

# Networking and Corruption

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## INTRODUCTION

Networking has become an important aspect of modern life in recent years either in sciences or interpersonal relations. Networks are studied as new forms of social organization in the sociology of science and technology, in the economics of network industries and network technologies, in business administration and in public policy.

In the context of social sciences, scientists have recognized that network concept is not completely new. For example, German sociologist Georg Simmel (1858-1918) notes an original theoretical stimulus, which he describes as a network idea drawing upon formal sociology. By contrast, popular French anthropologist Claude Levi-Strauss (b. 1908) conceived society “as a network of different types of orders;” and he suggested that these orders themselves could be classified according to organizing principles, “by showing the kind of relationships which exist among them, how they interact with one another on both synchronic and diachronic level” (Kenis & Schneider, 1991).

Corruption’s negative impact is not in doubt. It diverts resources from their planned usage, destroys economic systems, and makes a country inefficient when competing with other countries. Corruption exerts an especially hard toll on the lives of the poor by decreasing employment possibilities, causing higher prices, and demanding additional fees for government financed public goods (Dvorak, 2006).

## THE DEFINITION OF NETWORKING

The prominent definition interprets networks as a specific set of social relations (or linkages) connecting social entities. Entities may be individuals, groups,

organizations, words, ideas, concepts, production units, resources, and so forth. Relations (or linkages) between the entities may be communications, resources, exchange of information and control, trust, participation, membership, advice, and so forth. The linkages, which differ in their degree of intensity, normalization, standardization and frequency of interaction, constitute the structure of a network.

The relationships between network participants can be understood as deriving from their autonomy and interdependence, the coexistence of cooperation and competition as well reciprocity and stability. The resource dependence perspective suggests that organizations will form networks with those whom they share the greatest interdependence. Since the boundaries of networks are difficult to determine, we may speak of blurred boundaries, which are constructed by network participants.

Relationships typically evolving between actors can be classified according to contents (for example, products, services, and information), form (for example, duration or closeness of relationship) and intensity (for example, communication frequency).

On the other hand, networks can be characterized by strength of ties between participants. Strong and weak ties may play a role in change implementation, albeit different ones. Strong ties, characterized by higher quantity, quality, and frequency of interactions, facilitate intense and rich communication between individuals. They afford extensive interaction important for assimilating, combining, and contextualizing complex knowledge associated with the fundamental organizational change. Weak ties enable exchange among a wider variety of contacts and can prevent insularity through communication among groups. Weak organization-wide ties also enable groups to focus on overall targets and allow members to see the systemic nature of the changes and their mutual interdependence.

## **WHY DOES PARTICIPATION IN NETWORKS MATTER?**

Networks are structural as well as cultural. They can bring together actors from various sectors. Organizational networks are conceived as interrelationship of three actors—producers, suppliers and buyers. Suppliers and customers can be thought of as specific organizations or segments. In corrupt networks, different combinations of interrelationships between sets of the actors may exist, both two actors—public official as gift-taker and supplier of government favor to businessperson who is accepting the illegal favor, or three actors—public official, business person and corrupt middlemen, who build networks of trusted relationship.

Taking the systemic character of most hardware and software products and the market structure into account, there is hardly any industry in which there are more strategic alliances and networks already established in the electronics branch. The telecommunications industry, for example, is, in its interlinkage, very similar to the international co-operation relationships to be found in the automobile industry. Since even large transportation companies are linked into strategic networks, forwarding agents do indeed play a dependent role on the one hand, but on the other, they are of significant importance to the business (Seufert, Krogh, & Back, 1999).

Participating in a network benefits actors by providing opportunities for the sharing of different kinds of resources (material and immaterial). In the literature of network effects on organizations, three types of the resources can be identified: a) financial; b) institutional (network status); and c) knowledge and information resources (Gulati, Dialdin, & Wang, 2002). Such resource sharing may benefit network members by improving their financial situation, increasing their survival potential and enhancing their innovative/learning capability. However, participation in a network may serve as a limit to the benefits of the members from discovering opportunities and information outside the network and isolating themselves and their suppliers from market pressures that could increase their long-term efficiency.

The ability of an organization to take advantage of being part of the networks in some instances, can see, when networks substitute for formal financial system and give organizations access to share financial re-

sources within the networks, where organizations have more information about each other, transaction costs are likely lower (Gulati, Dialdin, & Wang, 2002).

Institutional resources result from the legitimacy and status of the organizational network as a whole. In sum, institutional resources are a potentially valuable resource, because they function as a market signal that organization advantages provided by occupying a particular status position in one market can be leveraged into another market and provide value in new market. Although these resources are based on past ties, it can help increase the survival chance as well as the financial situation of the network members (Gulati, Dialdin, & Wang, 2002).

Exchange of knowledge and information among organizationally linked participants refer to collective knowledge owned by all organizations within the network. Network ties may therefore disseminate both existing and newly acquired knowledge so that all actors can quickly access it. For example, in Toyota's vertical network, common identity and strongly interconnected ties between Toyota and its suppliers as well as among suppliers themselves facilitate knowledge sharing and learning, providing its members learning and productivity advantages over non-members (Gulati, Dialdin, & Wang, 2002).

## **NETWORKING AFFECTS ON CORRUPTION**

Networking can help companies to go through obstacles of corruption as well as to promote corruption. Each company—it does not matter if big or small—and just about everybody needs public utility services, meaning especially electricity and gas. Lambsdorff, “father” of Transparency International, corruption perception index (CPI), thinks that corruption in public utilities and loan applications often involves extortion because there is a clear official service that is requested. Payments to office holders tend to be made in order to avoid harassment and delay; in rare cases to avoid the official fee. Absence of corruption in public utilities has the strongest positive impact on foreign direct investment (FDI), better than export and import, tax payments, public contracts, loan applications, laws and policies and judicial decisions (Lambsdorff, 2005)<sup>1</sup>. In this light, it seems gas and electricity companies like one of possibly epicenters of networks (Pachmann, 2004).

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