

Understanding the Linkage among Public Procurement (PP), Corruption, and Tax Morale (TM) Through Agency Theory (AT): A Review

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Abstract

This paper aims to develop an inter-disciplinary conceptual framework through review of literature on the relationship among corruption, corruption in public procurement (CiPP), and effects of CiPP on the tax morale (TM). As proposed by Bernheim and Whinston (1986), the 'Agency theory' (AT) is applied to view and explain the occurrence of multiple agency problem(s) in public procurement (PP) arising due to high stakes of divergent stakeholders such as: (1) electorate (the public), (2) political elite (elected representative(s), chief executive(s), and cabinet minister(s) etc.), (3) influence group(s), and (4) PP professionals (PPP). Potential of PP to act as a potent tool of public-policy-implementation is suggested by scholars if transparency in PP is ensured. Effect of inefficiencies in governance on the taxpayers' TM is highlighted in the literature however, CiPP is presented as an inefficiency in judicious utilization of public money. Corruption-free PP will not only help the governments to 'do more with less' by eliminating inefficiencies (CiPP) but establish the moral authority of governments (especially in developing countries) to raise TM of taxpayers for raising tax collection and channelizing taxpayers' money for improving socioeconomic indicators in the developing economies. Two main types of corruption (grand, and legislative) are in the scholastic focus from different subjects however, petty corruption (here CiPP) is not much focused in the studies conducted so far.

Keywords: Public policy, Public procurement (PP), corruption, corruption in public procurement (CiPP), tax morale (TM)

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1. Introduction

Supply Chain Management (hereafter, SCM) is a multi-dimensional and multi-facet term that encompasses an array of activities of fundamental importance to corporations and public sector organizations (hereafter, PSOs) alike including buying (interchangeably purchasing, sourcing, or procuring). In a typical manufacturing concern SCM consumes around 75-80% of organizational budget whereas, out of SCM allocations spending on buying accounts for approximately 80% and above. Murray (2007) highlights that the decade of 1990s witnessed the elevation of buying from a non-strategic to an strategic character when considerable attention was focused on it but most of the literature is focusing primarily on purchasing and supply management (PSM; predominantly manufacturing concerns focused) with relatively less attention to management strategies governing procurement (buying of goods and services for PSOs). Public procurement (hereafter; PP) as a separate research discipline from PSM, gets the recognition of scholars as early as the last decade (Murry, 2007). Matthews (2005) insists that the foremost requirement in PP is to satisfy the complex accountability process. PP is a shared domain of SCM, public administration, and public policy.

Easton (1953), and Edquist and Hommen (2000) advocate viewing PP as a mean to accomplish specific policy objectives. Amount of capital involved in PP, attracts the interest of politicians to use PP as an influential instrument of policy. Importance of PP is evident from the findings of Knight et al. (2007) that public sector represents around 40-45% of the world's economies, in some undeveloped countries of Africa it may represent 80% of the economy with few exceptions such as Singapore that spends 18% of its GDP. Prier and McCue (2009) express that demands in PP process are notified in terms of desired outcomes (i.e. the ends, obtained through policy) and not the means of policy creation thus, PP professionals (hereafter; PPP) take their decisive role by narrowing the gap between the demands and the outcomes.

There are multiple stakeholders involved in PP such as: (1) political elite, (2) PPP, (3) interest groups, and above all (4) the public. All stake holders exert to realize their self-interest which creates agency issues at every level of complete PP process. The use of common 'agency theory' (hereafter; AT) in PP was first proposed by Bernheim and Whinston (1986).

Re-election demands money that is usually arranged through donations from business in the developed world and in turn public policies are more business centric than public-interest. Since in developing economies donations from business are not common thus, PP is constrained for the purpose. Kaufmann (1997) reports that corruption in the public sector is the greatest problem in the developing economies. Corruption in PP (hereafter; CiPP) affects the judicious utilization of public money, society itself, and the business. Measure of corruption are perception based and generally lack the perception of the PPP who actually form part of CiPP. Thus, provides a future orientation for directing research endeavor.

Barone and Mocetti (2011) find tax evasion to be a universal phenomenon in many countries but more in developing countries. In global economic down turn, the governments are expected to 'do more with less' that may be possible if CiPP is controlled. Efficient spending of public resources through transparency in PP raises tax morale (hereafter; TM). Corruption induced inefficiencies in the spending of public money acts negatively and affect intrinsic motivation of taxpayers. CiPP causes inefficiencies in spending public money but this relationship is unexplored and offers a gap in the existing literature. Similarly possible linkage between CiPP and TM is also an area for future scholastic endeavors from public policy, PP, economics, corruption, and TM alike.

Objective of this study is to develop understanding on PP-corruption-TM linkage, viewed through 'AT' for identifying the gaps in the literature to suggest direction for future research. Being an inter-disciplinary study, it incorporates three distinct dimensions (PP, corruption, and TM) thus lacks in-depth analysis of different phenomenon due to time constraint.

2. Literature Review

2.1 Methodology

Search for literature starts with exploring different terms and their probable relationship in different steps. Step-1 focuses on the literature search related to the term, 'purchasing and supply management' (PSM) by utilizing e-Databases: (1) Emerald, and (2) Taylor & Francis. Initial search yields limited papers (23 only). Step-2 commences with literature search for another term, 'purchasing and

supply' (P&S), interchangeably in use for purchasing and supply management. Search expands further with access to additional e-Databases: (1) Springer-link, and (2) Science Direct and yields new papers (around 40) with more relevancy. Step-3 further expands the literature search with the term: 'procurement'. This results in a considerable number of papers (above 100) related to public procurement, an alternative term, in use for public purchasing. Papers on public procurement highlight varied aspects like: public policy, PP of innovation, procurement for socioeconomic development, and CiPP, etc. In step-4, the search begins for obtaining papers on AT to help in developing deep understanding of PP. The search results in a number of papers (about 15) on the agency relationship and its application in PP. Papers related to 'procurement' are available in different journals related to SCM, production and operations management, logistics management, general management, economics, public administration, public policy, and governance but a number of papers related to PP are published in Journal of Public Procurement.

Archival search includes: Public Procurement Regulatory Authority Rules (EU and Pakistan), Public Procurement Handbook-2009, country specific working papers (Kenya, Uganda, Tanzania, Libya, South Africa, UK, India, China and Sri Lanka), and working papers (published by United Nations, World Bank, and International Monetary Fund). Websites of different global professional bodies and supranational organizations were also searched for definitions as well as current issues confronted by professionals.

2.2 Public procurement (PP)

Thai (2001) links back the earliest procurement order from 2400 to 2800 BC. Buying is a dynamic domain with a number of issues converging into it from a variety of major subjects such as: (1) economics, (2) public policy, and (3) law which are formulating complexities for both PP and PSM.

2.2.1 Definitions

PP and PSM are defined by scholars, practitioner bodies, and international organizations. Different definitions of PP are summarized in Table 1.

Table 1: Different Definitions of PP

Author/Organization	Definition
Scholarly Defined	
Snider and Rendon (2012)	Procurement includes contracting (description of requirement, solicitation and selection of sources), and contract management.
Garrett (2011)	Procurement is world class contracting.
Van-Slyke (2002), and Greve (2008)	Procurement is contracting for public services.
Cohen and Eimicke (2008)	Procurement is responsible contract management.
Nash et al. (2007)	Process of acquiring property or services, beginning with determination of a requirement and ending with contract completion.
Lloyd and McCue (2004)	Clarity in what practitioners and scholars mean when they refer to 'Public Procurement' is lacking.
Adotevi (2004)	Procurement is the activity of assessing, buying and receiving goods, works and services.
Thai (2001)	Procurement is a nested structure of systems within systems.
	Procurement incorporates all activities related to acquisition, contracting (including negotiations, contract management, and evaluation), buying, renting, leasing and /or purchasing, including determination of requirement.
Fitch (1988), Gibson (2004), White (2009), and Michaels (2010)	Procurement is contracting out of public functions.
McCue and Gianakis (2001), and Matthews (2005)	Procurement is strategic in nature.
McCue and Gianakis (2001), Thai (2001), and Snider (2006)	Procurement is a critical management and administrative function.
International / Government Agency	
United Nations	An overall process of acquiring all kind of goods, civil works, and required services.
UK OGC	Process whereby PSOs acquire goods, services and works from third parties.

Public Procurement and Disposal of Public Assets Authority, Uganda ²	Procurement means acquisition by purchase, rental, lease, license, tenancy, franchise, or any type of works, services or supplies or any combination.
Maricopa County, Arizona, USA ³	Procurement' means buying, purchasing, renting, leasing or otherwise acquiring any information, Materials, Services or Construction.

2.2.2 Functional definition – PP

There are number of activities related to PP but may be left out in the definitions being obvious part of PP. Therefore, in the functional definition an endeavor is made to absorb all activities related to PP. Scholastic view of 'PP' differs from scholar to scholar. Functional definition of PP is derived from above definitions with inclusion of those activities which are of importance in PP but not included in these definitions:-

“PP is an strategic function (being an instrument of public policy implementation and ends-oriented) for judiciously utilizing taxpayers’ money which incorporates all activities related to determination of requirement, acquisitioning, contracting (including vendor registration and management, negotiations, contract conclusion, management, and evaluation), buying, renting, leasing, auctioning (public property, used up materials) and /or purchasing all goods and services, and public works which are of public interest, wellbeing, and national importance.”

2.2.3 PP - An instrument of implementing public policy

In the view of Dye (1992) public policy is whatever governments ‘choose to do’ or ‘not to do’ as guideline during their tenure, being in the power. Electorate elects their representatives to (1) formulate, (2) approve, (3) implement, (4) evaluate, and finally, (5) readjust their public policies, for social welfare and wellbeing of the electorate. Edquist and Hommen (2000) draw the attention of public policymakers to make full use of governments’ power of purchase as a potent instrument of public policy implementation. Arrowsmith (1995, pp. 247-248) views PP as an instrument of implementing public policy, “...where properly

² Public Procurement and Disposal of Public Assets Authority, Uganda. (2015). *Definition of public procurement*. Retrieved from <https://www.ppda.go.ug/>

³ Maricopa County Procurement Code (2013). Retrieved from <https://www.maricopa.gov/685/Procurement-Code>

employed, procurement may prove a useful and effective instrument... [and is] a valid and valuable tool for implementation of social policies; and one which should not be denied to government[s] without convincing justification." Bolton (2006, p. 213) also shares similar view on PP, "On the whole, procurement as a policy tool can be justified". Easton (1953), Arrowsmith (1995), Bolton (2006), and Knight et al. (2007) present PP as an instrument to achieve public policy objectives.

Table 2: Likely Public Policy Objectives of PP

Public Policy Objectives	Scholar(s)	Scholastic View
Socio-Economic Outcomes	McCrudden (2004)	Anti-discrimination on the basis of: (1) race, (2) language, (3) gender, and (4) physical disabilities.
	Li (2011), Bolton (2006), and Watermeyer (2000)	PP tends to be more powerful instruments of policy implementation than others.
Innovation and Transfer of Technology	Geroski (1990, p.183), Edler and Georghiou (2007)	Empirical evidence on PP-innovation linkage.
	Brauer(2004), and Haines and St-Onge (2012)	Net benefits from PP-innovation linkage is unconvincing.
Discriminatory PP Policy and International Trade	Trionfetti (2000)	PP policy has the potential to eventually alter the existing patterns of international specialization in the industries with increasing returns.
	Kono and Rickard (2014)	'Buy national' policy increases discrimination against foreign products.
Sustainability	Grandia (2015)	More proactive the change agent, the more is the possibility of sustainability in PP.

2.3 Agency theory (AT)

Ross (1973) defines that agency relationship is in existence as one of the oldest relationship in our social interactions with main elements of agency in all types of contractual arrangements. Ross (1973) defines the theory, "*An agency relationship has arisen between two (or more) parties when one, designated as the agent, acts for, on behalf of, or as representative for the other, designated the principal, in a particular domain of decision problems.*" Mitnick (1975) exemplifies agency relationships as, "*Relations of agency, or "acting for," are pervasive in complex societies. Examples include the worker-boss, physician-patient, adviser-administrator, and parent-child relations.*"

AT explains the set of likely problems, arising from the situation when an individual, group or an organization (the Agent) acts or performs on behalf of another individual, group or organization (the Principal). Both, agent and principal, come across a number of problems such as diverged interests during their interaction. The principal strives to obtain optimal return on the decisions taken by an agent, whereas the agent seeks to ensure a minimum acceptable return to a principal as a result of his decisions (acts) with more focus on attainment of his self-interest. Mitnick (1998) explains the two facets of agency behavior: (1) from the agent side, desired actions and related issues in identification and provision of services by an agent, and (2) from the principal side, required actions and related issues in guiding and applying corrections in the actions taken by an agent. All actions, being taken either by the agent or the principal have a real or perceived costs. Thereby a desire for correction from either sides has a definite cost attached. Thus, correction is always considered meticulously in terms of perceived gain (cost saving) realized by its application.

One of the criticisms of AT is that it lacks the ability to simplify and comprehend a complete set of assumptions related to human motivation (individual(s), groups or organizations) and it may be directed to enhancement of self-interest or utility maximization. In line with the findings of Dalton, Hitt, Certo, and Dalton (2007), AT neither restricts nor claims to focus on either complex corporate governance or the theory of the firm only but has its extended applicability in normative, institutional, cognitive, and social realms.

2.3.1 AT and public-interest, public policy and PP

The use of common AT in PP was first proposed by Bernheim and Whinston (1986). The model is applicable to a variety of problems such as an individual (entrusted with the power to make decisions) and several affected parties (with conflicting set of interests) offering personal rewards as bribe (in form of money or in kind) in an attempt to attain desired results. Such situations are referred to, as 'economic influence,' and these are frequently found in formulation, approval, and execution of public policy. Public office bearers are dealing with award of PP contracts of considerable volumes and financial and economic value (examples are explained in Table 3).

Table 3: Types of Public Contracts

Types of Public Contracts	Examples
Duration-based contracts	Biennially, yearly, six-monthly, quarterly, monthly, fortnightly, weekly, or daily
Quantity-based contracts	Delivery may spread over a period of time or at once
Financial allocation-based contracts	-
Project-based contracts	
Area-based contracts	Locality, town, district, metropolitan, cosmopolitan, provincial, or national
Product-based contracts	Ranging from office accessories to plant equipment, defense weapon systems, and civil nuclear plant, etc.
Service-based contracts	From conservancy to telecommunication, etc.
Spot purchase	One-time buying

Economic influence is exerted for desired outcomes by potential vendors, suppliers, and contractors to achieve public contracts, licenses or permits in shape of bribes and undue favors. Bribes include: (1) purchase of property in other countries, and (2) financial transactions in Swiss accounts or foreign accounts, etc. Whereas, undue favors include: (1) promises for further elevation, (2) transfer to desired city, department or a lucrative appointment, (3) post-retirement job

surety, (4) induction of children in PSOs or corporations, (5) paid foreign trips for self and family (or both), (6) foreign scholarships for children, etc. Such illicit favors are usually undocumented not in the third world countries (Bhagwati & Desai, 1970) but in the developing and even in the developed countries.

2.3.2 Occurrence of agency problem(s) at different levels

Potential candidates motivate electorate to elect them for formulation, approval, implementation, and controlling execution of public policy. Government collects revenue, in shape of taxes, duties, fee, surcharge, etc. to use the collected public money for focused betterment of public (electorate). Public money is considered to be a serious responsibility where Governments, being custodian of public money are expected for: (1) transparency, (2) access to information, and (3) accountability in the process of consumption of public money. In AT, a number of agency problems that occur at different levels are identified (elaborated in figure 4).

Elected representatives plead the interest (public-interest) and choice (public-choice) of their electorate, but not by setting aside their political or self-interests, which leads to first part of agency problem in PP. Elected representatives, in most of the cases, are not technocrats thus all powers vested in elected representatives are delegated to public administration (PPP). This is the second level of agency problem, where PPP besides pursuing public-interest, public-choice, political and self-interest of the elected representative(s), seeks to maximize his self-interest. Agency problem also exists between elected representatives and head of Government (chief executive), head of Government and cabinet members (ministers), cabinet members and party leadership, interest groups, and elected representatives, etc. Availability and quality of procurement control mechanism (PCM; explained in section 2.3.3) is the main difference between private and public agents. Linkage of AT and PCM in controlling CiPP is also elaborated in figure 4.

2.3.3 Procurement control mechanism (PCM)

Bishop (1990) defines that public control system is usually considered (and must be) more elaborate and formal than the one found in a private firms or corporations where control mechanism of agency problems is much less tractable. Kolstad, Ulen and Johnson (1990) explain two alternatives (shown in figure 1):

(a) ex-ante which focuses on the set of activities before an externality is generated whereas, (b) ex-post deals with regulating externalities on their physical occurrence.

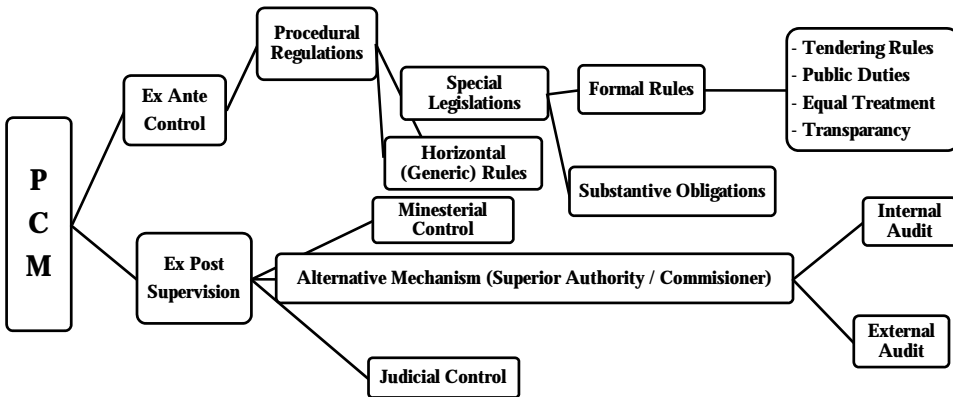


Figure 1: Public Procurement Control Mechanisms (PCMs)

2.4 Corruption

The term ‘corruption’ is derived from Latin verb ‘*rumpere*’ (to break), implies that something is broken: (1) moral code, (2) social code, or (3) administrative rules / regulations. Present awareness of corruption is due to the pioneering efforts of Transparency International (hereafter TI), globalization, growth of MNCs, international agencies, NGOs, media, and the plethora of scandals and company collapses, experienced to the close of 1990s and beginning of 2000s. Tanzi (1995) identifies three requirements for considering an act of civil servant to be defined as corruption: (1) act to be intentional in breaking the rules, (2) this breaking must be for the benefit of self, family, friend, clan, political party or influence group, (3) direct return from the act.

2.4.1 Definition

Major difficulty in the drive to combat corruption is to define ‘corruption’ itself. Sandholtz and Koetzle (1998) explain that almost every scholarly effort since 1960s has endeavored to define corruption. Eicher (2005) stresses upon adoption of an internationally agreed upon definition for formulating strategies to fight corruption. A few definitions of corruption are illustrated in table 4 below:-

Table 4: Definition of Corruption

Author/Organization	Definition
Scholarly Defined	
Rose-Ackerman (1975)	An illegal or unauthorized transfer of money or in-kind substitute (describing corruption payment as bribe)
Schleifer and Vishny (1993)	The sale by government officials of government property for personal gain
Klitgaard (1997)	gives an equation for explaining corruption as a phenomena: C (corruption) = M (monopoly) + D (discretion) - A (accountability)
Bardhan (1997)	both 'corrupt' and 'illicit' to be used interchangeably
International Bodies	
TI	Corruption is the abuse of entrusted power for private gain. It hurts everyone whose life, livelihood or happiness depends on the integrity of people in a position of authority
World Bank ⁴	defines corruption as 'an act' by the 'actor' and not the action itself
	The extent to which public power is exercised for private gain, including petty and grand forms of corruption, as well as "capture" of the state by elites and private interests
	The abuse of public office for private gain

2.4.2 Functional definition

After looking at various definitions of corruption, given by scholars and supranational organizations no conclusive definition can be reached with a bit of precision. Thus, argument of Council of Europe in defining a wholesome

⁴ World Bank. (1997). *World development report 1997: The State in a changing World*. New York: Oxford University Press. Retrieved from <https://openknowledge.worldbank.org/handle/10986/5980>. License: CC BY 3.0 IGO.

definition of corruption which covers all aspects seems valid, "*No precise definition can be found which applies to all forms, types and degrees of corruption, or which would be acceptable universally as covering all acts which are considered in every jurisdiction as contributing to corruption*". We can present a functional definition of CiPP from PP Guidelines by the World Bank (2005)⁵, "*The offering, giving, receiving, or soliciting of anything of value to influence the action of a public official in the procurement process or in contract execution.*"

2.4.3 Forms and types of corruption

Corruption may take different forms or shapes in a system, government agency, department, ministry, society, or a country. Ameh and Odusami (2010) find financial form of bribe more commonly in use. Rose-Ackerman (1999) identifies four classifications in bribery basing upon the nature: (1) bribes as incentives for the officials, (2) market-clearing bribes, (3) bribes for cost reduction, (4) bribe for permitting or abetting crime. Three main types of corruption identified by scholars and supranational organizations are:-

- a. *Grand Corruption.* The highest level of corruption that takes place at political and policy formulation level. It does not focus on the amount involved but it occurs when public policies are influenced unjustly to favor a group, industry, organization, segment or class.
- b. *Petty corruption.* Jain (2001) refers to this corruption as corrupt actions of bureaucrats while dealing with political elite or the public. This corruption is pursued by lower or mid-level agents being underpaid (unfair wages) and seeks relatively small but illegal rents on the pleas such as: (1) housing, (2) feeding the family, (3) children's education, etc. This type of corruption disproportionately hurts the poorest class of a society.
- c. *Legislative corruption.* This corruption occurs to influence the voting preferences of legislators in favor or against a policy by an interest group (Jain, 2001).

⁵ World Bank. (2005). *The integrity vice presidency (INT)*. Retrieved from <http://www.worldbank.org/en/about/unit/integrity-vice-presidency/what-is-fraud-and-corruption>.

Table 5: Other Types of Corruption

Types of Corruption	Scholars
State capture and administrative corruption	Deflem (1995)
'Government for sale'	Schleifer and Vishny (1993) and De Soto (2000)
Public and private corruption	Kaufmann (1997)
Functional and dysfunctional corruption	Banfield (1975)
Tipping and lobbying	Harstad and Svensson (2011)
Political and bureaucratic corruption	-
Corporate corruption	

2.4.4 Corruption measuring indexes

Measuring corruption is more difficult than defining the corruption itself owing to the fact that it often occurs clandestinely in the absence of witnessing eyes and neither accepted by the briber nor by the bribed. Kaufmann, Karry and Zoido-Laboton (1999) define that quantification of corruption can either be: (a) subjective (survey or poll based where respondents' perception or experience is gauged relating to corruption) or (b) objective (based on verifiable information i.e. number of corruption charges in a given year, etc.). Difficulties confronted to the researcher in quantification of corruption are explained by Johnston (2000b), yet there are several quantitative measures of corruption used in empirical studies.

Table 6: Types of Corruption Measuring Indexes

Types of Measure	Details	Scholars
World Competitive Report (WCR)	Published by World Economic Forum (Switzerland) since 1989 and is just a minor part of a major attitudinal survey	Minimum desired care for academic research is not appropriately guaranteed (Jain, 2001)
International Country Risk Guide (ICRG)	Published by Political Risk Service Inc	Explained and used by Tanzi and Davoodi (1997) whereas, Ades and Di Tella (1997a) compare it with EIU and WCR

Economic Intelligence Unit (EIU)	Publishes a number of country ratings basing upon the data gathered by a network of analysts around the world	Mauro (1995) is the first user of this measure whereas, Ades and Di Tella (1997a) discuss its details
TI-CPI.	Issued by TI every year since 1991 that ranks countries basing upon misuse of official position for self-interests and acceptance of bribe by public servants and political elite	Lambsdorff (1998) explains its development and related issues of this measure whereas, Johnston (2000a) and Kaufmann (1998) highlight few problems related to this measure
TI-BPI	Bribe Payer's Index' (1993) is not yet tested empirically	-
Opacity Index	Opposite to transparency	Hall and Yago (2000)
Kaufmann, Karry and Zoido-Laboton Index	Formed in 1999 by aggregating all three elements of governance: (a) rule of law, (b) probity, and (c) quality of bureaucratic procedures, addresses few issues more precisely than TI-CPI	Kaufmann, Karry and Zoido-Laboton (1999)

2.4.5 Determinants of corruption

Determinants of corruption are of immense importance in understanding corruption and its spread in contemporary PP. Jain (2001) finds that corruption can exist in presence of three elements (but empirical research evidence is limited on their validity): (1) discretionary powers, (2) value of economic rent associated to this power, and (3) deterrents to corruption.

Discretionary Powers. Rose-Ackerman (1978) defines discretionary power to be associated with regulations. Johnson, Kaufmann and Zoido-Lobaton (1998) empirically prove that discretion and regulations for officials may lead to increase the burden on business, and increased corruption.

Value of Economic Rent. The greater the economic rent, the higher the motivation of business to offer the side-payments for the use of discretionary

powers vested in the PPP. Ades and Di Tella (1997b) conclude that corruption increases with increase in economic rent.

Deterrents to Corruption. ‘Deterrent to corruption’ is the process of imposing possible punitive (or otherwise) penalties on the corrupt officials (PPP) on adopting corrupt practices (CiPP). Deterrents of corruption are summarized by Jain (2001) in an equation below:-

$$\text{Net utility of corruption} = f\{\text{Income from corruption (Jain, 2001)}$$

$$\text{Legitimate income i.e. fair wages (Goel \& Nelson, 1998)}$$

$$\text{Strength of political institutions (Jain, 2001)}$$

$$\text{Moral and political values of society (Sosa, 2000;}$$

$$\text{Treisman, 2000; Jain, 2001)}$$

$$\text{Probability of being caught and punished}\}$$

2.4.6 *Economic models to study corruption*

Corruption is studied from different angles however, economists view corruption as a hurdle to economic growth and development of a country. Economists have modelled all three main types of corruptions (i.e. grand, legislative, and petty) for developing understanding of the phenomenon and its effects on growth, economy, development, society, and wellbeing of common citizens. Two different economic models to study corruption are discussed here.

- a. *Agency model.* Agency model seems to give elaborate details on grand corruption and legislative corruption (Jain, 2001). Agency model has been used by many scholars to explain behavior of legislator related to re-election, response to interest groups, collection of funds for re-election, etc. Rose-Ackerman (1978) is among those scholars who first brings in agency model to explain corruption by all agents: (1) the political elite, and (2) the bureaucrats. Gupta, Davoodi, and Tiongson (2000) use agency model and hint that defense procurement is often political and has increased corruption. Tanzi and Davoodi (1997), and Mauro (1995) also examine agent’s behavior through agency model.
- b. *Resource allocation model.* Resource allocation model has applicability to rent-seeking behavior which come into play when entrepreneurs

make an endeavor to escape ‘the invisible hand’ of the market forces and exert to push policy proposals for redirection of policies to realize industrial, individual or organizational-interest (Jain, 2001). Mixon, Laband, and Ekelund (1994) report rent-seeking favors from political elite in place of bribe (money). A few studies are conducted on rent-seeking effects on market structure (Zhou, 1995). Model for petty corruption by bureaucracy is developed by Schleifer and Vishny (1993) as an extension of Rose-Ackerman (1978). Gupta et al. (2000) explain the relationship in corruption and bureaucratic services by using same model whereas, Bliss and Di Tella (1997) find that PPP can maximize the bribe money if can force a firm to exit.

2.4.7 Linkage between CiPP and TM

Judicious spending of public money for the wellbeing of public is a responsibility entrusted in every elected government and public-choice is preferred criteria for procuring public goods and services to serve the public well. CiPP (section 2.3.1, 2.3.2, and 2.3.3), elaborately explained by AT (section 2.3, 2.3.1 and 2.3.2), adversely affects the government’s moral authority to tap tax evasion or tax avoidance (discussed in section 2.5.2) by the taxpayers. Inefficiencies in public spending lowers TM (discussed in section 2.5.3). It is worth noting that level of unofficial economy in a country, as Friedman, Johnson, Kaufmann, Zoido-Lobaton (2000) report, is directly related to corruption (here CiPP) and onerous bureaucracy (here PPP).

2.5 Tax morale (TM)

An individual’s intrinsic motivation to comply with fiscal obligations is TM. Barone and Mocetti (2011) explain that the attitude of taxpayer towards tax paying is TM. Economists lay emphasis on the role of TM in controlling the issues relating to tax evasion. Barone and Mocetti (2011) conclude that TM is lower for lowest quartile of income distribution and the education increases the propensity to pay taxes (more in the employees than the self-employed).

2.5.1 *Crowding theory*

“One is said to be intrinsically motivated to perform an activity when one receives no apparent reward except the activity itself” (Deci, 1971, p. 105). Intrinsic motivation is an established concept in psychology and partly in sociology where examples include: (1) learning attitude of children, (2) taking medication by patients, (3) voluntary workers, and (4) civic virtues like tax obligations (TM), etc. Crowding theory is a systematic interplay between intrinsic and extrinsic motivation, in contrast to economic theories which consider the extrinsic motivation only (Frey & Jegen, 2001). Scholars view Crowding theory in different perspective such as: (1) Over-Justification Hypothesis, (Lepper, Greene & Nisbett, 1973), (2) ‘corruption effect’ (Deci & Ryan, 1975), (3) the hidden cost of reward (Greene & Lepper, 1978), and (4) cognitive evaluation theory (Deci, Koestner & Ryan, 1999).

2.5.2 *Tax evasion*

Slemrod (2002) finds tax evasion and trust in the government negatively correlated. Tax evasion adversely affects public revenue and the balance sheet. Due to tax evasion inequity is evident in the tax burden of equally rich people which not only distorts the redistributive effect of taxation but undermines social cohesion (Barone & Mocetti, 2011). Cowell (1985) suggests that tax avoidance infers certainty in the mind of taxpayer whereas, evasion relates to the possible risk of being caught.

2.5.3 *Public sector inefficiencies (here CiPP) and TM*

Empirical findings indicate that inefficiency in public spending affects TM negatively (Barone & Mocetti, 2011) whereas, individual perception of good governance increases TM (Cummings, Martinez-Vazquez, McKee, & Torgler (2009). Investigating inefficiencies of PSOs in provision of goods and services to the public, Barone and Mocetti (2011) focus on TM rather than tax compliance owing to two reasons: (1) observing individual tax compliance is not only difficult but nearly impossible vis-a-vis TM that is measurable through surveys, and (2) even if estimated, the effect which state’s efficiency has on individual tax compliance would not be known. The trust of taxpayers in the legislative body and the legal system has direct effect on TM (Alm & Torgler, 2006).

Efficient provision of public goods and services stimulates taxpayers' cooperative responsiveness and refined attitude to their fiscal duties towards state and government (Barone & Mocetti, 2011). Torgler (2005b) confirms positive relation between trust in the public officials and propensity to pay taxes. Public spending inefficiency lowers the TM because a significant negative relationship exists between public spending inefficiencies and individual satisfaction over public goods and services provided (Barone & Mocetti, 2011). Torgler (2005a) finds significantly positive effect of democratic rights over TM in line with the finding by Feld and Frey (2002).

2.6 Conceptual framework

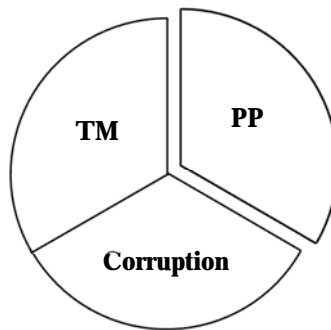


Figure 2: Proposed Relationship among PP-Corruption-TM

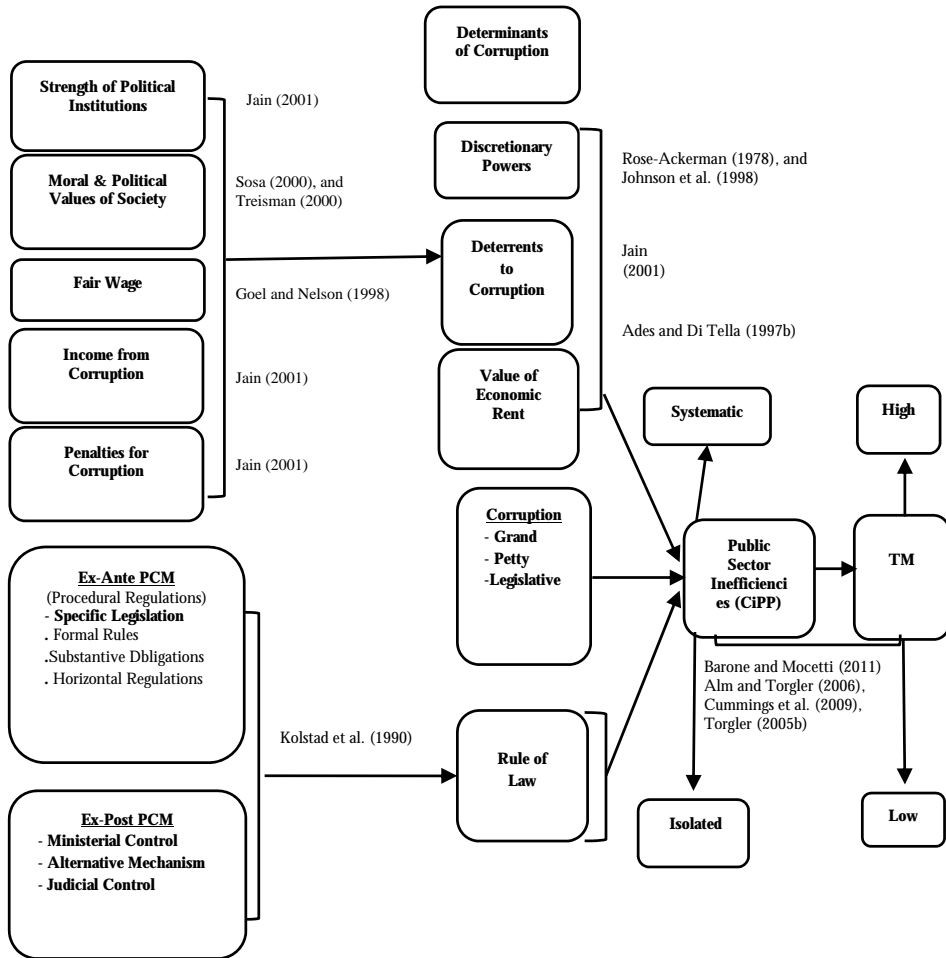


Figure 3: Conceptual Framework – CiPP-TM

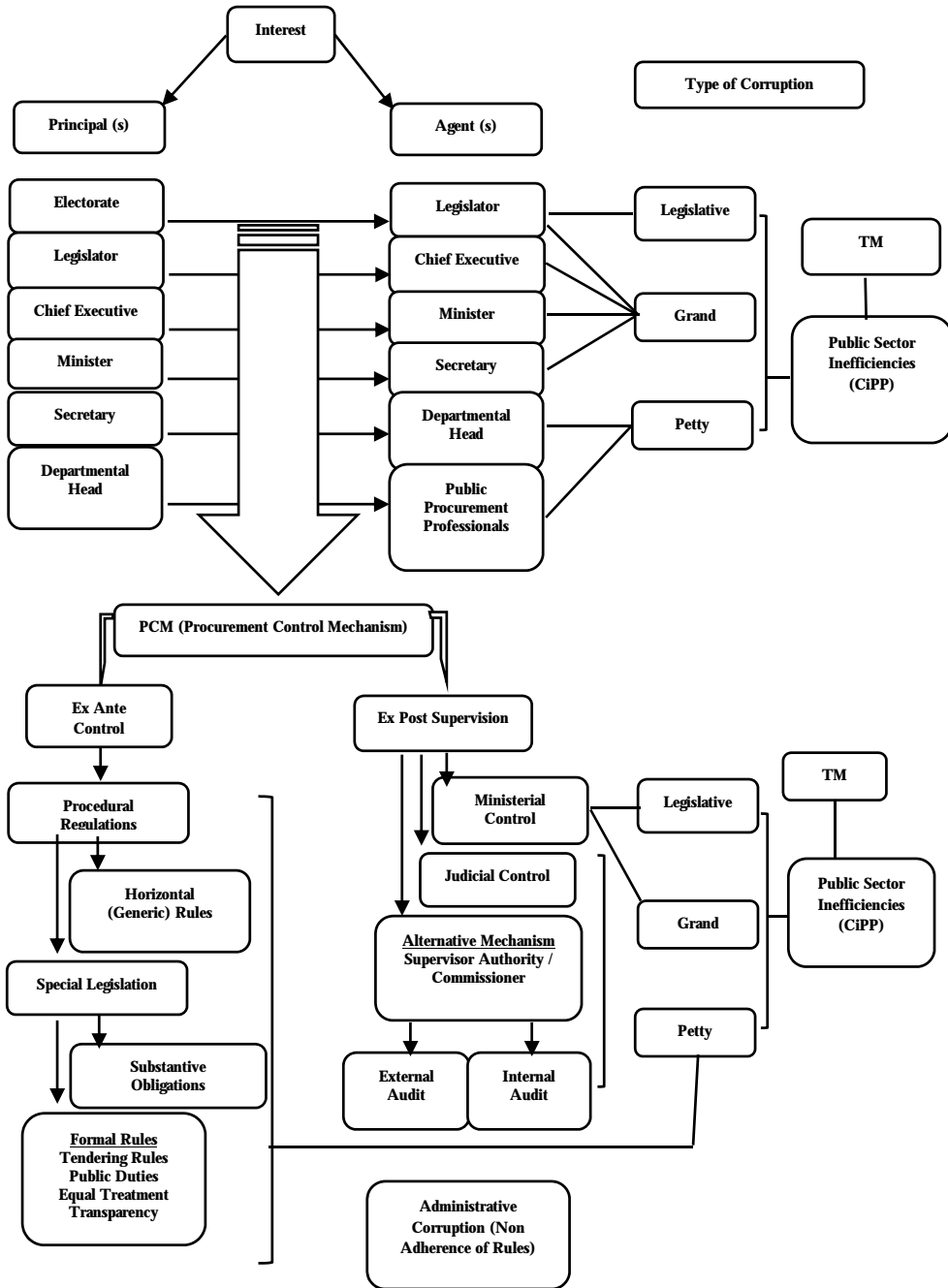


Figure 4: Conceptual Framework - Viewing CiPP-TM Linkage through AT

2.7 Research gap

Review of literature shows that a considerable research is conducted on PP (section 2.2), and corruption (section 2.4). However, scholarly focus has been on the studying 'grand corruption' and 'legislative corruption' but relatively less studies focus on the 'petty corruption' (section 2.4.3). Work from supranational organizations is also colossal which include World Bank, IMF, OECD, UNO, EU, Asian Development Bank, TI, and different financial and economic development institutions. 'Petty corruption', in most of the cases, is studied through 'resource allocation model' but potential of 'AT' in explaining agency problems relating to principal-agents is less explored and only a few studies use 'agency model' to study principal-agent problems as suggested by Bernheim and Whinston (1986).

Unofficial economy in any country is directly related to corruption (here CiPP) and onerous bureaucracy (here PPP). 'Grand corruption' can not occur in isolation, without intimate involvement of PPP due to the reason that public money is being consumed by PPP (shown in table 3). However, more studies focus political elite and not the PPP who are instrumental to 'grand corruption'. As far as 'legislative corruption' is concerned, it also involves public officials (bureaucrats), especially in the developing countries their influence on formulation of policies is considerable due to lack of education, legislative skills, and in-depth understanding of the law by the elected legislators. All 'measures of corruptions' (section 2.4.4) work on the perception of either business, public or the experts. However, a more clearer and useful input for fighting CiPP may be obtained through in-depth interviews to record the perceptions shared by the PPP.

Governments cannot function without tax collection and judicious utilization of taxpayers' money for the wellbeing of public, and socioeconomic development of the country and the society is an entrusted responsibility of the state and the government. Tax evasion is ubiquitous phenomenon in many economies (more in developing countries) and encouraging the culture of tax compliance is among the pressing expectations from the policymakers (Barone and Mocetti, 2011). In presence of global down turn of economy, efficient public spending is pressing the governments harder for 'doing more with less' which is

not possible due to wide spread corruption in general and particularly in PP, owing to agency problems at multiple levels (section 2.3, 2.3.1 and 2.3.2). CiPP adversely affects the government's moral authority to expect exhibiting TM by the taxpayers in the face of inefficiencies in spending taxpayers' money (section 2.5.3) through corrupt PP of the goods and services. Encouraging a more efficient spending of public resources through transparency of PP (section 2.5.3), apart from being a good policy goal, increases the taxpayers' propensity to pay taxes. Inefficiencies in the spending of public money may act as an external element to negatively affect intrinsic motivation of taxpayers to pay taxes, beside other factors (section 2.5.1 and 2.5.3). CiPP brings about inefficiencies in public spending but this relationship is yet to be explored and thus merits future endeavors of scholars. Linkage between CiPP and TM (section 2.4.7) is also unexplored and merits scholastic focus from the scholars of public policy, PP, economics, corruption, and TM alike.

3. Conclusion

Buying or purchasing has lion's share in SCM. In literature buying of goods and services for the commercial organizations or corporations is known as PSM whereas, buying of public goods and services for public service or public-interest is known as PP. Elected representatives form Government that collects revenue, in shape of taxes, duties, fee, surcharge, etc. to spend the collected taxpayers' money for wellbeing of citizens. Governments are spending around 18-45% of their GDPs on PP of public goods and services (Knight et al., 2007). Owing to considerable spending by the Governments on PP, its use as an instrument of implementing public policy is justified (Arrowsmith, 1995) and advocated by the scholars. Implementation of public policy depends, heavily, upon judicious spending / utilization of taxpayers' money. Public money is a serious responsibility and Governments (formed by the elected representatives), being custodian of public money, are expected by the electorate (public) to ensure transparency, access to information, and accountability in the process of consumption of taxpayers' money.

PP's size, complexity, and potential as an instrument of public policy implementation attract the interest of multiple stakeholders with diverged objectives. This leads to multi-level agency problems (principal-agent) in PP

among: (1) the public and elected representative, (2) elected representatives and ministers, and (3) ministers and PPP. If transparent, judicious, and efficient utilization of public money is showcased by the Governments, it can be instrumental in raising tax collection, by developing motivation in taxpayers, especially in developing and undeveloped economies. Inefficiencies in public spending lowers the TM and in global slowdown of economy, efficient public spending demands 'doing more with less' which cannot be attained due to CiPP.

'Grand corruption' and 'legislative corruption' have been in focus of scholars but 'petty corruption' needs more attention due to its pivotal role in more studied forms of corruption (i.e. grand and legislative). Existing measures of corruption do not reflect the perception of corrupt officials (PPP) on corruption which can be of value to explore and enhance our understanding further. Identified research gaps will help developing the understanding of the linkage among PP-corruption-TM. Proposed new relationship can be helpful in developing more pragmatic strategies to arrest corrupt practices effectively in grand and legislative corruptions in general whereas, in PP in particular.

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