

# The Taxonomy of Corruption on the relation of Public corporation-Local community

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**Abstract** – There are many researches of corruption in public sector, especially in the health care and in the public management. But in public corporations that are important part of the public sector, it cannot be found. That is the reason that according to the research of different archives the primary taxonomy of corruption has been done and it can appear in relationship between the Public sector and Local community, where many authors detect the possibility of creation of corruption risks. In taxonomy we can find the most common examples of corruption, as well as forms of those and the areas where they appear.

**Keywords** – corruption, taxonomy, public corporations, local community

## 1. Introduction

The influence of corruption on the public infrastructure or actions which are dealing with infrastructure cannot be measured, but it can be evaluated according to its direct influence on the users (for example market of closure of users to primary actions, like water and sewage system by increasing costs of public benefit or decreasing of their quality) and its direct influence (across the diversion of public devices from users and by foreclosure of development and poverty reduction).

The users can use the corruption for their own benefit. For example they can bribe the officials for the improvement of the account quality services, they

can be involved in corruption by fraud in analytical methodology or the users can vote corrupt politicians because of water supply pledge or any other benefits. Poor households cannot afford paying bribes (or they don't have the appropriate connections for participation in corruption) when they are marginalised [1]. In public corporations dealing with public infrastructure (water, cleaning of waste water, electricity, sewage system, rubbish collection...) owned by other local communities or the state from the whole public sector (which involves those corporations) is the least examined.

## 2. The research of corruption in public corporations

The examination The history of public services [2] has shown the development of corruption in the USA, how the politicians at the end of the 19th century and at the beginning of the 20th century from the local point of view used public corporations for their election victories. In the towns where communal services (water, sewage system...) were in public property, or the other local communities workers earned up to 40% per hour more and worked 17% less in comparison to the workers in private sector. Workers often had to contribute to voting and the local election committees. The sum of voluntary contributions often occurs between 2 to 4 per cent of worker's annual deposit depending from the worker's employment. Politicians employed more workers than needed in their corporations, to grant suppliers when elections appeared. The price of their services was determined by private corporations. All these compromised the financial ability in public corporations in the long term as well as the municipal cash register, and the needed infrastructure improvement.

The European commission [3] has found out in its report that there are huge corruption risks on the regional and local part, because the mutual recognition and internal control are usually weaker than the ones on the central part.

In many states the discretionary powers of local governments and local managements (which also

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manage significant credits) do not match the appropriate level of responsibilities and the supervisory mechanisms. The special problems on the local administrations are caused by the conflicts of interests. There are additional efforts needed for dissemination of good practice which is used by some regions and local governances and preparing good conditions of competition for elected functionaries on the local level, according to transparency standards, asset disclosure, prevention of conflict of interests as well as control of public expenditure.

Dube[4] finds out that problems connected with corruption in public corporations result from not transparent or almost covered investigation, because the management often exploits projects for which they are entrusted for or they implement for their own benefit, and not for the benefit of the general public. He also estimates the unfit management of public corporations, which is shown by the absence of transparency, discipline, fairness and responsibility. The study has found out that absence of knowledge and competence in fight against corruption and the appropriate incorporated management helps by destruction of strong corporations in detriment of the general public.

*Table 1. Direct costs of corruption by public procurements*

Sector	Direct costs of corruption in million EUR	% from the entire value of public orders in the sector in 8 countries
Roads and railways	488-755	1,9 -2,5
Water and rubbish	27- 38	1,8-2,5
Urban infrastructure	830- 1141	4,8-6,6
Practising and education	26-86	4,7-15,9
Examination and development	99-228	1,7-3,9

*Source:* [5]

In the research entitled Public money and Corruption risks [6] was investigating the risk of system and political corruption by management of the EU money and in corporations in public domain in the Czech Republic, Slovak Republic and Poland. It has been found out that corporations in public domain work are often targets of client groups

connected to politics, which get public resources from corporations in state property. With the help of anonymous contract partners of corporations, the absence of the owner politics causes the weak but not transparent corporative management. Those corporations are often not prepared to disclose publicly the information of their establishment's service.

The research of corruption and criminal in Bosnia and Hercegovina [7] has also been covered by corporations which we can count as the part of the public sector. In the public corporations (distribution and the production of energy, gas distribution and water) it can be found out that this sector is less corruptive than the other economic sectors. Because the average of the level of bribing in this sector is 6,2% (the average level of presence of bribing is calculated in percentage of corporations), at least once a year given bribe is 10,2% in Bosnia and Hercegovina.

The level of presence bribing of public staff is between 8,5% (for the staff in health care) and 2,2% (for taxation staff). The staff of communal agencies remains under average by 2,5%. The research that has been done between 2012 and 2013 in the eight European countries (France, Hungary, Italy, Lithuania, Netherland and Poland, Romania and Spain) for OLAF by PWC [5] estimates that in the area of water supply and handling rubbish (concerning services done by public corporations) the direct costs of corruption are between 27 and 28 million EUR. The most common sort of corruption is telling lies by invitational calls to tender for competition.

Many authors defend the privatisation as the influence fighting against corruption. But everything is not unique. It can be seen in the research by [11]. Private corporations dealing with public services are trying to get public orders or the new quick win concession by corruption. For this sort of corruption is typical corruption pretender to competition adjusting the rules of the game, that guarantee the willing results. The examination procedures are not controversial. For this sort of corruption typical are the negotiations (maybe a year after making a concessive contract) to get a better position or to reach the higher price.

The examination in the year 2014 [8] has shown that, in less developed democracies like Slovene democracy which does not punish the political corruption that is the result of the negative influence on the corporation management. The major part of politically connected members in the supervisory council leads to decreasing of productiveness in corporation in the separate examination of corporations in productive fond or in non-productive corporations. It has shown that the negative influence

on the productiveness in the long is caused by the major part of politically formed members. The formation of the supervisory councils in productive sector is statistically unimportant. So it can be claimed that the “legal” corruption is much more present in non-productive sector, as well as areas covered by public corporations.

After the examination from the year 2012 by the commission for prevention of corruption [9] the corruption by public orders was recognized as the second most powerful sort of corruption. It can influence the corporation management, immediately after the political pressure on the management of Slovene banks. Less than a half, that is 40% of representatives of Slovene corporations estimate, that corruption of public staff and functionaries has the strong influence on the dealing of their corporation by giving public orders.

In the same examination (p. 28) we can find the examples of treating signs of corruption by the naming of public functionaries and other decisions made by political and business discretions in public sector. There comes to conflicts of interest on other unethical deeds especially with political nominations and the other decisions of discretionary nature. It objectively represents corruption risks, the conflicts of interest, clientelism, nepotism and also cronomism.

The examination made by Škrbec in his doctoral study [10] has shown that the first place among the areas of corruption take public orders and the fifth place takes the local level. The subjects of corruption are the municipal functionaries and the staff both connected to public corporations. The owners are getting profit in the corporation. There are other interest in the first plan. Management of public corporation is in greater pressure and has to go to pure machiavelism, making compromises and fighting for their own survival. More and more often it is unsuccessful and very easily found to be removed. If they do not fulfil their wishes, or direct their orders, by accepting the economic logic which should be taken into the account. All these can lead to morally controversial or even corruptive actions.

It should also be estimated that in public corporations in the area of economic public services, protection of the environment takes control and estimation of tasks for environment protection of controlling the management, where the risk for corruption is much bigger and this again leads to corruption risks. There is a lot of different legislation and it can make a little bit of confusion because the area of environmental protection is divided into small areas, where the context is explained in too complicated and long way. It could be good for arranging itself, but more understandable [12]. It must be added that, legislation in some areas is very

inconsistent, because it allows the discretionary right and different interpretations.

### **3. Taxonomy of corruption on the relation of public corporation – local community**

There are more areas of corruption risks in public corporations. Because they are stipulated by the fact which makes a relationship with the public corporation or which relation the corruption can take and who the activists are. They come to different relations to the local contribution and also local communities (as the owners and users of services). The state sometimes as the owner the most commonly appears by taking control and regulation. Performers of services (when their job is given by public corporations), are suppliers in public corporations as well as the users of services.

This research treats only the area of relation public corporations – local community. Local community as the owner of the local corporation has its right to control their decisions and very often gives orders to public corporations. It acts like the client or the payer. The local community forms and suspends the managing infrastructure and by giving accord to prices of economic public services it influences the management of corporation. The corruption risks appear by relation among public corporation and the local community, because local community has a greater influence on (forming and suspending the management), because it orders works and accepts prices and so it influences the management (good and bad) and so it tries to influence business and other decisions (getting suppliers or employing). Because of this influence the management is forced to get the particular decision in relation to local community. This decision bordering to corruption are morally controversial and corruptive, because of blackmailing by nomination of management by accepting prices, ordering services.

In this relationship is the public corporation (management of public corporation) the activist of active corruption, because it enables the local community and the individuals (municipal functionaries) the material or nonmaterial benefit. The demands which gives supervisory working place, accords to price changing, ordering of some tasks and so on, can be formed by the side of local community or individuals in the form of demands for themselves or the others, these are free services (usually smaller building tasks), employing of the particular person, donations to the sports club, often it comes to political interest.

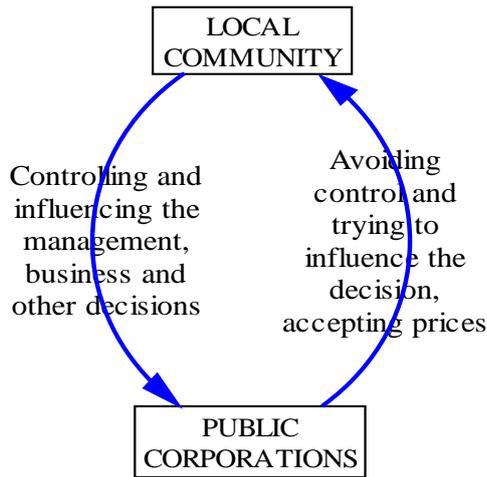


Figure 1. Mutual influence, when corruption risks occur  
Source: our own

Sometimes local communities or the powerful individuals use public corporations for help to avoid public orders or giving public services to societies or clubs (this way is common when there is no guarantee for goods in the budget and they have to be transformed from the other budget theorems).

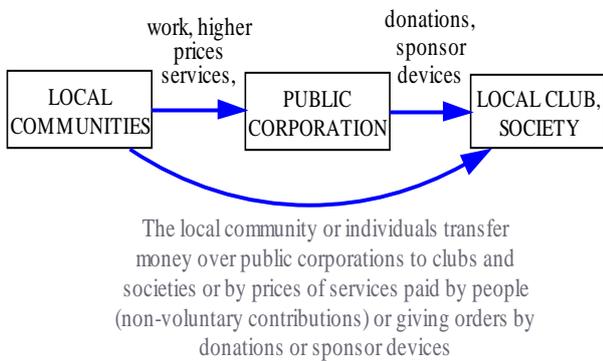


Figure 2. The example of diversion of part of the money over public corporation;  
Source: our own

According to examinations approachable archives newspapers [13] the archive of commission for prevention of corruption, police archives there has been made the basic taxonomy of corruption, appearing in relationship between public corporation and local community, it has been described by using examples, it has been determined by the area in public corporation. By the examination the archives from (2005-2014) have been inquired.

The most common types of corruption among Public corporation and Local community are:

*Bribing*

In the form of free services (regulation of environment, smaller building tasks...) or free supply of material to local men of wealth, the mayor, local community, clubs or societies.

The appearing area is on the relation between top management and middle management on the men of wealth of local community. Here it is considered as active corruption from the side of public corporation (top management)...

*Clientelism*

Nominating a director on a basis of political membership, employing on the suggestion of the local men of wealth (mayor, members of the municipal council, men of wealth in political parties...), determinations to public corporation in consideration of who it is taking business with or where it is going to order the material, services.

The area of corruption and the relation between the top management and the men of wealth in the local community where active corruption takes the side of local community.

*The conflict of interests*

Arranging business operates by using public corporations of those who cannot or may not take business because of the restrictions in management.

Also here there is the area of corruption relation between the top management and the local community.

*Incompatibility of functions*

Nominations of organs are formed for making decisions, controlling people who should not be controlled because of their functions in local community.

The local community and the public corporation have only direct and restricted influence on it.

*Blackmailing*

Blackmailing management by accepting prices or making other important decisions to get their own benefit or the benefit for the local community.

The area of corruption and the relation between the top management and the men of wealth in the local community

#### 4. Conclusion

Corruption could be active or passive. Active corruption means giving bribes, presents, promises or other material or non-material benefits, passive corruption is taking bribes, presents, promises or other material or non-material benefits (both are punishable or in some examples morally controversial).

It could be expected that in case of public corporation there is only passive corruption, so getting kinds of benefits is wrong but there are many relations where public corporation acts like the active activist of corruption or in some relations there are both kinds of corruption present, the active and the passive corruption.

However the corruption between public corporation and local community could be hidden, if it takes place between public corporation and the municipal men of wealth, it could be often socially acceptable if getting benefits concerns sports or cultural societies or it cannot be taken as a corruptive act. But there is a big question how this kind of corruption in relation between local communities and local corporations influences the prices of services of public corporations, but this is a question for other more extended research.

It should be added that only the privatisation of public corporations or giving concession to private corporation does not solve the problems with corruption. That is claimed by the most authors discussing this matter, because by the managing infrastructure made by private individuals the problem of corruption is postponed. In the case of the local ownership the state budget of local community suffers because of corruption. In the case of managing the infrastructure by private individuals above all suffer the users of service.

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