

This article was downloaded by: [David Jancsics]

On: 19 December 2012, At: 19:19

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



## International Public Management Journal

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/upmj20>

### Corrupt Governmental Networks

David Jancsics<sup>a</sup> & István Jávör<sup>b</sup>

<sup>a</sup> CITY UNIVERSITY OF NEW YORK

<sup>b</sup> EÖTVÖS LORÁND UNIVERSITY BUDAPEST

To cite this article: David Jancsics & István Jávör (2012): Corrupt Governmental Networks, International Public Management Journal, 15:1, 62-99

To link to this article: <http://dx.doi.org/10.1080/10967494.2012.684019>

PLEASE SCROLL DOWN FOR ARTICLE

Full terms and conditions of use: <http://www.tandfonline.com/page/terms-and-conditions>

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden.

The publisher does not give any warranty express or implied or make any representation that the contents will be complete or accurate or up to date. The accuracy of any instructions, formulae, and drug doses should be independently verified with primary sources. The publisher shall not be liable for any loss, actions, claims, proceedings, demand, or costs or damages whatsoever or howsoever caused arising directly or indirectly in connection with or arising out of the use of this material.

## CORRUPT GOVERNMENTAL NETWORKS

DAVID JANCSICS  
CITY UNIVERSITY OF NEW YORK

ISTVÁN JÁVOR  
EÖTVÖS LORÁND UNIVERSITY BUDAPEST

**ABSTRACT:** *This study provides an empirically based analysis of corrupt governmental networks. We conducted 45 interviews in Hungary with different organizational actors who were actually participating in corrupt transactions or at least had first-hand experiences of corruption. Given the secret nature of the topic, this article provides a unique insight into the phenomenon. Our findings show that corrupt elite cliques consciously design and coordinate multilevel structures of corrupt networks within and among organizations that involve a large amount of people. We identified the major network elements and their functions in corrupt transactions. The article also provides a typology of corrupt networks. The networks have different structural characteristics based on location of the “cash cows,” points from where the system is fed, and the actors’ positions of power. Our findings are compared with the already existing literature on dark networks, terrorist, and organized crime formations.*

---

### INTRODUCTION

Early studies recognized that corruption in Central and Eastern European (CEE) communist regimes had spread all over society from the party elites to everyday transactions in coffee shops (Jowit 1983; Galasi and Kertesi 1987). Corruption and graft remain pervasive in post-communist CEE, more than 20 years after the fall of communist regimes and despite the emergence of market-based economies (Erakovich, Kavran, and Wyman 2006; Kotchegura 2004). Public management reforms and anti-corruption “campaigns” have often failed in the region because of the unique characteristics of the post-communist transition. Communist administrations were originally designed for imposition and control rather than facilitation and service (Baker 2002; Ellison 2007). Despite the newly emerging

democratic institutions in most countries, the old corrupt and nontransparent administrative states remained mostly in place with their underpaid and politicized officials. Since corruption is a covert and illegal activity, its actual level in a country cannot be determined directly. Perception-based indexes are the most typical tools to capture corruption quantitatively. The idea behind these methods is that corruption and its perception are positively and strongly correlated (Lambdsdorff 2006). Perception-based empirical studies suggest that people in CEE believe that the level of corruption and bribe-taking has significantly risen since the fall of communism (Holmes 1997; Miller, Grodeland, and Koshechkina 2001, 109; Grodeland, Koshechkina, and Miller 1998; Wallace and Latcheva 2006). Extortion by the new generation of post-communist officials is also widespread (Kotchegura 2004; Miller, Grodeland, and Koshechkina 2001, 83–85).

Compared to governments in the U.S. or Western Europe, many Eastern European states allocate more resources and in general control larger segments of the economy and society (Kotchegura 2004; Sajó 2002). The boundaries between state and economy are blurry. Using their political connections, formerly state-owned enterprises are able to monopolize different sectors of the market (Kotchegura 2004; Cepiku 2004).

In Hungary, informality and corruption had a long tradition under the communist system. During the 1970s and 1980s, the state consciously allowed ordinary citizens to derive illegal income from the “shadow” and “second” economies in order to raise the living standard in the country and keep the single-party system politically stable (Gábor and Galasi 1985). People bribed Communist Party apparatchiks to turn blind eyes to the expansion of their small-scale, semi-legal businesses in the “second economy,” and in return citizens did not criticize the political system but enjoyed their increasing economic wealth (Hankiss 2002, 248).

Communist company managers also built informal links to the state bureaucracy in order to smooth the operation of their firms, given chronic shortages of supplies caused by the centrally planned economy (Kornai 1992; Szalai 1982; 1989). This was a system of mutual favors between bureaucrats and managers in which money usually did not change hands. However, this practice spread a culture of nontransparent informal deals that remained the accepted way of making business within and between government organizations and private companies in the post-communist Hungary.

Most of these activities would be considered corrupt in a capitalist market economy. One important consequence of the collapse of communism in Hungary in 1988 was an immediate economic crisis, followed by falling salaries, skyrocketing unemployment, poor job security, and a rapidly growing informal or illegal economy, estimated to have accounted for 25% of GDP (Neumann and Tóth 2009). After the fall of communism, a large-scale spontaneous and mainly corrupt privatization created a “decentralized reorganization” of state assets (Stark 1996; Báger and Kovács 2005). As a result, one can find many former party cadres and ex-communist managers among the new capitalist owners. In the very early years of the transition from state socialism to a democratic system, the internal control apparatuses within public organizations collapsed, and they have never fully recovered (Báger, Pulay, and Korbuly 2008).

After the transformation crisis, the Hungarian economy has gradually returned to sustained growth. Hungary has been a member of the European Union (EU) since 2004. While in general Hungarian democracy is stable, the country's democratic institutions suffer from serious problems, including excessive political influence over judges (Fleck 2011).

When each new government comes to power, at both the national and local levels, a significant portion of administrative staff are fired, even at lower managerial layers, and are replaced with party devotees. Loyalty, rather than expertise, is the greatest expectation of them (Jancsics 2009).

Hungary has fallen behind the region's average score on Transparency International's (2011) Corruption Perceptions Index (CPI) and is now ranked 54 out of the 183 countries reported in the survey. Corruption in Hungary has been on the rise over the last decade, and among its neighbors, Hungary showed the steepest downturn in its CPI score over the last few years (Transparency International 2012). According to recent estimates, about 65%–75% of the Hungarian public procurements are corrupt (Freedom House 2011). Since Hungarian political parties desire much more money to finance their operations and campaigns than the amount that is legally allowed, a significant proportion of "corrupt profit" is channeled into party coffers (Sajó 2002; Transparency International 2012).

The unusually high level of state redistribution is probably the central locus of corruption in contemporary Hungary. State aid (as a percentage of GDP) in Hungary spent on economic development programs is the third highest in the EU. These grants have produced a phenomenon known as "development corruption" (Báger 2011). Despite the relatively rich literature on corruption in CEE, we know surprisingly little about how actual corrupt networks evolve within and among public, private, and nonprofit organizations. The predominant public management literature on corruption still remains at the dyadic level of explanation where only two abstract actors, an agent and a client, participate in a one-time corrupt transaction, and does not tell us much about the complex, enduring organizational structures of such illegal activities. We can also find very few qualitative empirical studies in the public management literature, perhaps because of the difficulties of conducting fieldwork and collecting data about corrupt transactions. This study attempts to develop an analytical framework for interpretation of corrupt governmental networks in CEE based on actual corrupt cases and insiders' narratives.

This article presents the results of qualitative empirical research carried out in Hungary between 2009 and 2011. We conducted 45 in-depth interviews with a wide spectrum of organizational actors, from low-level employees to top executives in both public and private organizations. As a result of the data collection, we acquired very rich empirical material about different aspects of the phenomenon. In this analysis we focus on cases where corrupt actors from different organizations were linked with one another and formed professionally managed corrupt networks.

## THE POWER SYSTEM AND RESOURCE EXCHANGE APPROACH OF ORGANIZATIONAL CORRUPTION

Corruption is an elusive phenomenon conceptually, and there are many different corruption definitions in the literature. According to a widely accepted definition in organization studies, government corruption is the illegal misuse of public authority by social control agents, resulting in private gain for those agents or others participating in the agency's dominant coalition (Sherman 1980). Although we mostly agree with this definition, this article argues that organizational resources are crucial elements in corruption because this is what corrupt actors exchange illegally. We use the term corruption in its widest sense: from the illicit exchange of cash to other illegal inducements such as favors, gifts, and positions.

We assume that the organization is a power structure. Those who are in power are able to control critical organizational resources, regulate allocation of those resources, make rules and strategic decisions, influence organizational controls, and manipulate the information and responsibility structure. Power is necessary to manage and coordinate the organization (Pfeffer 1992). However, power also allows the dominant actors to reallocate organizational resources for their own benefits (Jávora 1988). This article emphasizes the importance of power in corrupt transactions and shows how elites use their power to manipulate decisions and processes in order to siphon off organizational resources, exclude rivals, and defend the corrupt system from exposure.

Corrupt transactions are rarely businesses of two isolated individuals because complex corrupt exchanges require the cooperation of several actors. They form strong corrupt cliques, densely connected subgroups (Brass, Butterfield, and Skaggs 1998). Corruption often becomes a multilevel organizational phenomenon. The resources, milked from an individual organization through the collaboration of insider actors, are transferred, exchanged, and extracted with the help of others in other organizations. In some cases the cliques even create legal firms whose main goal is to ensure the implementation of corrupt transactions. Due to these characteristics, we have adopted the network concept as a useful analytical tool. This article argues that corrupt actors create multilevel structures of corrupt networks within and between organizations, a similar structure to that discussed by Moliterno and Mahony (2011). However, this study is not a quantitative social network analysis. Our purpose is rather to understand the properties and structural logic of corrupt networks based on the actors' narratives. Questions that guided our inquiry were: Who are the main actors, and what roles do these actors appear to be playing within a corrupt network? What are the main mechanisms through which networks manage to survive? What are the main types of such networks?

### CORRUPTION IN THE PUBLIC MANAGEMENT LITERATURE

As Hopkin and Rodriguez-Pose (2007) have noted, the major line of research on corruption in public administrations is dominated by the "return to the market" approach supported by the public choice school. According to this view, the "big

government” that emerged during the postwar period in many Western countries bears the main blame for the spread of corruption. Empirical studies do suggest that corruption is positively associated with high public sector expenditures and the degree of state intervention (Tanzi and Davoodi 1997; Treisman 2000). The cure, prescribed by global institutions such as the World Bank, International Monetary Fund, and even the EU, for the widespread corruption in the post-communist CEE countries is in accordance with this market-oriented economic agenda: privatization and reduced government intervention. Some scholars have found a negative correlation between decentralization and corruption and suggested that decentralization of government activities may be effective in combating corruption (Huther and Shah 1998; Fisman and Gatti 2002).

However, there are critics of this market-oriented approach. These scholars argue that radical public-sector reforms reinforced by public choice and New Public Management theories caused even higher level corruption because private sector management styles that solely focus on results undermined the “ethics infrastructure” in public service (Gregory 1999; De Graaf and Huberts 2008). Holmes (2006) claims that the radical shift toward a market ethos and the privatization of the state are the major factors of post-communist corruption. The extremely rapid privatization challenged the legitimacy of the state, blurred the boundaries between public and private domains, increased the nontransparent interactions between business people and state officials, and finally created weak states in the region. In an empirical study, Asthana (2008) also concludes that decentralization in developing countries may increase the level of corruption.

According to the predominant public choice view, government officials, like other economic actors, are self-interested individuals and will therefore try to exploit their monopoly to collect bribes while they betray their benevolent principal’s trust (Banfield 1975; Shleifer and Vishny 1993; Aidt 2003; Groenendijk 1997). The principal-agent model suggests that corruption can be mitigated by creating an incentive structure in which the negative payoffs to corruption are higher than returns to corruption (Teorell 2007; Rothstein 2011, 100).

Another utility-based approach views corrupt actors in an organization as “bad apples,” a few badly behaving group members, who may poison otherwise “good apples” (Trevino and Youngblood 1990; Felts, Mitchell, and Byington 2006; Ashforth et al. 2008). This view focuses on psychological principles that govern motives of individuals’ unethical decision behavior in organizations (Hegarty and Sims, 1978; Trevino 1986; Laczniak and Inderrieden 1987).

Contrary to these individual utility-based models, other theories in organization studies emphasize the systemic nature of the phenomenon when corrupt behaviors are often taken in accordance with organizational goals and thus the organization, not the individual, is the primary beneficiary of the illegal activities (Pinto, Leana, and Pil 2008). Studies based on the systemic approach also overlap with the corporate crime and unlawful organizational behavior literature (Clinard and Yeager 1980; Albanese 1988; Vaughan 1983). The systemic view emphasizes external forces; for example, organizational cultural influence, norms, routines, and socialization as major explanatory variables for organizational deviance and corruption (Ashforth

and Anand 2003; Vaughan 1996). The organization does not detect corruption as a deviation because it becomes a normal part of the everyday routines.

Granovetter (1985) argues that actors do not behave as atoms outside a social context, nor are they driven by external social forces as robots. Granovetter argues that if we want to understand social action, we should focus on concrete personal relations and structures (or networks) of such relations. Rothstein (2011) also emphasizes the importance of the reciprocal exchange approach in corruption studies. The author claims that utility-based, principal-agent models cannot explain adequately how widespread systemic corruption remains invisible over a long term, and cultural explanations are also weak since, often, severely corrupt systems do not internalize corrupt practices as morally legitimate. This article also asserts that exchange relations between corrupt actors and their position in the power structure have important explanatory power in the analysis of corruption.

## SECRET SOCIETIES AND HIDDEN ILLEGAL NETWORKS IN THE LITERATURE

Although some authors have identified inter-organizational and network features of corrupt networks, public management studies still lack systematic research and detailed analysis of the phenomenon (Cartier-Bresson 1997; Calavita, Tillman, and Pontell 1997; Vaughan 1982; Lauchs, Keast, and Yousefpour 2011). Nielsen (2003) emphasized some important characteristics of corrupt networks: they are stable and pervasive structures rather than exceptional independent events; and they form strong links between political parties and police, judicial, and legislative branches of the government, as well as watch dogs, auditing, and journalistic organizations.

There is an emerging approach in the literature that examines secret and illegal networks, though not corrupt ones. In one of the earliest studies on secret societies, Simmel (1950) claims that in contrast to other social foundations that are characterized by organic growth and instinctive expansion, secret societies are formed in more conscious and deliberate ways. These societies are hierarchical structures with features very similar to formal organizations. Since the main reason for secrecy is protection, they develop a division of labor to be protected from being unveiled.

In contrast to Simmel, other scholars claimed that secret societies have a network structure rather than formal organizational hierarchy. According to Erickson (1981), secret societies have a persistent structure of social relations that distinguishes them from other secret activities, such as one-time collaborations. Baker and Faulkner (1993) also concluded that the structure of illegal conspiracies does not follow the same underlying efficiency logic of legal business activities. The authors analyzed illegal networks in the heavy electrical equipment industry in the United States where executives acted on the behalf of the organization, not for their own benefit. They also found that the need to conceal was the primary consideration for illegal networks and that they were willing to sacrifice some part of efficient coordination in order to remain hidden.

In recent years, organized crime research has also departed from the stable and hierarchical criminal organization approach and adopted the enterprise metaphor and social network models (McIllwain 1999; Klerks 2001). A new approach has emerged that emphasizes the dark, hidden, and illegal characteristics of some social networks. Dark networks, like other formal organizations, have goals (e.g., terrorism, organized crime); however, these are illegal and unacceptable for legitimate authorities, such as states and governments (Milward and Raab 2006). Since such networks have to face massive control efforts by the authorities, they must operate secretly. In order to survive in this hostile environment, they try to be invisible and resilient.

Analyzing the social network of 19 hijackers of the 9/11 terrorist attack, Krebs (2002) found that members of the terrorist network formed strong ties years before the attack, in schools, training camps, or even in families. However, they kept these prior networks inactive. To reduce the visibility of the network, conspirators rarely interacted with outsiders and tried to minimize their joint activity, especially face-to-face communication.

Dark networks are differentiated vertically and functionally, which is in line with Simmel's secret society model (Mayntz 2004). Top leadership is distinguished from operative cells, and other specialized units with different functions evolve, such as finance, procurement, and propaganda (Milward and Raab 2006; Mayntz 2004). Dark networks are loosely coupled and decentralized systems. The different units enjoy relatively high levels of autonomy in planning their day-to-day actions. Thus, exposure of one cell may not threaten the existence of the whole network (Mayntz 2006; Raab and Milward 2003). Al Qaeda is often associated with the franchise business model in which units operate relatively independently, using only the name and the know-how of the core organization. Drugs and terrorism are entrepreneurial activities in the sense that they look for high rewards and need to be tolerant of high risk (McIllwain 1999). Scholars argue that highly motivated entrepreneurial human agents, such as Osama Bin Laden and Pablo Escobar, were needed to create dark networks (Milward and Raab 2006). Dark networks are illegal. In contrast, our study focuses on illegal activities of formal organizations that have seemingly legitimate goals and use seemingly legitimate means. Corruption means informal deals and illegal machinations behind an existing formal structure.

## METHODOLOGY

### Sample

We conducted 45 in-depth interviews with different organizational actors in Budapest between December 2009 and May 2011. Forty-two interviews were conducted by the first author (David Jancsics) in 2009 and 2010, and three interviews by the second author (István Jávör) in 2011. We tried to find organizational actors who were actually participating in corruption or at least had a very close and direct insight into the phenomenon.

Given the secret nature of our topic, we chose snowball sampling as the most suitable methodology to find and interview actors with real knowledge about

corruption. Snowball sampling is a process in which each interviewed person suggests other respondents who may have knowledge relevant to the research topic. This technique is applicable when the target population is hidden, and it is hard to identify and contact potential subjects. Snowball sampling was originally used in research on drug use and addiction (Becker 1966; Lindesmith 1968).

We tried to interview as wide a spectrum of Hungarian organizational actors as possible, from low-level private firm employees to executives of national governmental organizations. For the first set of interviewees, we used our own interpersonal networks; the Hungarian chapter of Transparency International also suggested some potential respondents to us.

There are possible shortcomings of the snowball technique. For example, individuals may nominate others who think like them, limiting the external validity of any findings (Biernacki and Waldorf 1981). However, we believe that the benefits the snowball method can provide, namely locating members of a very specific secret population and getting insight into their illegal activities, outweigh this weakness. Table 1 summarizes the organizational background characteristics of all the respondents.

TABLE 1  
Characteristics of All Respondents

	<i>Organizational Background</i>		<i>Respondents</i>	
			<i>Number</i>	<i>%</i>
Governmental administration	National government	Top executive	2	27
		Middle manager, professional	3	
		Lower level employee	1	
	Local government	Top executive	4	
		Middle manager, professional	2	
		Lower level employee	0	
State-owned company		Top executive	3	18
		Middle manager, professional	3	
		Lower level employee	2	
Private firm		Top executive	9	42
		Middle manager, professional	4	
		Lower level employee	6	
Small entrepreneur			2	4
Investigative journalist			4	9
Total			45	100

Downloaded by [David Jancsics] at 19:19 19 December 2012

## Interviews

We conducted semi-structured interviews, a fairly open framework that allowed us to tailor the research questions to each interview situation. Our main goal was to collect detailed descriptions of actual corrupt cases. We promised anonymity to all informants. Although we used this flexible interview technique, some questions were asked of all interviewees.<sup>1</sup>

During the preliminary phase of our research, we also conducted interviews with four prominent investigative journalists, who had recently revealed serious and scandalous corrupt cases in Hungary. Based on their publications, several powerful politicians and top executives were arrested and sentenced. These journalists revealed corrupt networks by following the “dirty money” through state-owned and private companies, consulting and law firms, and offshore companies. They exposed ownership structures and interlocking directorate networks of companies based on registry court data. Our first insight into corrupt networks appeared in the interviews with these journalists. All interviews were audiotaped and transcribed.

We also comprehensively studied one particular corrupt case that the investigative journalists published in Hungarian newspapers. We interviewed two journalists who uncovered this corrupt network. Through this, we acquired additional, non-published information about the case. We will discuss this local governmental real estate corruption as an example of the main elements of corrupt networks.<sup>2</sup>

We transcribed approximately 68 hours of interviews. To examine patterns, we used qualitative coding. The coding process was guided by themes related to the main actors and their roles in corrupt transactions, the main network elements and their functions, and other structural characteristics. In this article we use selected quotations as examples to support and illustrate our argument, though space constraints require that we limit the number of quotations.

## FINDINGS

We begin with a detailed example of an intentionally designed and operated network of governmental corruption in order to present the main actors, the roles they play, the main elements of the network, and the functions that each individual fulfills to survive and securely maintain the operation of the corrupt structure. We use a real estate corruption case to specify these elements, but we also add examples from other interviews to illustrate our key terms. Like other dark networks, corrupt networks are structurally and functionally differentiated; they build various units distinguished by tasks and roles. According to our findings, the main functions the different elements must fulfill are: (1) “cash cows,” points from where the system is milked; (2) switchmen who “turn off” internal and external control mechanisms in the organizations from which resources are being taken; (3) extracting illegal profits; and (4) brokerage and entrepreneurship, i.e., connecting and organizing the network.

We discuss the elements separately; however, in the real world they are often mixed. Sometimes complex corrupt networks build several different subunits to fulfill each of the main functions. while in other cases only a few actors are able to accomplish the main functions.

### What a Corrupt Network Looks Like

Our example is a highly publicized real estate scandal in a downtown district of Budapest. The corrupt network was discovered by investigative journalists, and the prosecutor's office started to investigate the case in 2006 based on the media publications. The journalists were informed about the case by local tenants forced by the local government to move out, and by city protection advocacy groups. Some tenants and civil society groups reported the case to the police in 2005, but they did not investigate it for a year. Finally, the Central Investigating Prosecutor took the case away from the police and started an investigation on his own.

Based on the articles, we identified three central actors in the network who formed a strong corrupt clique. These actors designed, organized, and managed the corrupt network. Since the trial in the case is still in progress, we do not use the actors' real names; instead we call them Antal, Béla, and Csaba. Antal was the mayor of the local government and member of the local Socialist Party, Béla was the chairman of local government's Economic Committee and member of the Liberal Party. Csaba was a lawyer and entrepreneur who, among other companies, owned 10% of a real estate developer firm, which we call Housing Ltd. The local government owned the other 90%. There was a fourth person, Csaba's girlfriend, who, though not among the main organizers, still had an important role in the network. She was a clerk, employed by Housing Ltd., and also the owner of several project firms that were founded for corrupt purposes.

The corrupt clique sold 26 multistory buildings between 2003 and 2005 in a historical district in Budapest that had been on the UNESCO World Heritage List since 2002. The market value of these properties can be measured in tens of billions of Hungarian forints (HUF). The buildings' owner was the local government. The tenants who rented the apartments had a long-term lease, and they paid a reduced rent for the apartments. In Budapest, typically the renters have a pre-emption right to buy the apartment, but in this case the local government refused this option, claiming that in the case of historic monuments this right does not exist. The National Office of Cultural Heritage (OCH) often assisted the corrupt clique by releasing expert reports supporting the demolition of the buildings under monuments protection.

The need for the sales of the buildings was submitted to the assembly by Béla, the Economic Committee's chairman. Based on the "independent" appraisers' valuations, the asset management company of the local government released a report that emphasized the buildings' obsolescence, their lack of value, and the need for demolition. The asset management company was under the full control of the Economic Committee. Antal referred to these expert reports when he pushed the local government's assembly to vote for the sale of the buildings at very low price. Based on an earlier decision of the assembly, with the support of the conservative opposition party, the local government did not have to publicly tender a building when its value is under 1 billion HUF. Therefore, Antal easily and legally refused other potential developers, even if they offered much higher price for the buildings.

The local government assembly made a decision in a closed session about selling the properties without a bidding process. The mayor signed the contract with the

project firms. Although the contracts defined the price of the buildings, money was not exchanged in that phase of the business. However, based on the paperwork provided by the local government, the Land Registry Office administered the firms' purchase right option on the title deeds.

The project firms' names contained a number, for example, Kiraly 27 Kft., which is a common practice in the real estate industry where companies are often founded only for one particular project. The founder/owner of the project firms was Csaba's girlfriend in most cases, and the companies' official addresses were at the same location for most of them. Most of the firms were still under the company registration process while they became the quasi-owners of the buildings. The same lawyers managed the company formations for all project firms; some of them had ownership in the firms. These lawyers and their law firms also participated as consultants in the sales contracts and other processes related to the real estate projects.

One week after the contracts were signed between the local government and the project firms, the firms were sold to an offshore company. The ownership structure of the buildings did not change according to the Land Registry Office, since only the companies' ownership changed. Finally, the offshore company sold the project firms to the actual real estate developers, and the purchase price disappeared in the offshore companies with anonymous owners. Sometimes the corrupt clique used Housing Ltd. as a project firm. A small amount of this money was used for tenants' compensation and the middlemen's (lawyers, appraisers, etc.) payment.

After the local government issued the demolition and building permits, the developers demolished the old houses, built new office buildings and residential parks, and then sold them at great profit. It was Csaba's task to contact the potential international real estate developers, offer them the buildings to buy, and negotiate the price. Therefore the future buyers had been chosen months before the assembly even discussed the projects and voted for the sale of the buildings. Csaba gave instructions informally to the appraisers about the prices for the properties. He also went from apartment to apartment and persuaded the tenants to move out. In cases when the tenants resisted leaving, Csaba obtained a false verification of imminent hazard for the building from the local government, and the police forced the residents to move out immediately.

There is an ongoing public debate in Hungary whether some of the illegal profits of these real estate deals landed in party coffers. It is a fact that two main actors, Antal and Béla, were party members. Some journalists raised the opposition Conservative Party's responsibility because local government members remained silent. The opposition party supported the socialist mayor several times in order to keep the local regulations favorable for real estate corruption and also voted for the sales. Moreover, the local opposition faction was also able to buy a piece of property from the local government, with the permission of the Economic Committee, at a price well under the market value. It is also interesting that the government never sold buildings where both opposition and ruling party assembly members lived. Figure 1 shows a link diagram that visualizes the corrupt network and the characteristic of relations.

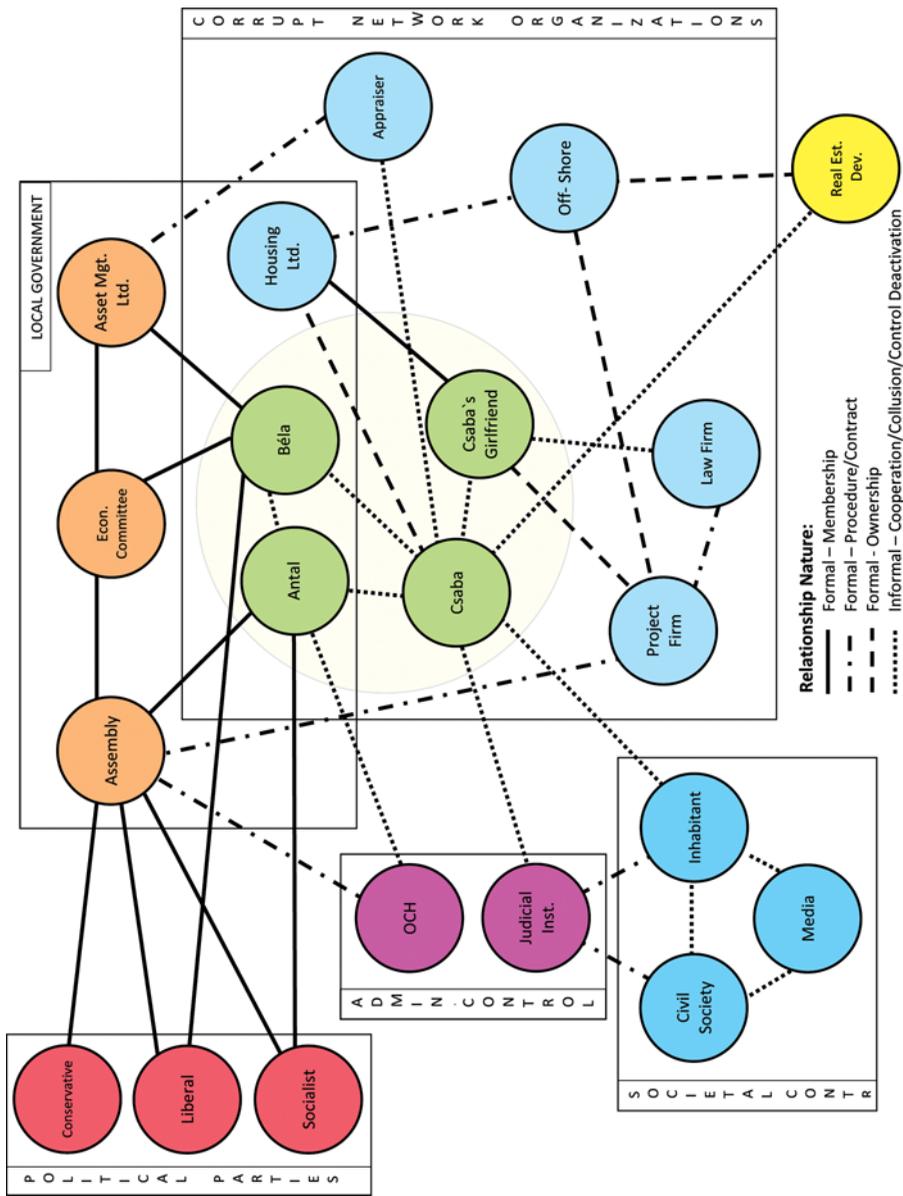


Figure 1. Corrupt Real Estate Network (Color Figure Available Online).

### Cash Cow

In the following four sections, using our real estate case, we specify the main elements of corrupt networks, and we also add examples from our interview material to illustrate the findings.

Our empirical findings suggest that the fundamental elements of inter-organizational corrupt networks are core cliques who have opportunities to pump resources over a long period of time from the formal organizational system. Without available resources, corruption would not be possible. Corrupt networks need cash cows, points from where they are fed; they also need powerful actors who can control and manage this “milking” process. However, the cash cow and the point where the corrupt profit is extracted are not necessarily the same location. Therefore, actors often have to build hidden routes through which the resources are transformed and finally received. Although we found several corrupt cases inside the private sector, the prototype of the inter-organizational corruption in Hungary can be found at the local governmental level. The cash cow is typically in public organizations.

Marketable resources transmitted from one actor to another are not always monetary; they may take many different forms, such as rights over decisions; licenses; permissions; funding projects; tendering and selecting partners, suppliers, and subcontractors; control over accelerating, slowing down, delaying, or manipulating administrative processes; insider information about future plans; informal contacts with influential actors; or ability to move and mediate among different elite groups.

In our real estate example, the cash cow was in local government. The main marketable resource was two actors' (Antal's and Béla's) decisional power over selling publicly owned buildings to private actors. Although they were able to control the cash cow, the decisions of the Economic Committee and the assembly, they did not have enough power to obtain cash directly and securely from the transactions. They needed to create a complex structure with mechanisms to convert the exchanged resources into material forms in a seemingly legal way and also to deactivate control mechanisms. The third main actor, Csaba's, main resource was his social capital and the ability to link and mediate among different actors. He was the broker and the entrepreneur of the network. He managed the corrupt system, negotiated with the tenants, found the possible developers, and controlled the project firms' acquisitions through his girlfriend. According to journalists we interviewed, Csaba even bribed judges and police to delay trials and investigations filed by inhabitants and civil groups against the local government.

### Deactivating Control

There is a common concern of secret societies, dark networks, and corrupt networks: they try to keep their activities secret from internal and external observers. Their biggest challenge is how to get around existing control structures. There are several types of formal control mechanisms typically found in organizations, such as internal administrative control units (compliance management, supervisory

boards, financial controllers, quality assurance, etc.) and external institutions (regulatory agencies, judicial institutions, auditors, and other watchdogs). Other sources of outside control may come from competitors and actors in the society such as local communities, civil society groups, and the media. Sometimes formal control systems do not work because they are inadequate and counterproductive (Anechiarico and Jacobs 1996; De Graaf and Huberts 2008). However, we found that the most important thing underlying successful corruption is that corrupt elites can intentionally “turn off” crucial control mechanisms, inside and outside the organization. Corrupt cliques encroach upon control points or build informal ties to those who staff control points, sometimes through corruption brokers.

### Outside Controls

In our example, the corrupt clique was able to turn off external administrative controls such as the OCH, whose control function would have been to preserve historical buildings. It is the task of the OCH to protect historic buildings in Budapest; however, the office acted in the opposite way when it lifted constraints on changing buildings and provided bureaucratic expertise to facilitate the demolition of certain buildings. According to an investigative journalist, the mayor talked several times in person to high-level officials of the OCH and “persuaded” them to grant permission for the demolition.

An important local governmental control mechanism, surveillance from the opposition political faction, was also deactivated. The main actors “bought” the votes of their political opponents by selling them a property, which became a local party headquarters, at well below the market price.

A lawsuit, filed by tenants and city protection advocacy groups, was also frozen for unexplained reasons. It seems that the corrupt group was able to build an informal tie to the court system, bribed the appropriate judge, and froze the trial. In this case the network’s broker, Csaba, accomplished the control deactivation. Sometimes Csaba also broke down the tenants’ resistance by using the police to force them out from the apartments because of immanent hazard declarations. Our case also showed that although the main actors were able to defend the corrupt network against the joint effort of tenants and advocacy groups, it could not handle the control activity of the media: investigative journalists revealed the case, and after many publications the corrupt operations could not be maintained.

### Inside Controls: “Legalizing” Corruption

Corrupt networks need mechanisms to make corrupt deals seemingly legal. This is a special form of deactivation inside administrative control mechanisms, but it also provides documentation that is legally defensible against external watchdogs. The actors, who are usually middle-level professionals, convert the illegal deals and decisions made by the elite into technical formats, numbers, processes, rules, and legally correct contracts, using their expertise and professional knowledge. In this way, corrupt actors “technicize” the informal agreements (Jávör 1988). They hide illegality

behind normal and legitimate organizational operation. In our example, we identified two major points where the network needed this transformation. In the first case, the mayor (Antal) had to turn off the control of the assembly and prove to the members that the buildings were obsolete and worthless; Antal argued that the best way to utilize this area was to replace the old houses with new, modern, and trendy buildings. Therefore the government's asset management company ordered false estimates from seemingly independent appraisers who then calculated very low market prices for the buildings. The illegal deals were transformed into numbers, in this case inaccurate, but seemingly official and legitimate, property values. We found other control deficiencies in this case. In Hungary, there is an obligation that all local governments must have an inside auditor who reviews not only the bookkeeping but the entire governmental financial management. We did not find a clue that in our example an official auditor would have supervised the district's property sales. Moreover, usually the local governments' own internal law office designs and reviews the government's contracts. Since this activity was "outsourced" to outsider law firms, the corrupt clique significantly weakened a crucial internal control mechanism.

### How to Receive Profits

The central actors of corrupt networks have to find ways to realize profit. These mechanisms often, but not always, convert the exchanged resources into material forms. Sometimes corrupt transactions have barter form when cash is not exchanged at all (Della Porta and Vanucci 1999, 50). There are also cases when actors profited from corruption by achieving status or impressing others (Jávör and Jancsics 2011; De Graaf and Huberts 2008).

Since in our case study the corrupt profit vanished in offshore accounts, we do not know exactly how the money was withdrawn. However the interviews provided examples of monetizing corrupt profits. For example, an investigative journalist told us this story when corrupt cliques founded fictive enterprises, transferred the money through them, and found people to withdraw cash from a bank:

In the case of X company [a multinational engineering firm], the CEO of the company paid a kickback to the ruling political party in return for generous public tenders. They dripped the money back to the politicians through companies which were "founded and managed" by homeless people. The X Company signed contracts with these fake companies for consulting and project writing work. The homeless people regularly took less than 2 million HUF out of the fake companies' bank accounts. This is the amount that the banks have to report to the authorities as a possible suspicious money laundering activity. Five homeless "company owners" had accounts in six banks and they did a round in all branches every week. Now, you can estimate how much money was pumped out. A lot of people were involved. There were bodyguards who escorted them to avoid stealing, the employees of the bank branch, and the cashiers of the political party, and so on.

### Connecting and Organizing the Networks: Brokers and Entrepreneurs

The subsystems that provide corrupt services must be connected to the cash cow. Scholars have long recognized the importance of middlemen, corruption brokers who may have several functions in corrupt transactions (Granovetter 2007; Lomnitz 1988). First, since corrupt partners cannot advertise their services publicly, brokers often find and introduce corrupt actors to each other. In this case brokers fill the “structural holes,” the absence of a link between two actors (Burt 1992; Brass, Butterfield, and Skaggs 1998). Second, when the partners do not trust each other but they all trust a third party, then the broker can mediate between them and guarantee the successful outcome of corrupt deals (Lambsdorff 2002). International companies also often use intermediaries because they need local knowledge to “smooth” the transactions (Bray 2004).

Our real estate case provides a good example of brokerage activity. One of the main actors, Csaba, was a lawyer and entrepreneur and mediated between the local government and the tenants. However, he did not just link different actors, but also did the operative “dirty” work and managed some parts of the network. He found the potential buyers and negotiated with them; he also controlled the project firms’ activities.

We found in our interviews other cases about the broker’s role in corrupt transactions. These middlemen often have special skills to recognize informal holes in formal structures, so they do not just link different actors, but often become designers, organizers, and traders of corrupt systems. They sell the methods needed to construct such structures or exchange complete corrupt structures. These actors are not simple brokers but corruption entrepreneurs who recognize the opportunity, take the risks, create a corrupt structure with proper functions and units, and organize its operation or simply sell the entire network. A retired chief financial officer of a town municipal administration said this about these corruption entrepreneurs:

This guy [corruption entrepreneur] goes through the whole local government, the mayor, the deputy mayor, the notary, and the members of the municipal assembly and makes the deal with each of them. Obviously he has an easier job when the mayor can guarantee all municipal assembly votes. It depends on the situation. So he buys the land and bribes everybody to change the status of the land from agricultural to legally buildable area. Then he sells this whole package with all permissions to multinational department stores. In this way the multi literally outsources the corruption. It does not make its hands dirty and gets land that would have been much more expensive if it had negotiated directly and officially with the local government. I think in Hungary 90 percent of large shopping malls are built in this way.

People who want to design and operate sophisticated corrupt systems must have comprehensive knowledge of formalized arrangements, especially the regulatory

and legal systems. It is not surprising that many corruption entrepreneurs are lawyers, law firms, or legal consulting firms. Our real estate case study also provided examples of lawyers who helped the corrupt network at several different points: founding project firms, creating a tailored contractual framework, transferring corrupt know-how among different actors. A CEO of a real estate development company explained the role of a lawyer in a business when his company wanted to obtain a building permit for a property under environmental protection:

We went to the notary's office in the local government and told them that we wanted to change the status of the land. They took note of our request, and we walked home. Two days after our visit a lawyer called us. I had never heard about him before. He invited us for a meeting in his office. So we went. The conversation was very short, no longer than five minutes. The lawyer told us that a politician from the Socialist faction of the local government would contact us. It happened just as he said. We met with the politician in a café of a hotel and made the deal. He wanted 120 million HUF [about \$600,000] for the building permit and we paid it. Technically the transaction was easy. A week after this meeting we went to the lawyer's office with a briefcase of cash. It has a real power [laughing]. We sat at the lawyer's desk and used his money-counting machine. Then he put the money in his safe. The cash "laid" there until we received the permit from the local government.

Lawyers have an important role in "legalizing" corrupt transactions. With some corrupt deals, lawyers are the only actors who understand the rules of the game. They are often asked to create the legal frameworks for corrupt contracts, which are legally defensible. They are also embedded into the court system; they know bribable judges or prosecutors. According to our interviews, when a corrupt network needs to contact judges or public prosecutors, lawyers always mediate among the actors.

### **Corruption Franchise: Selling a Whole Corrupt System**

We discovered that an elaborate model and time-tested corrupt network may be sold just as easily as a commercial product. Sometimes only the idea, the technique, and the know-how about a corrupt model are sold, but in other cases real personal contacts, as working networks, are exchanged. For example, in Budapest a neighboring district created almost the same corrupt structure as the one presented earlier. Moreover, not only were the mechanisms (know-how) identical but, as an investigative journalist revealed, Csaba also started his "broker career" in this neighboring district. He participated in the large-scale property privatization wave in the early 1990s and became a real corruption entrepreneur by the 2000s.

Actors who buy the services of a network obtain a complete system of social relations, with established procedures such as trustworthy personal ties, corruption legalizer functions, deactivated control mechanisms, and profit-realization techniques.

There are no further costs of partner searching, trust building, and problem management. As a head of a real estate developer firm put it:

If you have a potentially profitable project, they will come and find you. You do not have to seek them. If they feel that there is an investor with capital and expertise, they come like hyenas . . . and they can offer you everything from bankers, lawyers, politicians, and judges to chief architects. To build a shopping center you need exactly 53 permits from local governments, planning councils, bureau this and bureau that. They offer this all together in one package [laughing] . . . believe me, if you “hire” them your life will be much easier as an investor.

## FORMS OF CORRUPT NETWORKS

Based on our empirical data and the corrupt cases published by investigative journalists in Hungary, we created a corrupt network typology. We identified four types of corrupt governmental networks:

- cannibalistic networks,
- exploiter networks,
- parasitic networks, and
- monopolistic networks.

Table 2 summarizes the main characteristics of these four different types.

We found that the cash cow's location in the network and the actors' power relations determine to a large extent the structural characteristics of the network. The power differences among the actors may determine whether the corrupt act is extortive or consensual (Graycar and Villa 2011). In our typology the cannibalistic, the parasitic, and the monopolistic forms of corruption may be considered consensual, since both the seller and the buyer, and their allies, are beneficiaries of the transaction. Our exploiter type has rather an extortive character. Here we briefly describe the four types, provide some examples, and review the main beneficiaries and losers of the corrupt transactions, and the forms of losses. This is not a comprehensive typology, only a description of types of corruption we witnessed in Hungary. It should also be noted that, although we believe that in governmental corruption the biggest losers are the general public and members of local communities, here we try instead to define the losers from the aspect of the actual corrupt network.

### Cannibalistic Networks

In this type, the actors illegally “sell” their own government organization's resources, usually to outsiders. The participants are formal members of the organization where resources are extracted; indeed, they eat up their own organization. Typically the corrupt cliques of the organizational elite and middle-level managers use their power positions and control over critical resources, information, and decisions for their own benefit. The cash cow is in the focal organization together with

**TABLE 2**  
Types of Corrupt Networks

	<i>Cannibalistic</i>	<i>Exploiter</i>	<i>Parasitic</i>	<i>Monopolistic</i>
Main characteristics	Cash cow & main actors are in the same organization	Cash cow is in a subordinate contractor entrepreneur Long vertical chain of exploited entrepreneurs and employees	Main actors collude to find a cash cow and build a complex network to milk it Some actors may be in the milked organization Corruption brokers and entrepreneurs (often lawyers) manage the system	Corrupt cliques of political and economic elites manipulate legal regulations and build monopolistic insider quasi-markets
Controls deactivated	Mostly internal controls: legalization by middle-level professionals	Manipulation of technical quality assessments by outside experts	Several external as well as internal controls: judicial system, watchdogs, media, civil society, etc.	Controls often deactivated by legal regulations Total control of the judicial system and governmental institutions
Relationship between the actors	Relatively equal Often based on pre-existing legal business relationship	Strong dependency between the powerful corrupt clique and the exploited firms	Cooperation of equal actors for a common goal They fulfill different functions for the corrupt network	Closed strong ties between top elite groups

Main beneficiaries	The corrupt clique and the "buyer" side	The corrupt clique	The corrupt clique	The corrupt elite clique The insider firms
Main losers	The milked focal organization	Several exploited entrepreneurs and employees	The milked focal organization Local communities	The excluded competitors General public
Forms of costs & losses	Financial losses Biased decisions Spread of corrupt culture	Financial losses Loss of quality Vertical spread of exploitation Chain reaction of bankruptcy	Financial losses Loss of quality Spread of corrupt culture	Extremely high level of financial losses, e.g., 90% of the project costs disappears
Extract the profit	Overcharging Kickback	Forced bribe	Siphoning off through complex formations: project firms, offshore firms, consulting firms	Through legal contracts

the main actors. Main actors have an opportunity to use the organization as if it was their own. Figure 2 shows the basic form of cannibalistic corrupt networks.

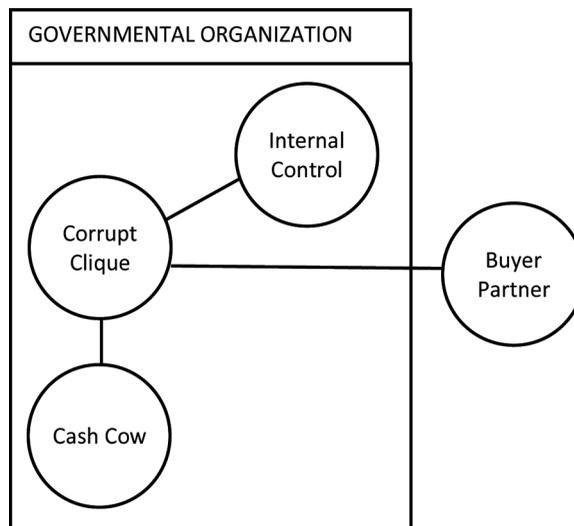
A typical example of cannibalistic corruption occurs when a leader who controls the selection of suppliers to an organization then asks for kickbacks in return for contracts. A head of division in a governmental department told us he had a corrupt deal with the sales manager of the department's stationary supplier. They regularly over-invoiced office products and then shared the illegal profit.

The main beneficiary here is both the corrupt elite clique and the "buyer" side. However, elites often collude with middle-level managers and professionals who help them to cover up and turn off insider controls. Thus middle-level actors need to be compensated or threatened to get them to participate (Jávor and Jancsics 2011). It is common that corrupt cliques start corruption with outsider business partners with whom they already had had legal contractual relationships (Rose-Ackerman 1999, 12; Lambsdorff 2002). This reduces the risk and other transaction costs of partner searching.

The main loser here is the focal organization. However, there are not only monetary losses. The organizational decision-making system also becomes biased and departs from the optimal because of corrupt interests. Cannibalistic corruption weakens the organizational controls, which may contribute to the emergence of a widespread corrupt organizational culture.

### Exploiter Networks

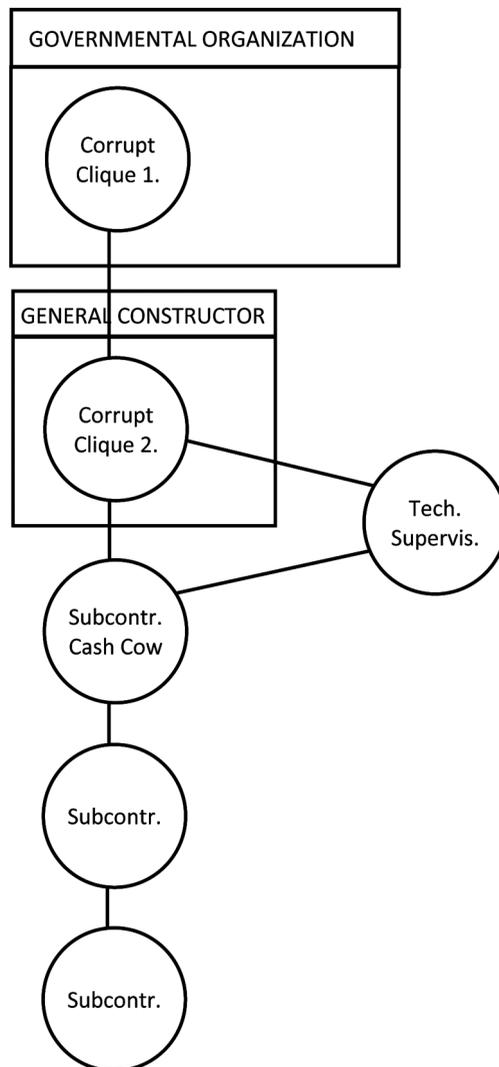
This type refers to corrupt networks in which actors are able to exploit inter-organizational dependency relations. The main actors in the focal organization



**Figure 2.** Cannibalistic Corruption.

can force less powerful actors, typically in subordinate organizations that have formal contractual relation with the focal organization, informally to pass over extra resources. Here, the cash cow is located in a different organization. In exploiter corruption, the illegal network may appear as an inter-organizational structure. Figure 3 shows a possible form of exploiter corruption.

We often see this type of corruption in vertical contracting structures when the suppliers are too dependent on the focal organization. Winning a contract is a matter of life and death for the contractor. During our research project we met some entrepreneurs



**Figure 3.** Exploiter Corruption.

who were forced by powerful state-owned monopolies to compete with each other on two fronts. First, they competed fiercely to win a formal tender; however, at the same time, they competed in the informal zone to offer the highest bribe for the contract. They have to offer the best—legal and illegal—bid to win a “slavery” position in the vertical industrial network. A founder CEO of an IT company that often wins public tenders from a certain governmental ministry through paying kickbacks told us:

OK, here is an example, our latest project. See how these deals go: A government department publishes a call for tender for 100 computers. There are 20 bidders and they start to compete. Finally the price is under the frog’s ass [Hungarian phrase for a very gloomy outlook]. They [the government] start to get rid of the firms, and in the end four of us remain. Then another bidding phase starts: who can offer the highest bribe? . . . and as I said, the price is already very low. This is the bad corruption . . . I hate it . . . They force you into a killer competition, and you still have to pay the jatt [Hungarian slang for huge tip or bribe] . . . And do you know why I am doing this, even under these shitty conditions? Because I do not want them [other competitors] to get in.

Another example of exploiter corruption is when the corrupt actors from the focal organization simply blackmail the contractor, threatening that if he/she does not pay the bribe, they will not pay for the work because of (bogus) “quality complaints.” The corrupt clique usually acts long after the legal contract was signed between the partners. In this case, outsider technical supervisors often help them to provide a false assessment, and turn off the quality assurance control, falsely characterizing the contractor’s work as being of low quality. The exploiters timed their action after the contractor finished a considerable amount of work; for example, installed the 80% of radiators in a construction project. So the work is beyond the point of no return. Thus the contractor has two bad choices, either pay the bribe and get paid after the work is done, or refuse to provide the bribe, sue the contracting party, and, after several years of an uncertain lawsuit against a powerful organization in a corrupt judicial system, possibly be paid.

A “bogus claim of bad quality” is not the only way to obtain extra resources from exploited companies. The planned bankruptcy of a “friendly” firm at the middle of the contractor chain is also a widespread technique in Hungary. In the infrastructure sector, it is typical that the powerful investors or tender winners in public projects intentionally create long corrupt chains of exploited contractors, extremely dependent entrepreneurs. After the construction project is mainly finished, the corrupt actors “cut” the chain. This means that a firm, owned or controlled by corrupt clique members at the middle of the network, deliberately goes bankrupt, so that the other entrepreneurs, suppliers, and transporters under this firm in the chain will never be paid. Banks that provide loans for such projects are often involved in this game. Perfectly timing their activities to a point after the majority of the project is done, the bank charges a considerable amount to the corrupt firm. This firm becomes “insolvent” and cannot pay for the contractors’ work, while the bank gets its money back.

The owners of these bankrupted firms often appear in new infrastructure projects with newly established companies and go bankrupt again and again. Several big public projects recently ended up in this way. The biggest scandal involved the Megyeri Bridge project in 2008. In this case, a general contractor went bankrupt and was unable to pay more than 1 billion HUF to its subcontractors after the bridge was finished.

The main beneficiary here is only the corrupt clique, and the loser is the exploited entrepreneurs or organizations who were subcontractors. However, a victimized subcontractor often tries to transfer the loss elsewhere. We observed that the exploited party will attempt to extract a profit somehow from this tight situation. One option is to exploit even less powerful actors and thus the extortion further down the vertical structure. The subcontractor can force its own subcontractors to pay bribes and kickbacks, and do the work below market price. It can also hire employees illegally without paying their pensions and health insurance, or any payroll tax for them. This pattern is especially common in the Hungarian infrastructure sector, such as large-scale highway and bridge projects.

Since this kind of corruption creates long chains of exploited firms and employees, the range of losers is much wider than one single subcontractor. Subordinate firms and entrepreneurs are in constant financial uncertainty. Since they have to advance building materials, which they often finance by loans, they are totally financially reliant on the project. If the corrupt clique cuts the chain, or does not pay for the work, this often results in a domino effect of the spread of bankruptcy.

When a company is forced into a bad contract and no other subordinate actors can be exploited, it can sometimes compensate by saving money on construction materials or by degrading the operation of its professional technical system. In this case, the quality of the products significantly worsens, and the organization starts to eat itself up. For example, a road construction entrepreneur explained how he sacrificed the organization's professional quality in a corrupt deal:

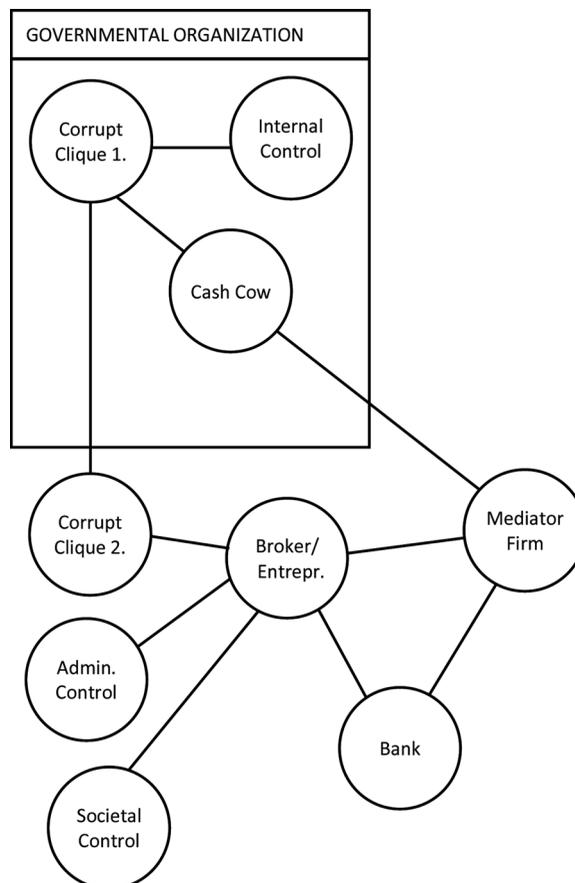
They [local governmental officials] told me that I can win all road reconstruction in the [Budapest] district if I undertake it for a very depressed price. Then they also wanted some kickback. I said yes, so I got the job. But I had to earn money from somewhere. So I built the roads . . . 20 cm asphalt was needed . . . instead we spread 7 cm. But I did not only steal the asphalt from the road, I stole the bitumen from the asphalt too. The whole stuff hardened in three days, and the asphalt quickly cracked. A year later I had to build roads again. I paid the bribe and got the same money again [laughing].

### **Parasitic Networks**

Parasitic corruption emerges when some powerful actors collude in order to find a cash cow and build a corrupt system that encroaches on it. Our detailed real estate case discussed previously falls into this category. In cases of parasitic corruption, the cash cow is likely located in some main actors' organization, but several outsiders are

also needed. This is the most complex type in our typology because the corrupt clique does not have enough power to control the system entirely, as in our monopolistic case (to follow). However, they want to milk, hide, and successfully maintain the corrupt network for a longer term. Therefore the organizers build and operate a relatively complex network of equal actors that has different elements with important functions. Figure 4 shows a possible form of a parasitic network.

The main functions we discussed earlier in this article—legalize corruption, deactivate controls, and extract profit (or money laundering)—are necessary to the smooth operation of parasitic corruption. As our real estate case showed, if the organizers of the system do a good job, everything seems legal and legitimate, but in fact everything is corrupt. The local government assembly members, who decided it was the best solution, legitimized the sale of the buildings. Their decision, the need for the sales, was legalized and legitimized by the Economic Committee's statement, the appraisers' valuation, and the OCH's supporter expert reports. The mayor's



**Figure 4.** Parasitic Corruption.

signature was legitimized by the assembly's decision. The informal support of all big Hungarian political parties also provided a wider legitimization of the corrupt project.

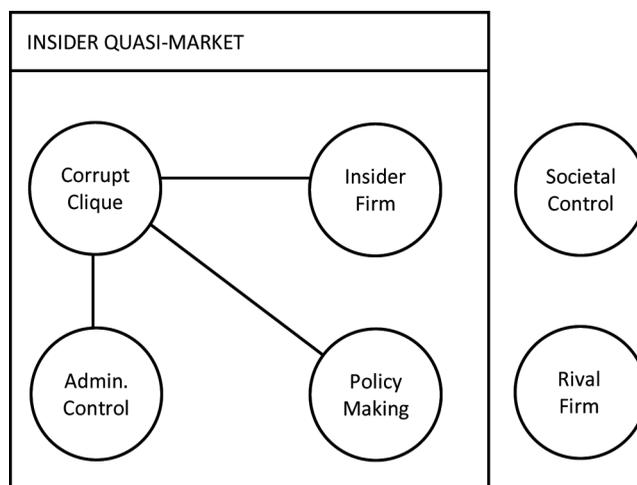
Nielsen (2003) also used the term parasitic network and noted that parasitic win-win corrupt deals can be beneficial for several of the players within an exclusive network. However, according to the author, these relations are very bad for those excluded and for society in general. In our type, the main beneficiaries are the members of corrupt clique, who constitute a much wider circle than in cannibalistic or exploiter cases. Parasitic networks need several brokerage functions. Real entrepreneurial skills and substantial knowledge of the legal structure are also necessary to create and manage such a complex network. Professional corruption brokers appear who know the procurement procedures and legal framework perfectly, and have a widespread social network connecting different political and economic elite groups. Since there is a demand for this kind of knowledge, a market for corrupt services emerges where ideas, information, social relations, corrupt models, and complete corrupt structures are exchanged. Sometimes legal organizations (law firms, consulting companies) emerge to assist in finding loopholes and creating corrupt networks. Bankers are often involved to hide and manage the money transfers. These networks reach the judicial systems and the media, and deactivate their external controls.

The loser is the milked organization. Since in Hungary many parasitic networks siphon off huge resources systematically from the local governmental structure, as in our real estate case, this type is a more realistic experience for local citizens than, for example, cannibalistic corruption. Although parasitic networks are professionally designed for a longer term, they may face exposure and threat from local communities, the media, and civil society.

### **Monopolistic Networks**

It is a typical characteristic of governmental corruption that officials are able to abuse their monopoly power over a good or a service needed by citizens or business organizations (Shleifer and Vishny 1993; Klitgaard 1998). However, in our monopolistic corruption type, the main actors have more power than simple control over the allocation of particular goods. They have control, not simply over individuals and over economic transactions within a given organizational structure, but over a wider structure of social relationships. They create their own small world where they are the rulers. Figure 5 shows the basic elements of corrupt monopolistic networks.

Scholars who have studied mega-events, such as Olympic games, have also recognized such monopolistic corruption situations (Dollinger, Xueling, and Mooney 2010). The central organizing authority of mega-events is in a position to act as a monopolist because it has a power to create a rent-generating cartel, distort normal market competition, limit the access of business organizations to the network, and set both the prices it receives and the quantities it demands. State capture, a form of grand corruption when powerful firms are able to influence state laws, policies and regulations, is also discussed in the literature (Hellman and Kaufmann 2001; Cepiku 2004; Graycar and Villa 2011).



**Figure 5.** Monopolistic Corruption.

Monopolistic corruption is at the top of the corruption food chain. In this case, elites are able to manipulate or set up municipal- or national-level rules and regulations. They can exclude outsider competitors, often seemingly legally. The main actors do not seek a cash cow but create it. They build a monopolistic insider quasi-market in which they can arbitrarily determine the prices of exchanged resources.

According to our interviewees, public mega-tenders in Hungary, especially large-scale motorway and metro projects, are totally controlled by closed circles of powerful political and economic figures. They are extremely overpriced. Readers may raise their eyebrows when they hear that in 2005 the cost of 1 km of a four-lane motorway in Hungary was 250% of the Eastern European region average (Snell 2005). In the monopolistic type, the corrupt interest overrides any rational economic consideration. An owner of a midsize construction firm gave an example of monopolistic corruption at the local government level:

This example is also about my firm, but this time we were the suffering party. The municipal government had a tender to change 1500 windows in several public buildings. Insiders warned me that it would be impossible to get this business, but I was a greenhorn at the time. So, we followed the official tender documentation and submitted a bid which was 270 million HUF. They rejected us without any serious justification. The rival firm won with a 810 million HUF bid. Can you imagine it? A three times higher bid... An acquaintance whispered this who was working in that firm... It is funny because we have never been able to get a large-scale public project. It is a closed circle. That is why we play in the private market, here we still have to pay kickbacks but at least we can win projects.

In monopolistic corruption the main beneficiaries are the highest levels of local and national political and economic elites. Those who are in the corrupt network have all the privileges of insiders; they have full access to information about national and regional level strategic decisions (e.g., highway routes), tenders (e.g., new subway lines), or monetary and fiscal policies long before those decisions are publicly communicated. Excluding the competition is an extra advantage for firms who win projects. They use their growing power to strengthen their monopolistic positions, and to expand in other sectors and abroad. Thus, they convert the advantages obtained by corruption into real and legal economic power.

The main losers are the firms who were excluded by the monopolistic cartels. However, this type of corruption also results in huge public resource waste. This is the corruption when typically 80%–90% of the project value is stolen. We found that monopolistic corruption networks are often clan-controlled systems (Ouchi 1980), in which the main organizers share the same beliefs, strong sense of community, and sometimes political ideology. These elite members often socialized in the same colleges, student societies, communist youth movements, or in the communist secret service.

## DISCUSSION

The main insight of our article is that governmental corruption in Hungary, at least at the top level, mainly occurs beyond the dyadic corrupt interaction that is the predominant view of corruption in the public management literature. Large and relatively complex networks of corruption exist that involve many people, and need deliberate design and management. The corrupt networks we discuss here are different from the network of a price-fixing scheme that Baker and Faulkner (1993) presented, where executives acted on behalf of their organization. Actors in our model are still public-choice style actors, in the sense that they are self-interested individuals. However, the main interest of this article is to examine how these actors form corrupt networks and coordinate their actions in order to satisfy their self-interest.

Corrupt networks need cash cows, suppliers to the system. The existence of a cash cow (available resources) is a necessary but not sufficient condition for corrupt networks. Power is also a crucial element in these networks. Those who are able to build such networks must have control over the significant marketable resources and power to turn off control mechanisms at different levels.

Power over something does not mean that this power is absolute (Wrong 1968). The actors' power positions in corrupt networks determine opportunities for corruption, their roles in the illegal game and their latitude. Two kinds of power can be distinguished in organizations: positive or active power (ability to initiate an action) and negative or passive (protection) power (ability to stop some activity) (Rus 1980).

Active power provides an opportunity actively to influence processes, determine the outcomes, and illegally reallocate formally distributed resources. When corrupt organizational elites mobilize control (e.g., police investigation based on false evidence) against investigative journalists, competitors, or activist civil society groups,

they also use their active power. Other actors can only protect their position in the corrupt network structure. For example, a firm may not have enough power to prevent the tax office from investigating, but it may be informed by an insider about the investigation and this may provide enough time to destroy and manipulate compromising documents. Deactivating controls by legalizing corrupt deals and converting them into numbers, processes, and rules is also a form of passive power.

We believe that successful corrupt networks need a combination of influence and protection, actors with both active and passive power. For example, a traffic policeman may have active power to extort bribes from speeders, but does not have passive power to defend his business; he cannot recognize which driver would be a hidden policeman. However, if his colleagues in the police department warn him about a hidden insider investigation, he can acquire a control deactivation for his corrupt little system.

Many of our examples, especially cases of exploiter and monopolistic corruption, are from the Hungarian construction sector. It has been repeatedly revealed that collusion and corruption is more widespread worldwide in the construction industry than in any other sector of the economy (Sohail and Cavill 2008; Van den Heuvel 2005; Dorée 2004). However, the Hungarian construction sector has some special characteristics. Immediately after the collapse of communism in 1989, the structure of the construction industry radically changed in the country. The formerly dominant, large, state-owned socialist construction companies became bankrupt, and by the early 2000s almost 90% of the contractors were working with fewer than 10 people (Kunszt 1998; Grosz 2002). Currently, the sector has an amorphous structure with very few large firms, often associated with powerful oligarchs, and tens of thousands of micro-size businesses and self-employed entrepreneurs. The huge number of weak, dependent, and vulnerable micro-companies provides exploitable ammunition for corrupt networks in the construction industry.

Since the beginning of Hungary's EU accession process in 1998, the country's economy has been receiving a large amount of EU development grants, much of them channeled into large-scale infrastructure projects. In several mega-projects we can see the combination of two types of corruption, when monopolistic and exploiter networks are linked to each other. These are typically large-scale motorway, subway, bridge, or urban development projects when the state forms a monopolistic network with a few privileged companies, often controlled by Hungarian oligarchs. These companies become the central organizing authorities of the project and delegate the work to secondary firms in the vertical chain. Then this secondary level builds the chains of exploited entrepreneurs. Many of these subcontractors will never be paid for their work. In these formations the corrupt actors can realize economic rents, since they squeeze the subcontractors or simply steal their money from an already extremely overpriced project.

### **Corrupt Networks vs. Dark Networks**

There is a growing interest in the scholarly literature on the network characteristics of illegal and hidden organizational activities. While these efforts mainly focus

on terrorist and smuggler networks, our article emphasizes the network features of corrupt entities. Corrupt networks are dark networks in the sense that they are illegal and covert (Raab and Milward 2003). They both differentiate vertically and functionally to respond to special survival challenges. Corrupt networks have special units distinguished by functions, such as legalizing corruption, turning off control, connecting ties and building networks, rewarding participants, and extracting profits. The main similarity is that the biggest challenge for both types of networks is to avoid efforts at anti-corruption control. They have to create a network structure that is capable of surviving in spite of massive outsider control attempts. Another common element is the franchise. Al Qaeda is often compared to fast-food franchises. How to create a corrupt structure around a cash cow is also a marketable asset. However, corruption brokers “sell” not only proven corrupt techniques and models but complete social systems with reliable ties, corruption legalizer and cover-up functions, and profit-extraction mechanisms.

A significant difference is that while the primary activity of terrorist and smuggler networks is illegal, corrupt networks need legal organizations to encroach and milk them. Corrupt activities are twisted together with transparent and legal activities and cannot be detached. Without formal organizations, corruption would not be possible. Although terrorist/smuggler networks sometimes use open and legal activity to cover up their primary illegal activity, for example, transporting drugs, laundering money, or purchasing weapons, they can exist without this legal cover.

## CONCLUSIONS AND IMPLICATIONS

In order to comply with international requirements (EU, GRECO), Hungarian governments have initiated several anti-corruption programs during the last 10 years. However, according to Transparency International (2007; 2012), most of these efforts have been adhoc measures or led by political interests and mainly avoided dealing with key issues. These strategies embraced the traditional approach, fighting against administrative corruption by creating new legal institutions and focusing primarily on punitive sanctions instead of prevention. The main logic of such reforms is usually changing incentives and increasing negative payoffs for corruption inside government (Rothstein 2011, 104). Another strategy was creating anti-corruption agencies. However, newly elected Hungarian governments immediately disbanded their predecessor’s anti-corruption departments and established their own institutions, often using them as tools for revenge on rival political or business groups. In Hungary, we can often find clique interests, political strategies, and power struggles behind seemingly rational reform processes (Jávor 2008).

The Hungarian government has never gone through a successful rationalization process toward a Weberian civil service. In the first half of the 20th century, the governmental bureaucracy suffered from the legacy of patrimonial and particularistic culture. The promising state reform project initiated by Zoltán Magyary in 1931 failed (Csizmadia 1979). During the decades of communism, the government also lacked any impersonal efficiency criterion. State redistribution and economic grants

were arranged by informal and individual deals between managers of large socialist companies and top-level officials in sectoral ministries, especially in the Ministry of Industry (Szalai 1982; 1989). This long tradition of informality is still alive in the current Hungarian state. In 2006, an ambitious governmental reform started to create a “cleaner,” smaller, and more effective government. The reform was inspired by public choice theory and adopted several New Public Management techniques. After one year, the whole project failed and ended up with the resignation of the chief executive responsible for the reform process. The civil service remained mainly corrupt (Jancsics 2009). The main reason for the failure was that influential political and business groups, deeply embedded into government organizations, sabotaged the reforms because transparency and genuine competition threatened their interests. The main lesson here, we believe, is that New Public Management techniques are simply not applicable in systematically corrupt governments because of the strong resistance of powerful interest groups.

The authors of this article, along with many other scholars (Falaschetti and Miller 2001; Nielsen 2003; Diamond 2008), are very skeptical that incentives and anti-corruption institutions within systematically corrupt structures can help against corruption. Such reforms can backfire because the new institutions are often captured by corrupt networks, and used for political and propaganda purposes (Doig, Watt, and Williams 2007). It is unlikely that without a radical change, or as Rothstein (2011) calls it, a “big bang,” a predominantly corrupt system will self-correct. Rothstein argues that only “nonincremental” dramatic changes (“big bangs”) can defeat systemic corruption. Instead of targeting corruption directly, the entire general framework about the meaning of public service and political institutions must change in a country.

Our Hungarian cases suggest that corrupt cliques are surprisingly effective in deactivating almost all external administrative controls such as auditors, regulatory agencies, and judicial institutions. This governmental institutional system is their playground: they were socialized in this structure; they hold formal authority positions as well as informal central positions in this system. However, our real estate example shows that corrupt cliques were less successful in turning off controls outside the governmental institutions. In our case, in the end the consistent efforts of tenants, civil society groups, and investigative journalists beat the corrupt network.

More independent and less controllable actors from the civil side of society may pose a real threat to corrupt cliques. Our proposition is that in CEE “indirect strategies” such as strengthening civil society and defending the free press may be more promising tools against pervasive corrupt networks than public management reforms that create more audit units, governmental watchdogs, and legal regulations. For corrupt elites, these are just new controls that can be deactivated.

Publishing corrupt and suspicious cases and statistics in the press may increase the risk of corrupt acts for the elite. The organized and researchable publication of procurement contracts and benchmark data may also force government to consider such information. Transparency is thus a crucial weapon. There are already some good examples, independent Web sites that collect and publish doubtful cases and documents on publically financed projects in Hungary (Transparency International

2012). Although we do not believe that such external forces alone are able to solve the problem of corrupt governmental networks, they might keep the state under constant pressure. One day the accumulated disapproval of the public and the pressure on the government may reach the threshold when a “big bang,” a fundamental change of the overall political culture, happens.

## ACKNOWLEDGEMENTS

An earlier version of this article was presented at the 27th EGOS Colloquium “Reassembling Organizations” in Gothenburg, Sweden, July 7–9, 2011. This research was partially supported by grants from the Eötvös Loránd University, Faculty of Social Sciences, and the City University of New York, Graduate Center.

## NOTES

### 1. Interview questions:

- Have you ever participated in corruption?
- If not, have you seen corruption close up?
- How did you get involved in a corrupt transaction?
- Can you describe the main phases of the transaction? What was your role in the transaction?
- What were the other (insider or outsider) actors’ roles in the transaction?
- What was the organizational status of these (insider or outsider) actors?
- Why was the organization unable to prevent and control corruption?
- Were there other (insider or outsider) organizational members who did not participate, but have knowledge about corruption?
- Why did they remain silent about it?

### 2. Hungarian newspaper and magazine articles analyzed:

- Bogár, Z. and N. Somlyódy. “Háztól házig harc—Terézvárosi ingatlanügyek.” *Narancs*, March 09, 2006, XVIII. évf. 10. szám.
- Miklósi, G. “Ingatlanfejlesztés a volt zsidó negyedben: Lesz mit Aprítani.” *Narancs*, July 22, 2004, XVI. évf. 30. szám.
- Miklósi, G. and N. Somlyódy. “‘Gyurinak hív mindenki’ (Hunvald György, Erzsébetváros polgármestere).” *Narancs*, May 17, 2007, XIX. évf. 20. szám.
- Sipos, A. “Erzsébetvárosi ingatlanügyek - Jó rálátás.” *Narancs*, November 06, 2008, XX. évf. 45. szám.
- Sipos, A. and J. Zolnay. “Ingatlanpanama—A pesti zsidó negyed elpusztítása.” *Beszélő*, May, 2009, 14. évf. 5. szám.
- Somlyódy, N. “Újabb erzsébetvárosi ingatlanügylet: Elegük lett.” *Narancs*, January 11, 2007, XIX. évf. 01-02. szám.
- Somlyódy, N. “Az erzsébetvárosi ingatlanpanama háttere—Kiment a ház az ablakon.” *Narancs*, December 4, 2008, XX. évf. 49. szám.
- Zádori, Z. “Akik a buldozert hívták, és akik elküldenék.” *HVG*, May 13, 2009.

## REFERENCES

- Aidt, T. S. 2003. "Economic Analysis of Corruption: A Survey." *The Economic Journal* 113(491): 632–652.
- Albanese, J. S. 1988. *Organizational Offenders: Understanding Corporate Crime*. Niagara Falls, NY: Apocalypse.
- Anechiarico, F. and J. B. Jacobs. 1996. *The Pursuit of Absolute Integrity: How Corruption Control Makes Government Ineffective*. Chicago: University of Chicago Press.
- Ashforth, B. E. and V. Anand. 2003. "The Normalization of Corruption in Organizations." *Research in Organizational Behavior* 25(3): 1–52.
- Ashforth, B. E., D. A. Gioia, S. L. Robinson, and L. K. Trevino. 2008. "Re-viewing Organizational Corruption." *Academy of Management Review* 33(3): 670–684.
- Asthana, A. N. 2008. "Decentralization and Corruption: Evidence from Drinking Water Sector." *Public Administration and Development* 28(3): 181–189.
- Báger, G. 2011. "Corruption Risks in Public Administration." *Public Finance Quarterly* 56(1): 44–57.
- Báger, G. and Á. Kovács. 2005. "Corruption and the Options of the Activities of the State Audit Office." *Development and Finance* (3): 40–48.
- Báger, G., G. Pulay, and A. Korbuly. 2008. *Korrupciós Kockázatok Feltérképezése a Magyar Közférában [Mapping Corruption Risks in the Hungarian Public Sector]*. Budapest: State Audit Office of Hungary.
- Baker, R. 2002. "Introduction: Transition and Reform in Post-authoritarian States." Pp. 1–13 in R. Baker, ed., *Transitions from Authoritarianism: The Role of Bureaucracy*. Westport, CT: Praeger Publishers.
- Baker, W. E. and R. R. Faulkner. 1993. "The Social Organization of Conspiracy: Illegal Networks in the Heavy Electrical Equipment Industry." *Social Problems* 29(4): 373–379.
- Banfield, E. C. 1975. "Corruption as a Feature of Governmental Organization." *Journal of Law and Economics* 18(3): 587–605.
- Becker, H. S. 1966. *Outsiders: Studies in the Sociology of Deviance*. New York: Macmillan.
- Biernacki, P. and D. Waldorf. 1981. "Snowball Sampling: Problems and Techniques of Chain Referral Sampling." *Sociological Methods & Research* 10(2): 141–163.
- Brass, D. J., K. D. Butterfield, and B. C. Skaggs. 1998. "Relationships and Unethical Behavior: A Social Network Perspective." *The Academy of Management Review* 23(1): 14–31.
- Bray, J. 2004. "The Use of Intermediaries and Other 'Alternatives' to Bribery." Pp. 112–138 in J. G. Lambsdorff, M. Taube, and M. Schramm, eds., *The New Institutional Economics of Corruption*. New York: Routledge.
- Burt, R. 1992. *Structural Holes: The Social Structure of Competition*. Cambridge, MA: Harvard University Press.
- Calavita, K., R. Tillman, and H. N. Pontell. 1997. "The Savings and Loan Debacle, Financial Crime, and the State." *Annual Review of Sociology* 23(1): 19–38.
- Cartier-Bresson, J. 1997. "Corruption Networks, Transaction Security and Illegal Social Exchange." *Political Studies* 45(3): 463–476.
- Cepiku, D. 2004. "Coping with Corruption in Albanian Public Administration and Business." *International Public Management Review* 5(1): 99–137.
- Clinard, B. M. and C. P. Yeager. 1980. *Corporate Crime*. New York: Free Press.
- Csizmadia, A. 1979. *Bürokrácia és Közigazgatási Reformok Magyarországon [Bureaucratic and Administrative Reforms in Hungary]*. Budapest: Gondolat Kiadó.
- De Graaf, G. and L. W. J. C. Huberts. 2008. "Portraying the Nature of Corruption Using an Explorative Case Study Design." *Public Administration Review* 68(4): 640–653.

- Della Porta, D. and A. Vanucci. 1999. *Corrupt Exchanges: Actors, Resources, and Mechanisms of Political Corruption*. New York: Aldine Transaction.
- Diamond, L. 2008. "The Democratic Rollback: The Resurgence of the Predatory State." *Foreign Affairs* 87(2): 36–48.
- Doig, A., D. Watt, and R. Williams. 2007. "Why Do Developing Country Anti-corruption Commissions Fail to Deal with Corruption? Understanding the Three Dilemmas of Organisational Development, Performance Expectation, and Donor and Government Cycles." *Public Administration and Development* 27(3): 251–259.
- Dollinger, M. J., L. Xueling, and C. H. Mooney. 2010. "Extending the Resource-Based View to the Mega-event: Entrepreneurial Rents and Innovation." *Management & Organization Review* 6(2): 195–218.
- Dorée, A. G. 2004. "Collusion in the Dutch Construction Industry: An Industrial Organization Perspective." *Building Research & Information* 32(2): 146–156.
- Ellison, B. A. 2007. "Public Administration Reform in Eastern Europe: A Research Note and a Look at Bulgaria." *Administration & Society* 39(2): 221–232.
- Erakovich, R., D. Kavran, and S. Wyman. 2006. "A Normative Approach to Ethics Training in Central and Eastern Europe." *International Journal of Public Administration* 29(13): 1229–1257.
- Erickson, B. H. 1981. "Secret Societies and Social Structure." *Social Forces* 60(1): 188–210.
- Falaszchetti, D. and G. Miller. 2001. "Constraining Leviathan: Moral Hazard and Credible Commitment in Constitutional Design." *Journal of Theoretical Politics* 13(4): 389–411.
- Felps, W., T. R. Mitchell, and E. Byington. 2006. "How, When, and Why Bad Apples Spoil the Barrel: Negative Group Members and Dysfunctional Groups." *Research in Organizational Behavior* 27: 175–222.
- Fisman, R. and R. Gatti. 2002. "Decentralization and Corruption: Evidence Across Countries." *Journal of Public Economics* 83(3): 325–345.
- Fleck, Z. 2011. "Judicial Independence in Hungary." Pp. 793–834 in A. Anja Seibert-Fohr, ed., *Judicial Independence in Transition*. Berlin: Springer.
- Freedom House. 2011. *Nations in Transit 2011: Hungary*. <http://www.freedomhouse.org/report/nations-transit/nations-transit-2011>.
- Gábor, R. I. and P. Galasi. 1985. "Second Economy, State and Labour Market." Pp. 122–133 in P. Galasi and G. Sziráczi, eds., *Labour Market and Second Economy in Hungary*. Frankfurt: Campus Verlag.
- Galasi, P. and G. Kertesi. 1987. "The Spread of Bribery in a Generally Planned Economy." *Acta Oeconomica* 38(3–4): 371–389.
- Granovetter, M. 1985. "Economic Action and Social Structure: The Problem of Embeddedness." *The American Journal of Sociology* 91(3): 481–510.
- Granovetter, M. 2007. "The Social Construction of Corruption." Pp. 152–172 in V. Nee and R. Swedberg, eds., *On Capitalism*. Palo Alto, CA: Stanford University Press.
- Graycar, A. and D. Villa. 2011. "The Loss of Governance Capacity through Corruption." *An International Journal of Policy, Administration, and Institutions* 24(3): 419–438.
- Gregory, R. J. 1999. "Social Capital Theory and Administrative Reform: Maintaining Ethical Probity in Public Service." *Public Administration Review* 59(1): 63–75.
- Grodland, A. B., T. Y. Koshechkina, and W. L. Miller. 1998. "'Foolish to Give and Yet More Foolish Not to Take': In-Depth Interviews with Post-communist Citizens on Their Everyday Use of Bribes and Contacts." *Europe-Asia Studies* 50(4): 651–677.
- Groenendijk, N. 1997. "A Principal-Agent Model of Corruption." *Crime, Law & Social Change* 27(3–4): 207–229.

- Grosz, A. 2002. "Az Építőipar Alakulása Magyarországon" ["Construction Industry Trends in Hungary"] Pp. 13–38 in I. Lengyel and J. Rechner, eds., *A Hazai Építőipar Versenyképességének Javítása: Klaszterek Szerepe a Gazdaságfejlesztésben [Improving the Competitiveness of the Domestic Construction Industry: The Role of Clusters in Economic Development Projects]*. Győr, Hungary: RégióArt.
- Hankiss, E. 2002. "Games of Corruption: East Central Europe, 1945–1999." Pp. 243–260 in S. Kotkin and A. Sajó, eds., *Political Corruption in Transition: A Sceptic's Handbook*. New York: Central European University Press.
- Hegarty, W. H. and H. P. Sims. 1978. "Some Determinants of Unethical Decision Behavior: An Experiment." *Journal of Applied Psychology* 63(4): 451–457.
- Hellman, J. and D. Kaufmann. 2001. "Confronting the Challenge of State Capture in Transition Economies." *Finance & Development* 38(3). <http://www.imf.org/external/pubs/ft/fandd/2001/09/hellman.htm>.
- Holmes, L. 1997. "Corruption and the Crisis of the Post-communist State." *Crime, Law & Social Change* 27(3–4): 275–297.
- Holmes, L. 2006. *Rotten States? Corruption, Post-communism, and Neoliberalism*. Durham, NC: Duke University Press.
- Hopkin, J. and A. Rodriguez-Pose. 2007. "'Grabbing Hand' or 'Helping Hand?': Corruption and the Economic Role of the State." *Governance* 20(2): 187–208.
- Huther, J. and A. Shah. 1998. *Applying a Simple Measure of Good Governance to the Debate on Fiscal Decentralization*. Washington, DC: World Bank.
- Jancsics, D. 2009. "Amikor a leviatán éjjeliőrnek képzei magát: Az állami adminisztráció ma" ["When the Leviathan Fancies Himself as a Nightwatchman: The State Administration Today"]. Pp. 237–265 in N. Gábor and J. Liska, eds., *Magyar árok és napfény- ország: fiatal értelmiségiek a ma és a jövő magyarorszájáról [Hungarian Ditch and Sunshine-Country: Young Intellectuals on the Future of Hungary]*. Budapest: Gondolat Kiadó.
- Jávor, I. 1988. *A hatalom szerkezete a vállalatban [The Structure of Power in the Company]*. Budapest: Közgazdasági és Jogi Könyvkiadó.
- Jávor, I. 2008. "Minisztériumi háttérintézmények átszervezési folyamata" ["Reorganization of the Ministries' Background Institutions"]. Pp. 165–189 in T. Rozgonyi, ed., *Államreform, közigazgatás, háttérintézmények [State Reform, Administration, and Background Institutions]*. Budapest: Gondolat Kiadó.
- Jávor, I. and D. Jancsics. 2011. "Organizational Corruption: An Empirical Study." Paper presented at the annual meeting for the Society for the Advancement for Socio-Economics, Madrid, Spain, June 23–25, 2011.
- Jowitt, K. 1983. "Soviet Neotraditionalism: The Political Corruption of a Leninist Regime." *Soviet Studies* 35(3): 275–297.
- Klerks, P. 2001. "The Network Paradigm Applied to Criminal Organisations: Theoretical Nitpicking or a Relevant Doctrine for Investigators? Recent Developments in the Netherlands." *Connections* 24(3): 53–65.
- Klitgaard, R. 1998. "International Cooperation Against Corruption." *Finance & Development* 35(1): 3–6.
- Kornai, J. 1992. *The Socialist System: The Political Economy of Communism*. Princeton, NJ: Princeton University Press.
- Kotchegura, A. 2004. "Reducing Corruption in Post-communist Countries." *International Public Management Review* 5(1): 137–156.
- Krebs, V. E. 2002. "Mapping Networks of Terrorist Cells." *Connections* 24(3): 43–52.
- Kunszt, Gy. 1998. "Sustainable Development and the Hungarian Construction Industry." *Building Research & Information* 26(1): 46–55.

- Laczniak, G. R. and E. J. Inderrieden. 1987. "The Influence of Stated Organizational Concern upon Ethical Decision Making." *Journal of Business Ethics* 6(4): 297–307.
- Lambsdorff, J. G. 2002. "Making Corrupt Deals—Contracting in the Shadow of the Law." *Journal of Economic Behavior and Organization* 48(3): 221–241.
- Lambsdorff, J. G. 2006. "Measuring Corruption: The Validity of Precision of Subjective Indicators (CPI)." Pp. 81–100 in A. Shacklock, C. Sampford, C. Connors, F. Galtung, and C. J. G. Sampford, eds., *Measuring Corruption (Law, Ethics and Governance)*. Aldershot, UK: Ashgate Publishing.
- Lauchs, M., R. Keast, and N. Yousefpour. 2011. "Corrupt Police Networks: Uncovering Hidden Relationship Patterns, Functions and Roles." *Policing and Society* 21(1): 110–127.
- Lindesmith, A. 1968. *Addiction and Opiates*. Chicago: Aldine.
- Lomnitz, L. A. 1988. "Informal Exchange Networks in Formal Systems: A Theoretical Model." *American Anthropologist* 90(1): 42–55.
- Mayntz, R. 2004. "Organizational Forms of Terrorism: Hierarchy, Network, or a Type Sui Generis?" MPIfG Discussion Paper 04/4. Köln, Germany: Max-Planck-Institut für Gesellschaftsforschung.
- Mayntz, R. 2006. "Control of a Terrorist Network: Lessons from the 9/11 Commission Report." *International Public Management Journal* 9(3): 295–311.
- McIllwain, J. S. 1999. "Organized Crime: A Social Network Approach." *Crime, Law & Social Change* 32(4): 301–323.
- Miller, W. L., A. B. Grodeland, and T. Y. Koshechkina. 2001. *A Culture of Corruption: Coping with Government in Post-communist Europe*. New York: CEU Press.
- Milward, H. B. and J. Raab. 2006. "Dark Networks as Organizational Problems: Elements of a Theory." *International Public Management Journal* 9(3): 333–360.
- Moliterno, T. P. and D. M. Mahony. 2011. "Network Theory of Organization: A Multilevel Approach." *Journal of Management* 37(2): 443–467.
- Neumann, L. and A. Tóth. 2009. "Crisis of the Post-transition Hungarian Model." Pp. 155–178 in G. Bosch, S. Lehdorf and J. Rubery, eds., *European Employment Models in Flux*. New York: Palgrave Macmillan.
- Nielsen, R. P. 2003. "Corruption Networks and Implications for Ethical Corruption Reform." *Journal of Business Ethics* 42(2): 125–149.
- Ouchi, W. G. 1980. "Markets, Bureaucracies, and Clans." *Administrative Science Quarterly* 25(1): 129–141.
- Pfeffer, J. 1992. "Understanding Power in Organizations." *California Management Review* 34(2): 29–50.
- Pinto, J., C. R. Leana, and F. K. Pil. 2008. "Corrupt Organizations or Organizations of Corrupt Individuals? Two Types of Organization-Level Corruption." *Academy of Management Review* 33(3): 685–709.
- Raab, J. and H. B. Milward. 2003. "Dark Networks as Problems." *Journal of Public Administration Research and Theory* 13(4): 413–439.
- Rose-Ackerman, S. 1999. *Corruption and Government: Causes, Consequences, and Reform*. Cambridge: Cambridge University Press.
- Rothstein, B. 2011. *The Quality of Government: Corruption, Social Trust, and Inequality in International Perspective*. Chicago: The University of Chicago Press.
- Rus, V. 1980. "Positive and Negative Power: Thoughts on the Dialectics of Power." *Organization Studies* 1(1): 3–19.
- Sajó, A. 2002. "Clientism and Extortion: Corruption in Transformation." Pp. 1–23 in S. Kotkin and A. Sajó, eds., *Political Corruption in Transition: A Skeptic's Handbook*. New York: Central European University Press.

- Sherman, L. W. 1980. "Three Models of Organizational Corruption in Agencies of Social Control." *Social Problems* 27(4): 478–491.
- Shleifer, A. and R. W. Vishny. 1993. "Corruption." *The Quarterly Journal of Economics* 108(3): 599–617.
- Simmel, G. 1950. *The Sociology of Georg Simmel*. New York: The Free Press.
- Snell, J. 2005. "Estimation of Cost." Pp. 1–16 in *EUROMED Transport Infrastructure Network Project: Introduction to Transport Feasibility Studies*. Istanbul: European Commission.
- Sohail, M. K. and S. Cavill. 2008. "Accountability to Prevent Corruption in Construction Projects." *Journal of Construction Engineering and Management* 134(9): 729–738.
- Stark, D. 1996. "Recombinant Property in East European Capitalism." *American Journal of Sociology* 101(4): 993–1027.
- Szalai, E. 1982. "The New Stage of Reform Process in Hungary and Large Enterprises." *Acta Oeconomica* 29(1–2): 25–46.
- Szalai, E. 1989. "See-Saw: The Economic Mechanism and Large-Company Interests." *Acta Oeconomica* 41(1–2): 101–36.
- Tanzi, V. and H. Davoodi. 1997. "Corruption, Public Investment and Growth." IMF Working Papers WP/97/139.
- Teorell, J. 2007. "Corruption as an Institution: Rethinking the Nature and Origins of the Grabbing Hand." Working Paper Series 2007:5. Göteborg: The Quality of Government Institute, Göteborg University.
- Transparency International. 2007. *Corruption Risks in Hungary: National Integrity System Country Study*. [http://www.transparency.org/policy\\_research/nis/nis\\_reports\\_by\\_country](http://www.transparency.org/policy_research/nis/nis_reports_by_country).
- Transparency International. 2011. *Corruption Perceptions Index*. <http://cpi.transparency.org/cpi2011>.
- Transparency International. 2012. *Corruption Risks in Hungary: National Integrity System Country Study*. [http://www.transparency.hu/uploads/docs/Corruption\\_Risks\\_in\\_Hungary\\_NIS\\_2011.pdf](http://www.transparency.hu/uploads/docs/Corruption_Risks_in_Hungary_NIS_2011.pdf).
- Treisman, D. 2000. "The Causes of Corruption: A Cross-national Study." *Journal of Public Economics* 76(3): 399–457.
- Trevino, L. K. 1986. "Ethical Decision Making in Organizations: A Person-Situation Interactionist Model." *The Academy of Management Review* 11(3): 601–617.
- Trevino, L. K. and S. A. Youngblood. 1990. "Bad Apples in Bad Barrels: A Causal Analysis of Ethical Decision-making Behavior." *Journal of Applied Psychology* 75: 378–385.
- Van den Heuvel, G. 2005. "The Parliamentary Enquiry on Fraud in the Dutch Construction Industry Collusion as Concept Between Corruption and State-Corporate Crime." *Crime, Law & Social Change* 44(2): 133–151.
- Vaughan, D. 1982. "Transaction Systems and Unlawful Organizational Behavior." *Social Problems* 29(4): 373–379.
- Vaughan, D. 1983. *Controlling Unlawful Organizational Behavior: Social Structure and Corporate Misconduct*. Chicago: University of Chicago Press.
- Vaughan, D. 1996. *The Challenger Launch Decision: Risky Technology, Culture, and Deviance at NASA*. Chicago: University of Chicago Press.
- Wallace, C. and R. Latcheva. 2006. "Economic Transformation Outside the Law: Corruption, Trust in Public Institutions and the Informal Economy in Transition Countries of Central and Eastern Europe." *Europe-Asia Studies* 58(1): 81–102.
- Wrong, D. H. 1968. "Some Problems in Defining Social Power." *American Journal of Sociology* 73(6): 673–682.

## ABOUT THE AUTHORS

**David Jancsics** (djancsics@gc.cuny.edu) is a PhD candidate in sociology at the City University of New York, Graduate Center. His research interests include corruption, organizational networks, social and political changes in Eastern Europe, and elite groups. His dissertation examines how people at different organizational and social class levels view and deal with corruption in post-communist Hungary.

**István Jávör** (h6503jav@ella.hu) is an Associate Professor of Sociology at the Eötvös Loránd University in Budapest, Hungary. His research focuses on many aspects of power relations in organizations, including decision-making process, political influence, and illegal organizational activities. His current research focuses on hospitals, judicial institutions, and governmental organizations.