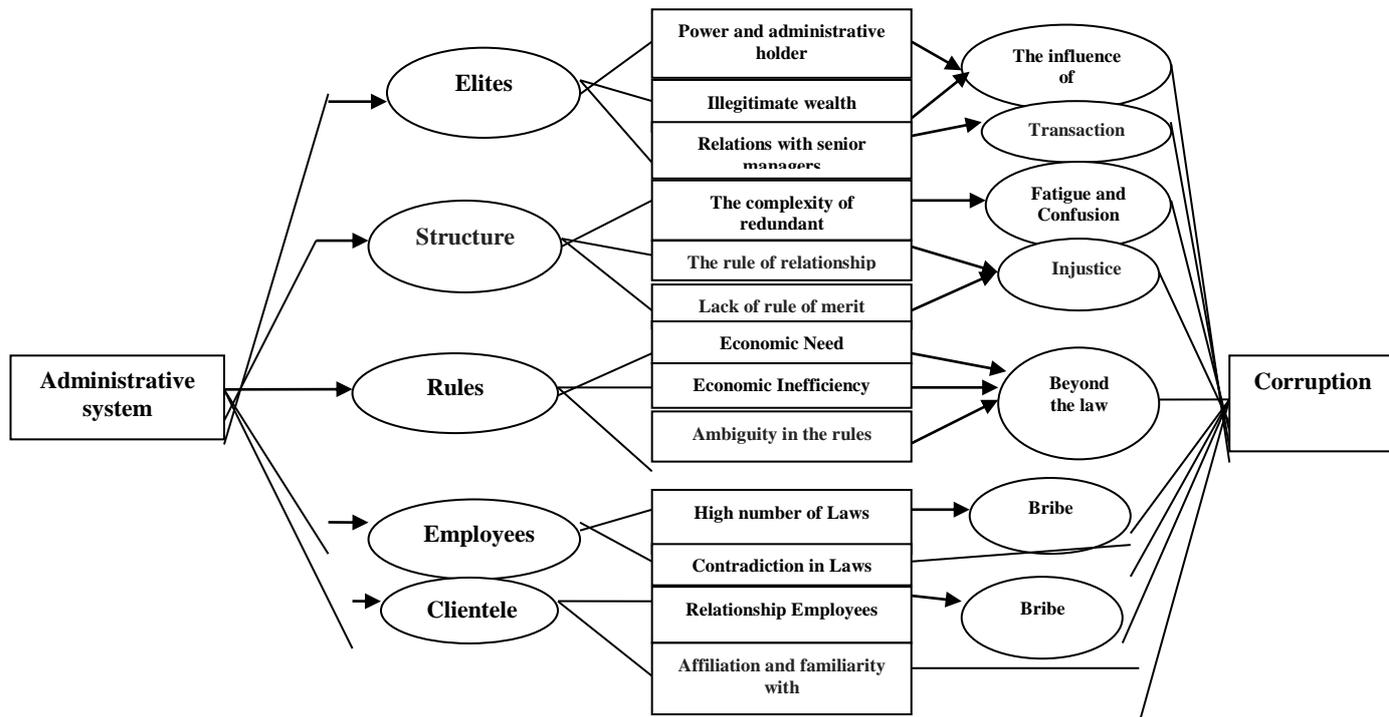


Fig (1): Centers and causes of corruption in the administrative system (Source: Karimi,2007)

**The Consequences of Corruption**

Corruption in the administrative system of each country has damages and negative consequences. Therefore, in order to understand the importance of the consequences of corruption in the administrative system of the countries, we outline the most important consequences of this problem:

- 1: It leads to incorrect decisions by bureaucrats, because they support the low standard, costly, complex, and capital-free, easy-to-use, cost-effective designs to make it easier to Pick themselves uplarge sums of money.
- 2: Slowing down economic growth, as it reduces the incentive for investment for domestic and foreign investors.
- 3: Disrupting the composition of government spending, because corrupt politicians are shifting resources more into sectors where large profits come from.
- 4: Reduces the degree of legitimacy and effectiveness of governments and endangers the stability and security of societies. In addition, it undermines the values of democracy and morals and thus hinders political and social development.
- 5: Corruption, by weakening incentives, causing social losses and weakening existing institutions, causing

political losses and unjust distribution of resources, causes economic losses.

6: Corruption prevents sustainable development, because it disrupts the decision-making process, as well as inhibits the growth of competition and undermines efforts to reduce poverty and social discrimination (Fayzi & Nabiwind, 2013).

**The corruption costs**

Different international organizations like the International Monetary Fund (IMF), OECD (Organizations for Economic Cooperation and Development) and global bank are propagating the campaign of fighting with corruption (Ackerman, 1997). There are also different institutes such as Transparency International (TI) and global bank which produce the information about understanding the corruption. There is solidarity that the tangible and intangible cost of corruption may be very high for the society. For example, tangible costs include administrative inefficiency and discriminative investment. The researches of Tanzi and Davoodi (1997) indicate the evidences that probably the governmental authorities' corruption causes to conduct the governmental investment in the large projects with the price of significant costs. The intangible costs for example will include to losing the trust

in democracy in leaders and government's body (Hacek and et al, 2013). Theoretically, payment of bribe to the corrupted bureaucrats of the government for acquiring the "support" can add the distrust and costs from doing the business in a country (Wei, 1997). This issue needs that the company or entrepreneurs to allocate some sources for the bribe management, while these sources could be invested in another place which had more profitability. Moreover, since the bribe is illegal, the potential investors cannot be sure that the government's promises will be practical or they may be worried that doing the business in such a country damages their reputation. This means that corruption can reduce the profitability expected in the projects investment (such as entrepreneurship) and therefore, it may reduce the total investment and entrepreneurship in such a country (Avnimelech and et al, 2011).

### **The concept of entrepreneurship**

There are different views about definition of entrepreneurship and complete understanding of the concept and subject of "entrepreneurship" needs to be informed of interdisciplinary views. The entrepreneurship according to its nature and regard of researchers in different courses has been defined psychologically, sociologically, economically, industrially and even historically. Entrepreneurship has been originated from French word of "Entrepreneurs" which means "becoming committed". Entrepreneurship for the first time was considered by economists and all economic books somehow have explained the entrepreneurship in their economic theories since 16<sup>th</sup> century till now. Some of the entrepreneurship definitions can be mentioned as follow:

Howard Stevensen knows the entrepreneurship process equal to three following definitions:

1. Entrepreneurship is the process of creating changes;
2. The entrepreneurship process is to do anything with more effect;
3. Entrepreneurship is to pursue the opportunities beyond the sources under your current control (Kao, 1993).

In Kao's view (1993), entrepreneurship is the process of creating the changes, doing different works and consequently creating wealth for the person and adding value to the society.

### **The effective factors on entrepreneurship**

If the entrepreneurship is important for economic growth and development of the society, so the specification of the training methods and promotion of entrepreneurship will be also necessary. These methods can be classified into three classes as follow: Psychological, social and economic factors.

#### **1: Psychological factors**

They consist of the personal significant features which are in genetic or acquired form. The necessity of the main psychology, existence of an innovative personality for a person who is adventurous and embarks for the investment projects will be much more probable. Although, it may be discussed that the personality is generally innate and genetic; but the work or school environment can be effective on training it. The special skills which are common for entrepreneurs consist of the ability to ordain the realistic purposes and postpone the rewards, tendency to adventure and belief in the ability of influencing on their environment.

#### **2: Social factors**

The entrepreneurs may be influenced from some social factors such as social mobility, amount of social integration, entrepreneurial and political security and social-cultural legitimacy of entrepreneurial activities. The marginalization of some groups especially the educated group deprivation from the political processes has been known as the aid to the shortage of entrepreneurship by Rousto (1975). While, the excessive marginalization is harmful severely. Many social factors are susceptible for the administrative corruption. For example, the social mobility especially the traditional forms of administrative corruption like kinfolk-orientation (only the persons who have close kinsman relation can make progress), execution of the laws related to the invention rights and other laws is a domain which provides some opportunities for the administrative corruption.

#### **3: Economic factors**

The market motivations specify the demand for entrepreneurship. This demand is in interaction with entrepreneurs supply in achieving a level of entrepreneurship in a country or region. The most important motivations include the demand for industrial products and other products, availability of work force and primary materials, inflation level, taxes and obstacles of the necessary inputs imports. All of them can be influenced from public and governmental policies and all of them are exposed to the administrative corruption. Other determiners of demand for entrepreneurs include the cost of achieving the information about the markets, distribution of income and achieving the sources. These factors in relation with the adventure corruption discussion have special importance. High cost of information and limited access to the sources can increase the probable and potential benefits for corruption that consequently the access to the sources is limited and the unequal distribution of incomes is retained in a repetitive and defective cycle (Ngunjiri, 2010).

### **Administrative corruption, entrepreneurship and Economic Growth**

Theoretically, the corruption hasn't been always an obscene and indecent phenomenon; as Huntington, Samuel (1968) not only didn't know it as the development calamity, but also he accounted it necessary as lubrication for its gearwheels (Akerman, 1999; Bardhan, 1997). The corruptive treatment intrinsically doesn't cause to exert the social costs, because it merely causes to transmit the fund from bribers to the bureaucrats (government's employees). Moreover, corruption can reduce the costs of government's interference through conducting the sources toward the persons who present the highest offers. This approach to the administrative corruption means that the administrative corruption can facilitate the movement of the economy and commerce's wheels. Therefore, it causes to reduce the transmission and investment costs (J.S.Nye, 1967; Huntington, 1968). This positive approach to the administrative corruption has obtained low empirical support and it isn't accepted anymore. However, the general idea that many empirical data have confirmed it is this issue that corruption is accounted as an obstacle for the economic development; because it is an obstacle for outsider investment and aids, private sector investment, taxes, entrepreneurship, planning. Schumpeter (1934) argues that entrepreneur is a major driver of economic development, and his performance leads to innovation and the introduction of new activities into the market. Acs and et al (1990) argue that entrepreneurs play an important role in economics, serving as change factors, a significant source of innovation activities, stimulating the evolution of industry, emerging clusters and becoming the main source of job creation. Acs (2006) states that entrepreneurs create a new business, and new businesses lead to new jobs, increased competition, and may even increase productivity through technological change. In addition, entrepreneurship is important in long-term economic growth, because job creation is the key source of the transfer of new knowledge to commercial economic knowledge. Therefore, entrepreneurship is considered as one of the most important drivers of economic growth and

wealth generation. The entrepreneurial spirit is considered as one of the important elements in recent economic development (Avnimelech et al, 2011).

**Evaluation of Corruption and Entrepreneurship Indicators in Iran**

In this section, by reviewing the report of the Transparency International, we are reviewing the state of corruption and entrepreneurship in Iran; however, it is necessary beforehand on the three indicators (BPI, CPI, GEDI) that these institutions use to assess the state of corruption and Entrepreneurship is used in countries to provide a brief explanation. The CPI index represents the supply side of corruption, and the BPI index measures the demand side of corruption. The difference between these two indicators is as much as corruption; in other words, the issue is not the corruption of countries, but the size of it is different from one country to another. The numerical values of these indices also indicate the degree and extent of corruption. The Transparency International (TI) has identified the International Index of Corruption Score between 0 and 10, according to which, the more a country is more corrupt, it receives less score from this indicator. Also, the entrepreneurship index from 0 to 10 from the lowest to the highest level, each year is presented by the Global Entrepreneurship Development Institute (GEDI). According to statistics provided by Transparency International, the past decade Iran is suffered from widespread corruption. Obviously, this indicator for the country is not a good indicator of development that the government considers the 20-year vision of the system, perhaps it is considered as a major obstacle to the country's economic growth and development. It is also clear that entrepreneurship has experienced a growing trend with decreasing corruption. So there can be a claim that there is an inverse relationship between entrepreneurship and corruption. The following entrepreneurship indicators are presented below.

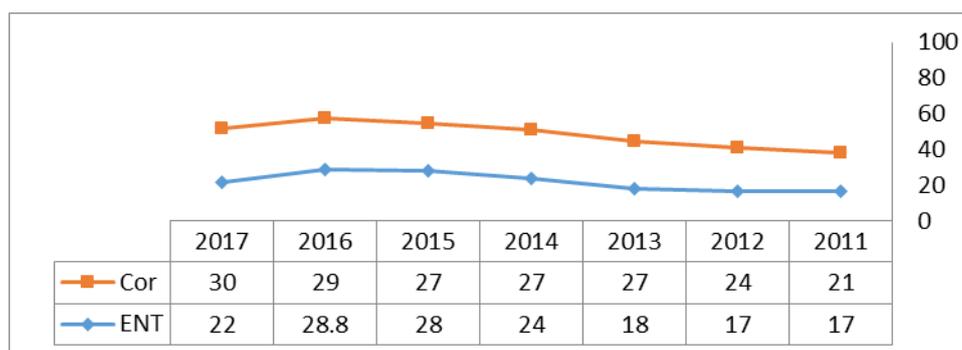


Fig (2): Corruption Indicator and Entrepreneurship Development

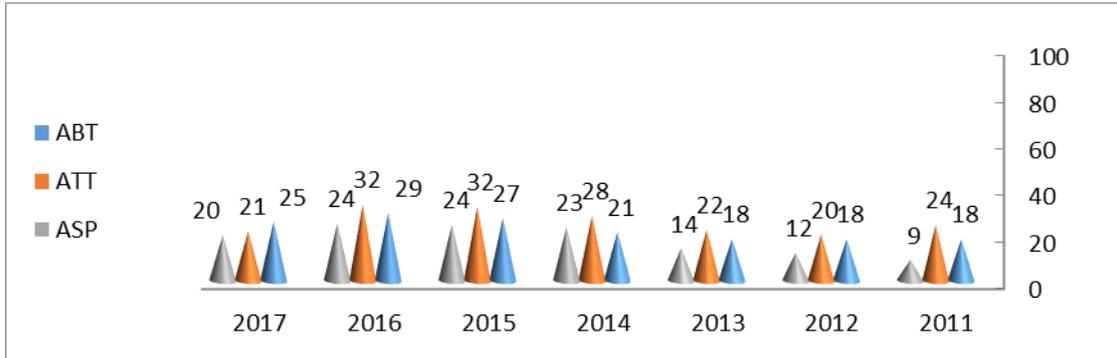
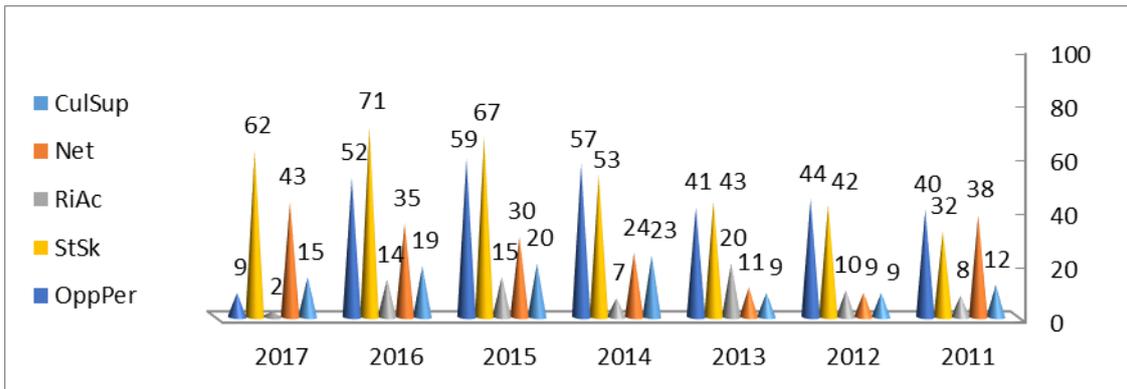
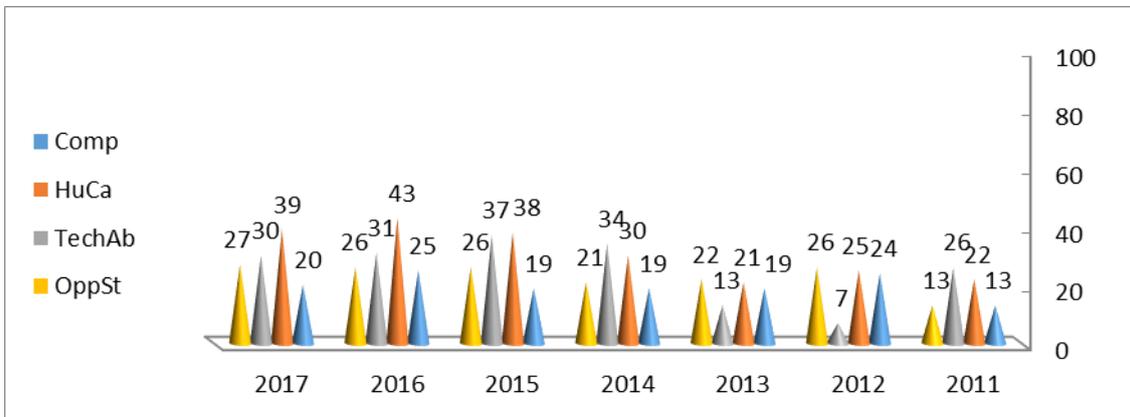


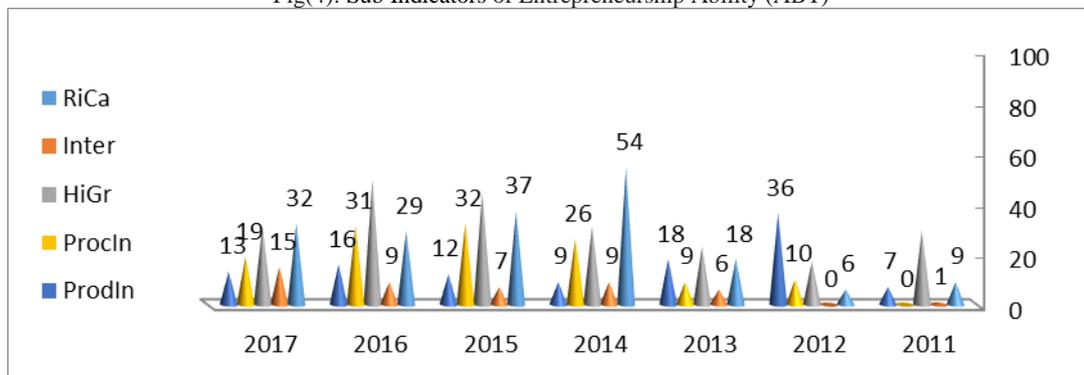
Fig (3): Sub Indicators of Entrepreneurship Development



Fig(4): Sub Indicators of Entrepreneurship Attitude (ATT)



Fig(4): Sub Indicators of Entrepreneurship Ability (ABT)



Fig(5): Sub Indicators of Entrepreneurship Aspiration (ASP)

Source: GEDI, Transparency International (TI)

### Solutions for entrepreneurship development

According to the results obtained from the investigative plans of (GEM), the following legal-executive solutions are suggested for the entrepreneurship development and improvement of the business environment:

- 1: Compilation of the innovation development law in small businesses
- 2: Compilation of the venture investment law
- 3: Creation of the markets for the primary supply of stocks to the public for the new small and middle businesses
- 4: Compilation of the law related to create the financial validation companies of the small and middle businesses
- 5: Creation of the electronic government's offices
- 6: Establishment of the internet site of the companies' registration
- 7: Compilation and approval of the law for supporting the establishment and development of business in the less developed regions and giving the facilities and sources to them.

Also, in order to deal with the administrative corruption, deterrent and preventive actions, oppose with probable violations, clarify the procedures, some acts are recommended as follow:

- 1: Minimizing the government and privatizing it
- 2: Preventing from the recruitment corruption and seeking rent
- 3: Removing excessive regulations and administrative bureaucracy
- 4: Updating the laws with regard to the economic-social conditions and transformation in them
- 5: Executing the administrative automation
- 6: Utilizing of the information systems
- 7: Clarifying and informing the affairs
- 8: Systematizing the financial and auditing systems
- 9: Public access to the governmental information
- 10: Creating climate of trust and confidence, understanding, empathy, desirable and constructive human relations among statesmen and society
- 11: Strengthening the spirit of lawmaking
- 12: Increase transparency and accountability
- 13: Improve people's general culture and strengthen oversight
- 14: *Strengthening the participation and activity of nongovernmental departments by removing monopolistic barriers to economic, executive and development activities of the country*
- 15: Implementing Quality Management Systems

16: eliminating all governmental monopolies, concessions, permissions or government rents

17: Applying successful experience of other countries.

### Discussion and Conclusion

The promotion of economic development in each country requires the creation of essential infrastructure. Among the important factors that can do this is the creation of new companies to support the growth of the economy and entrepreneurship. Thus, the political and economic benefits to the factors that could create new companies have grown dramatically over the past decades. At the same time, there has been a lot of concern about how corruption has occurred in the economy. Basically there are two theoretical arguments in this regard. The first argument (Huntington, 1968) is based on the hypothesis of "rolling the wheel" that corruption can increase the rate of creating entrepreneurial companies and increase entrepreneurial activity by reducing administrative costs. Corruption, therefore, will lead to a potential entrepreneur, accelerating the processes for obtaining the necessary permits. On the other hand, the second approach is the Choice Theory (Baumol, 1990), which states that corruption is a major economic cost, which increases the cost of economic firms and uncertainty about profits. Many observations of the negative effects of corruption on various types of economic indicators, including foreign direct investment and investment, productivity, borrowing costs for governments and companies, income and wealth equality, human capital development, GDP and economic growth. Corruption in underdeveloped and developing countries is often observed over developed countries. The reason is that in these countries due to limitation of financial resources, insufficient oversight by the related institutions, low salaries of the government, the monopolistic market of domestic companies and the lack of competition with foreign companies, high raw material resources, common cultural norms and norms in The poor governance community, coupled with lack of transparency and accountability, government involvement in transferring resources from one party to another, and creating bureaucratic rent, inappropriate allocation of resources, and increasing the size of the bureaucracy. As a result, there is a greater likelihood that the general public loses its trust in the state system as a whole, and this distrust significantly increases the cost of investment for many domestic economic activities And thus impedes entrepreneurship. On the contrary, given the fact that there is little corruption in developed countries and severe

control over it, the mutual trust between investors and the government seems to create a motive for the development of economic activities and, moreover, entrepreneurship. And because the parties are willing to share similar values, the channels of communication between them are efficient and facilitate the reduction of costs and facilitate investment and create higher levels in innovative activities and entrepreneurship.

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**Website**

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