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## The Bribery Paradox in Transition Economies and the Enactment of ‘New Normal’ Business Environments

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**ABSTRACT** We develop a novel, sense-making perspective on corruption in transition economies. Prior research has focused on understanding why some entrepreneurs are more likely to pay bribes than others. It typically assumes that paying bribes will lead to an intended – albeit unfair – competitive advantage. We challenge this assumption and uncover a *bribery paradox*: drawing upon sense-making logic, we argue that beyond gaining an immediate benefit from bribing, entrepreneurs who frequently pay bribes may in the longer run be enacting a ‘new normal’ business environment perceived as high in obstacles, especially in transition countries. As sense making is grounded in identity construction and one’s social context, we argue that owners of family firms will be especially vulnerable to the dangers of perceiving greater obstacles over time and enacting an obstacle-ridden ‘new normal’ business environment. We find empirical support for our framework on a sample of 310 privately held small and medium-sized enterprises (SMEs) from 22 transition economies.

**Keywords:** bribery paradox, degree of business obstacles, family- vs. nonfamily-owned SMEs, frequency of bribery, new normal business environments, sense making, transition economies

### INTRODUCTION

Prior research has tended to assume that entrepreneurs who bribe public officials garner immediate benefits, such as favourable treatment, access to limited government goods, and an unfair competitive advantage (Martin et al., 2007; Tonoyan et al., 2010; Ufere et al., 2012).

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But whether entrepreneurs who pay bribes actually *sense* a genuine benefit accruing over time, is not known. In transition economies where corruption is constantly changing in volume, form, and acceptance (Christensen et al., 2019; Olimpieva, 2010), bribes can bring *immediate* privileges to an entrepreneur, but *over time* they can also infect and spread within a community (Li et al., 2015), leading to a ‘new normal’ business environment that is afflicted with corruption. The possible occurrence of this *bribery paradox* (immediate benefits to the briber, but a more corrupt environment in the longer run) leads to our research question: do entrepreneurs from transition economies who frequently bribe see those bribes as ‘grease money’ that lessens their business obstacles? Or rather, do they see frequent bribes as ‘sand in the wheels of progress’ that increases their business obstacles?

While the preponderance of research has sought to predict *who* pays bribes and *why* (e.g., Ashforth et al., 2008; Martin et al., 2007; Svensson, 2003; Ufere et al., 2012), we investigate instead how the frequent (or infrequent) payment of bribes shapes entrepreneurs’ perception of their business environment. The frequency of bribes refers to the rate of occurrence with which firms extend bribes to government officials to obtain services and deal with bureaucracy during the regular course of doing business. Several theories have been utilized to predict the payment of bribes: for example, transaction cost economics (Kaufmann, 1997; Rodriguez et al., 2005), anomie theory (Martin et al., 2007), theories on culture (Chen et al., 2008), and institutional theory (Ashforth and Anand, 2003; Misangyi et al., 2008; Tonoyan et al., 2010). In contrast, we sought to explore how entrepreneurs are active authors of their own reality, with the payment of bribes shaping how they perceive their business environment. Here, we extend the sense-making perspective (Weick, 1995) to bribery in transition economies by arguing that as entrepreneurs more frequently pay bribes, they create a ‘new normal’ business environment that is perceived as increasingly harsh. However, for entrepreneurs who infrequently bribe, their ‘new normal’ is likely to be perceived as more supportive of business. Thus, as transition economies evolve, the ‘new normal’ is likely to be perceived differently by entrepreneurs depending on their frequency of bribery.

Further, because scholars have called for research to consider how the social context and embedded social identities influence sensemaking (Lockett et al., 2014; Maitlis and Christianson, 2014), we propose that family firms and nonfamily firms will view the subsequent effects of their bribes differently. Family firms are unique because their family identity is inextricably tied to the family firm and their business is embedded in the social context of the family (Dyer and Whetten, 2006; Zellweger et al., 2010). In making sense of their business environment in light of their bribery, we hypothesize that owners of family firms will view their ‘new normal’ through the lens of the family, leading to greater perceived business obstacles as the frequency of bribes increases.

We test our framework on 310 privately owned SMEs from 22 transition economies who participated in the 2002 and 2005 Business Environment and Enterprise Performance Survey (BEEPS). Transition economies refer to countries in Eastern Europe that were members of the former USSR as well as countries in Central and Eastern Europe that were under Soviet influence. Despite transitioning from centrally planned to more market-based economies, bribery remains a significant problem in many transition economies due to their government’s discretion over the use of valuable resources, information, and law enforcement (Kim et al., 2018). Entrepreneurs, defined as owner-managers of

small- and medium-size enterprises (SMEs), are particularly vulnerable to bribery pressures because they do not have the economic clout or bargaining power of large, public firms to defend themselves against corrupt public officials (Chen et al., 2008; Verbeke et al., 2014). By focusing on two waves of data on SMEs in transition economies, we were able to assess how entrepreneurs' 2002 frequency of bribes affected their 2005 perceived business obstacles after controlling for their 2002 perceived business obstacles. Unlike previous research, we were therefore able to investigate how entrepreneurs view the *consequences* of their bribery activity over time. Our study also extends prior research that has traditionally confined bribery to static terms, that is, whether firms bribe or not, to instead, focus on the *frequency* of bribes. This is an important theoretical extension because it provides further insight into how repeated actions can cause prolonged mental preoccupation with business obstacles. Bribery frequency allows us to discern between those entrepreneurs who rarely, if ever, pay bribes and those who frequently partake in such behaviour, and thus have made bribery a 'new normal' business practice.

Overall, this study makes three contributions. First, we offer a theory on the enactment of corruption that acknowledges how entrepreneurs' actions shape their perceived business environment over time. Rather than seek to predict an entrepreneur's propensity to bribe, which has been the main focus of prior research, we explore instead how their frequency of bribes influences their perception of the 'new normal' business environment. Second, by proposing that entrepreneurs who own and manage family versus nonfamily firms (referred to as family firm and nonfamily firm owners for ease of exposition) make sense of their bribery activity in different ways, we help explain why some entrepreneurs may see bribes as reducing business obstacles and others as creating such obstacles. Third, we contribute to the sensemaking perspective by highlighting how the *frequency* of an action (i.e., frequency of bribes) is important in understanding the salience with which an action is taken into account when reflecting on one's version of reality. In so doing, we also contribute to the broader literature on the 'new normal' (El-Erian, 2010; Florida, 2010; Ghai et al., 2011; Thirlwell, 2010; Wolf, 2009) and the entrepreneurship literature on corruption in transition economies (Estrin et al., 2013; Ufere et al., 2012): we develop a framework that recognizes how entrepreneurs are active participants in their environments who author different versions of reality based on the frequency of their corrupt acts.

## CONCEPTUAL BACKGROUND

As our conceptual framework integrates insights from two literatures – the literature on 'new normals' and the literature on corruption in transition economies – we first briefly review each before advancing to our theoretical development.

### Existing Research on 'New Normals'

The term 'new normal' was coined by Dr. Mohamed El-Erian, PIMCO's CEO and Co-Chief Investment Officer, at the height of the Global Financial Crisis in 2009 (El-Erian, 2010) to capture how events that were previously abnormal had become commonplace, creating a fundamentally new economic landscape. Specifically, the 'new normal' was used to describe the difficulty of the global financial system to revert to its pre-2007 state

of high leverage, strong growth, and low government intervention in the economy. The post-2007 crisis ‘new normal’ was triggered by preceding global events like the Fall of the Berlin Wall in 1989 (Fukuyama, 1989; Davis, 2009; Thirlwell, 2010). Appendix A provides a historical overview of the different stages of global ‘new normals’ since the 1930s.

Throughout history, any ‘new normal’ state has reflected a novel joint state of affairs, at both the macro-level (e.g., government policies and societal norms) and the micro-level (behaviour of firms and households). We suggest that these two levels influence each other through what we refer to as downward cascading (from the macro-level to the firm or household) and upward cascading effects (from the firm or household to the macro-level), whereby cascades capture the flow of institutional signals surrounding a behaviour from one level to the next. Our characterization of cascading effects is in line with research on cascading leadership that explains how leaders’ values and behaviours flow from one level of the organization to the next (e.g., Bass et al., 1987; Liu et al., 2012; Yang et al., 2010). However, we extend the cascading effect concept by also considering how phenomena at the macro-level affect firm behaviour at the micro-level. This altered micro-level firm behaviour will, in turn, influence the macro-level context of doing business in a country, with downward and upward cascades occurring between the macro- and micro-levels to develop a ‘new normal’ institutional environment.

Specifically, a ‘new normal’ state typically starts with a triggering event, such as a quantum change in the political, economic, social, and/or technological environment. This then leads to large-scale, high-frequency (i.e., generalized or recurring) adaptations to the new situation by a myriad of actors at the macro- and micro- levels, leading to widespread effects that diverge from the past status quo. For management research purposes, it is therefore important to identify and carve out a segment of any ‘new normal’ situation, whereby a specific impact of one particular quantum change is assessed. As one example of a ‘new normal,’ the introduction of the European Monetary Union (EMU) influenced how governments managed a variety of budgetary and financial decision-making processes, and how EU-based multinational enterprises (MNEs) addressed institutional risk within the region. Research revealed that the common prediction from international business theory that associated higher institutional risk with a preference for joint ventures over wholly owned subsidiaries (e.g., Grøgaard and Verbeke, 2012; Meyer et al., 2009; Yiu and Makino, 2002), was reversed (Hillemann et al., 2018). Given the presence of high-quality regional institutions and a common currency, these MNEs began to perceive the usage of joint ventures in a higher-risk country as inviting corruption from the national level and encouraging undesirable features of institutional risk being imposed on the firm’s operations. The new default (*ceteris paribus*) therefore evolved to a view of joint venture partners as possible carriers of institutional risk, rather than as actors capable of reducing such risk for the foreign MNE. This also implies that MNEs still preferring joint ventures, based on the old paradigm that a local partner can more easily cope with local institutional risk, would *de facto* be enacting a ‘new normal’ environment fraught with higher risks than if they had selected to pursue wholly owned subsidiaries, combined with arm’s length intermediaries to address punctual risks.

Our general view on how to assess the content and unfolding of a ‘new normal’ situation is therefore as follows. First, one needs to identify an impactful quantum change event at a higher level (typically spanning geographic and industry borders), which occurs in

period  $t - n$ , whereby  $t$  is the reference or current period and  $n$  is the time passed since the quantum change event. Second, it is critical to reflect on which strategic decision-making processes at the micro-level could be affected in period  $t + m$  (e.g., a company's frequency of bribery), in the sense of a perceived need for transformational adaptation as a result of the quantum change (Verbeke and Tung, 2013), whereby  $m$  is the time passed after the reference or current period. Third, it is important to account for how the current micro-level decision-making processes triggered by the earlier macro-level event could affect the future macro-level context for the firm (e.g., how might the business obstacles in the home country change). Fourth, given the presence of both a macro-level triggering event and ensuing large-scale and high-frequency adaptation by micro-level actors, it is important to reflect on both downward and upward cascading effects. Upward cascading effects occur when particular managerial practices of individual firms ultimately affect the unfolding of processes at the macro-level (e.g., new business obstacles arising in the home country). In contrast, with downward cascading effects, an earlier major event triggers subsequent changes in managerial practices down to the micro-level. Cascades therefore reflect the impacts – whether positive or negative – that extend beyond an individual event or transaction to subsequent transactions and often to other economic actors (Levine and Kurzban, 2006), thus contributing to the 'new normal.' As such, our perspective is aligned with the important work of Doh et al. (2012) who advocate a dual focus on the conventional strategy aspects and the non-market dimensions of firm behaviour, whereby they implicitly acknowledge cascading effects when discussing the 'darker' side of the non-market context.

### **Existing Research on Corruption in Transition Economies**

While the 'new normal' in the industrialized world has typically been associated with recent anti-globalization backlash (see Appendix A), the 'new normal' for entrepreneurs in transition economies combines norms from the past with new capitalist practices. In turn, the evolving nature of the economy and society in transition economies suggests that corruption is constantly changing in volume as well as in form, mechanisms, and content (Christensen et al., 2019; Olimpiewa, 2010). As such, the burden of corruption weighs most heavily on entrepreneurs, who are the engine of growth and employment in most transition economies (Anderson and Gray, 2006). Here, we observe the *bribery paradox*: because entrepreneurs are embedded in social contexts in transition economies, each bribe may bring an immediate one-time privilege to the entrepreneur, but in the longer run the corrupt behaviour also spreads to hurt the welfare of other businesses in the community as well as one's own business, as more entrepreneurs begin paying bribes to government officials for resources. Therefore, as countries move from a command-and-control economy to a transition economy, the study of corruption is particularly interesting since a 'new normal' develops, whereby market forces create new wealth, but also challenges on how to curb new drivers of corruption (Anderson and Gray, 2006).

More specifically, after 1989, transition economies underwent a quantum change by abandoning central planning and embarking on a market capitalist path of economic development supported by the Washington Consensus (Estrin et al., 2013; Kornai, 2000). A type of 'chaotic capitalism' (Lane, 2008, p. 177) ensued for decades after these countries' implementation of Washington Consensus-style policies: Informal networks,

cronyism, and bribery affected the daily interactions between post-socialist entrepreneurs in search of new business opportunities and the government (Round et al., 2008). This led to bribery becoming legitimized and normalized in the entrepreneurial opportunity-seeking sphere (Christensen et al., 2019), rather than an exception as intended by the Washington Consensus policies. Despite the many anti-corruption measures taken, ‘corruption remains a widespread and persistent problem’ in transition economies to date (Batory, 2012, pp. 67–68).

Transition economies are plagued by corruption due to institutional frailties (Estrin et al., 2013). Such frailties can take the form of institutional voids (i.e., shortages of effective macro-level institutional mechanisms that support business) as well as institutional overkill (i.e., an overabundance of ineffective governance mechanisms that hinder business) (Olimpieva, 2009; Verbeke and Kano, 2013). In turn, corruption in many transition economies is associated with a variety of downward cascading effects: reduced foreign direct investment, misdirected entrepreneurial talent, increases in venture start-up costs, expansion of the informal economy, etc. (Clarke and Xu, 2004; Djankov et al., 2002; Doh et al., 2012; Misangyi et al., 2008). As open and fair mechanisms for distributing resources are hindered due to corruption, everyone in the community suffers because of the need to pay bribes for public services (Li et al., 2015). Although some scholars acknowledge that corruption can accrue certain benefits in transition economies by allowing entrepreneurs to bypass bureaucracy (Christensen et al., 2019; Olimpieva, 2009, 2010) and get vital jobs done (Li et al., 2015), for the most part, corruption is viewed as a ‘willful perversion of order, ideals and perhaps most important, trust – a “moral deterioration”’ (Ashforth et al., 2008, p. 671). Corruption is thereby at the core of a ‘new normal’ business environment in transition economies.

Bribery and more informal exchanges of gifts, hereafter referred to as ‘bribery’ for ease of exposition, are particularly prevalent forms of corruption that affect entrepreneurs in transition economies (Martin et al., 2007; McCarthy et al., 2012; Ufere et al., 2012). While bribes can be mutually beneficial to both the payer and public official, such as when the payer receives a reduced tariff in exchange for a bribe, they can also benefit only the government official and be predatory, such as when the bribe adds an additional cost to the official price of a public good (Karhunen et al., 2018). In exploring entrepreneurs’ propensity to bribe, researchers often take a demand- or supply-side perspective. The demand-side of bribery, which until recently dominated the literature, focuses on downward cascading effects: public officials’ initiation of bribery payments, and how they demand bribes to conduct business transactions (Ashforth et al., 2008; Chen et al., 2008). A central assumption with this perspective is that the only corruption and coercion associated with bribery is on the part of the public officials demanding bribes (Martin et al., 2007) because the illicit payment is not voluntary and its purpose is to acquire government services that one is legally entitled to receive (Karhunen et al., 2018). The demand-side of bribery is often portrayed as ‘defensive corruption’ that is necessary for SMEs’ survival; if they do not pay the bribe, an SME can be stopped from performing business by corrupt public officials (Karhunen et al., 2018; Olimpieva, 2009).

In contrast, the supply-side perspective focuses on upward cascading effects; i.e., the strategic choice of entrepreneurs to initiate bribes in hopes of maximizing economic benefits for their firms (Martin et al., 2007; Ufere et al., 2012). The supply-side recognizes



how the firm's participation in the illicit exchange is often voluntary as it aims to gain preferential treatment from a public official, thus making the bribe mutually beneficial for both parties (Karhunen et al., 2018). For example, entrepreneurs may offer bribes to access limited government goods, obtain permits and licenses, reduce taxation, and relax regulatory oversight. Entrepreneurs often justify the solicitation of an illicit exchange because the bribes allow their firms to compete with more powerful companies and to reduce the uncertainty associated with government bureaucracy (Ufere et al., 2012). Similarly, perceived competitive intensity and constraining conditions increase an SME's supply of bribes to 'get things done' (Martin et al., 2007, p. 1416).

While research like this has contributed to our understanding of entrepreneurs' behaviour in transition economies and has shifted some of the blame of corruption from downward cascades initiated by public officials to upward cascades initiated by entrepreneurs, we go one step further. We develop a sensemaking perspective that portrays how entrepreneurs not only experience immediate effects from bribes, but also contribute to shaping their own 'new normal' at the micro-level through their responses to the 'new normal' at the macro-level.

## **THEORY DEVELOPMENT: A SENSEMAKING PERSPECTIVE ON CORRUPTION IN TRANSITION ECONOMIES**

### **Bribery Frequency's Effect on Entrepreneurs' Perceived Business Obstacles**

Sensemaking refers to processes by which 'people generate what they interpret' (Weick, 1995, p. 13). First introduced by Garfinkel (1967), the sensemaking framework seeks to explain how individuals' actions are influenced by, and in turn influence, their interaction and interpretation of reality. It is based on the idea that 'reality is an on-going accomplishment that emerges from efforts to create order and make retrospective sense of what occurs' (Weick, 1993, p. 635). In this way, sensemaking explains how individuals interpret their environment based on their actions and become authors of their own version of 'reality' (Petriglieri, 2015). Whether or not that version of reality is accurate is not a concern to sensemaking because action generates new information that allows individuals to (re)assess their causal beliefs, thereby leading to new action (Weick et al., 2005). This process of action and interpretation over time can alter the very environment under consideration (Porac et al., 1989), thus making individuals active participants in the environment they seek to understand.

Sensemaking often begins when individuals are confronted with an ambiguous event or issue that is important to them (Maitlis and Christianson, 2014), in our case whether to bribe. The action taken, or not taken, then reduces equivocality by shaping what is most salient in the situation and shaping one's view of the environment (Brown et al., 2015). Equivocality causes individuals to focus on particular environmental cues and 'to use these in order to "make sense" of occurrences and to enact their environment' (Brown et al., 2015, p. 267). As such, sensemaking explains how individuals author their realities through a continuous process of action and interpretation that, over time, creates a

repertoire of plots and norms of action, allowing them to make sense of their environment and to see their environment as predictable and stable. Accordingly, we draw from sensemaking to explain how bribery can become a norm of action for entrepreneurs that thereby causes them to perceive a 'new normal' business environment that is harsh and constraining.

Research has proposed that corruption can become institutionalized and normative in an organization when an initial corrupt decision or act becomes embedded in a firm's managerial practices, and eventually routinized (Ashforth and Anand, 2003; Misangyi et al., 2008). For example, those who pay bribes more frequently are likely to create a repertoire of bribery activities that becomes embedded in routine business practices. In other words, once an entrepreneur begins to frequently pay bribes for public services, a cycle of bribery ensues, whereby the entrepreneur will likely identify additional reasons to pay bribes to public officials. Research has long made the distinction that 'small firms bribe whereas large firms lobby' (Harstad and Svensson, 2011, p. 56). '[L]arge firms use their influence to change laws and regulations' whereas privately held SMEs tend to 'pay bribes to mitigate the cost of government regulation' (Harstad and Svensson, 2011, p. 57) and obtain government services such as utilities, permits and licenses (Olimpieva, 2009; Ufere et al., 2012). For this reason, we focus on privately owned SMEs since they do not have the bargaining power or economic clout of large, public corporations to defend themselves against corrupt public officials (Chen et al., 2008; Verbeke et al., 2014) and their entrepreneurs are the key decision-makers who decide whether to bribe (Martin et al., 2007; Ufere et al., 2012). In line with sensemaking logic, entrepreneurs engaged on this upward cascading path of corruption will likely come to see bribes as an appropriate response to their business challenges, with the payment of bribes becoming a frequent behaviour, thereby creating a 'new normal' business environment at their micro-level.

We can then envision the subsequent, downward cascading of bribery demands by public officials: entrepreneurs who frequently pay bribes will likely gain a reputation for acquiescing to demands for bribes. Once an entrepreneur is known for paying bribes, other corrupt officials may approach the entrepreneur demanding 'their share' of payments. That is, those entrepreneurs who more frequently pay bribes are likely to signal their willingness to make illicit payments for government services and public goods, thus becoming preferred and more frequent targets of corrupt officials. A 'new normal' business environment ensues, fraught with dysfunctional upward and downward cascades of bribing behaviour. Indeed, research on organized crime suggests that those who acquiesce to demands often embolden corruption (Sutter et al., 2013). Over time, a 'new normal' system of bribery develops with contracting parties becoming serial bribers and corruptible officials.

Although bribes may have been made to gain a competitive advantage (Ashforth et al., 2008; Clarke and Xu, 2004; Martin et al., 2007; Misangyi et al., 2008), sensemaking suggests that through their enactment, entrepreneurs are paradoxically also creating an environment that is perceived as more constraining to them. Further, given the action-interpretation cycle of sensemaking, entrepreneurs who frequently pay bribes will likely focus more on the roots of corruption in their business environment, thereby making the perception of obstacles more salient. This is consistent with research on stress, explaining how the frequency with which a job stressor occurs increases individuals' mental

preoccupation with obstacles at work (Eib et al., 2015). Those who partake in more frequent bribes will therefore develop a mental model of the ‘new normal’ business environment that is harsh and constraining.

In contrast, the ‘new normal’ business environment is expected to be perceived quite differently by those entrepreneurs who rarely pay bribes. Entrepreneurs who rarely pay bribes will likely perceive their institutional environment as more supportive of business, and will have adapted their behaviour to mitigate the demands for bribes and the need to supply bribes to public officials. Indeed, Chen et al. (2008) argued that a ‘record of not condoning bribery is the best signal that a firm can provide to government officials’ (p. 240). A reluctance to bribe promotes sensemaking that informs the entrepreneurs’ mental framework and guides the interpretation of the business environment positively. Through repeated action of *not* paying bribes, the entrepreneur will come to perceive this reality as ‘how things ought to be done’ and ‘how things are done’. Thus, the lived histories (Weick, 1995) of entrepreneurs who rarely pay bribes will enact a ‘new normal’ business environment perceived as less constraining in comparison to those who frequently pay bribes. The above predicted differences in sensemaking between frequently bribing and non-bribing SMEs would appear especially relevant in the context of transition economies, where institutions are in flux, and where different entrepreneurs may perceive the unfolding of very different new realities in their business environment. Accordingly, we propose:

*Hypothesis 1:* In transition economies, entrepreneurs’ frequency of bribes is positively related to their perceived degree of business obstacles in the institutional environment.

### **How Family vs. Nonfamily Firm Owners Sense make Frequent Bribes**

As interest in studying entrepreneurship in transition economies has grown (Aidis et al., 2008), research has started to consider family and nonfamily firms’ propensity to pay bribes. While some research suggests family firms may be more willing to pay bribes than nonfamily firms (Bassetti et al., 2015), other evidence suggests that family firms are less likely to pay bribes (Ding et al., 2016). Although research like this is important in understanding why family firm owners may support or abhor bribery, it assumes that both family and nonfamily firm owners perceive bribes as contributing to a strategic advantage and a way to lessen business obstacles. However, this may not be the case; family and nonfamily firm owners may interpret the consequences from their bribery activity differently. Because the family’s identity is inextricably tied to a family firm (Dyer and Whetten, 2006; Zellweger et al., 2010), owners of family firms are more likely to consider how their bribes will impact the next generation and the family’s legacy. Conversely, owners of nonfamily firms may view the impact of their bribes more positively as they are not as burdened by family identity concerns. In developing our framework on the enactment of corruption, we therefore argue that whether an entrepreneur leads a family or nonfamily firm will affect perceptions of the ‘new normal’ business environment associated with his/her bribing activity.

Both the demand- and supply-sides of corruption explain why owners of family and nonfamily firm should perceive the environmental consequences from their bribes

differently. Due to the shared history and inextricable tie between the family and business, the family serves both sensemaking and sense-giving functions for family firms, thereby shaping how owners of family firms author and view their reality (Zellweger et al., 2010). Thus, in making sense of their business environment in light of their bribery frequency, family firm owners will view their reality through the lens of their family, considering what their actions mean to the family's identity and the next generation. From the demand side of corruption, family firm owners may perceive frequent bribes as increasing business obstacles in their environment because they contemplate how their actions affect the family's reputation and create incentives for corrupt officials to demand more bribes from their family firm. Research on the social contagion of corruption (Gino et al., 2009) suggests that once a family firm is perceived by public officials as paying bribes, an enduring reputation is formed signalling the family's willingness to make illicit payments. Further, because family firms typically employ multiple family members, corrupt officials may also demand bribes from family employees when a family firm is known to frequently pay bribes. As a family firm becomes a beacon for corrupt officials looking for bribes, the family firm owners' engagement in retrospective and prospective thinking will lead them to see their reality as fraught with business obstacles. From a sensemaking perspective, we thus predict that family firms frequently paying bribes will come to see their environment as infected by corruption and business obstacles.

In comparison, for those family firm owners who rarely pay bribes despite demands, their view of the business environment is expected to be more positive because they will view their actions as protecting the family's 'good name'. By being able to avoid paying bribes, family firm owners are likely to create a shared mental model within their family that abhors bribery and values business practices that are transparent and legitimate. Thus, for family firms that rarely acquiesce to bribery demands, a virtuous cycle is likely to be created whereby the refusal and avoidance of bribes leads family firm owners to enact an environment with fewer perceived business obstacles in comparison to those family firms that frequently pay bribes.

A similar pattern is expected from the supply side. Social contagion suggests that family employees are likely to mimic each other's attitudes and behaviours due to their relational closeness. As a result, family members will generate and share 'family recipes' regarding bribery practices, with some learning to deal with business obstacles by supplying bribes and family employees of other family firms learning to rarely, if ever, offer bribes. For family firms that frequently pay bribes, the inherent interdependence between the family and business will likely cause family members to feel vicariously responsible for other family members' unethical deeds (Litz and Turner, 2013). From a supply side, this suggests that not only do family members learn to emulate the family firm owner's bribery practices, but also that they inherit the responsibility for such actions due to their shared family identity. As a result, as the supply of bribes becomes more frequent and a routine business practice, it is likely that the added monetary and emotional costs will take a toll on the family firm owners, causing them to view their business environment more negatively. From a sensemaking perspective, we thus predict that although family firms that frequently pay bribes are likely seeking an unfair strategic advantage, over time they will come to see their environment as infected by corruption and business obstacles because they view their business environment from the perspective of their family's identity and future.

However, for nonfamily firm owners, we expect a different sensemaking process as they are not burdened by their family's involvement in the business, nor are they likely to view their business's reality through the lens of their family. Rather, nonfamily firm owners tend to have individualistic and utilitarian motives that allow them to rationalize their unethical behaviour because they see their actions as promoting their personal interests and economic goals (Ding et al., 2016; Dyer and Whetten, 2006; Longenecker et al., 1989). Indeed, in situations where entrepreneurs are able to accrue financial benefits at the expense of others, they appear most susceptible to demands and pressures to behave unethically and to rationalize their behaviour (Longenecker et al., 1989). Indeed, research on ethical decision-making explains how low psychological closeness and a lack of strong emotional bonds at work lessen an individual's ability to see adverse effects from their unethical actions (Mencl and May, 2009). Further, research on the cognitive consequences of unethical behaviour suggests that for those who do not feel guilt or see their transgressions as affecting individuals close to them, moral disengagement is likely, whereby they cognitively recast their unethical behaviour as acceptable and necessary (Gaspar et al., 2015; Shu et al., 2011). From the demand-side of corruption this suggests that relative to family firms, owners of nonfamily firms will be less likely to critically evaluate the outcomes of their acquiescence to bribery demands and more likely to identify utilitarian benefits from their bribes. As such, because the ethics of acquiescing more frequently to bribes is less salient relative to family firm owners, nonfamily firm owners should view their business environment more positively as their frequency of bribes increases.

The supply-side of corruption also explains why nonfamily firm owners should see more of a benefit from their bribes than family firm owners. Entrepreneurs tend to view a decision as ethical when it promotes their personal financial interests, even at the expense of others (Longenecker et al., 1989). By focusing primarily on their self-interest, they are able to rationalize misdeeds and cognitively recast their bribes as acceptable because they see their business's success as dependent on their own efforts. Indeed, research suggests that owners of nonfamily firms tend to believe that their bribes provide a high return on investment by helping them to compete with large corporations (Ufere et al., 2012). From a sensemaking perspective, nonfamily firm owners may therefore view the consequences from their bribes in a more positive light than family firm owners because they are likely to perceive their bribes as a personal decision rather than a reflection on their family and also as serving a utilitarian purpose.

We therefore argue that a family's involvement in a business causes entrepreneurs to interpret the consequences of their bribery activity more harshly because they view their actions through the lens of the family, thus attending to how their bribes reflect the family's identity and the future that they are authoring for the next generation. Conversely, without the presence of one's family in the business, nonfamily firm owners can distance their bribery activity from their family and rationalize that the bribes are helpful to their business. With an emphasis on more short-term, personal goals rather than long-term, family goals, nonfamily firm owners therefore make sense of their bribes through a more utilitarian lens that encourages them to view their frequent bribes as producing a more positive, 'new normal' business environment.

*Hypothesis 2:* In transition economies, family firm status augments the positive relationship between entrepreneurs' frequency of bribes and their perceived degree of business obstacles in the institutional environment.

## METHODOLOGY

### Data Sources and Sample

We tested our framework with survey data from the *Business Environment and Enterprise Performance Survey* (BEEPS) as provided by the World Bank in conjunction with the European Bank for Reconstruction and Development (EBRD). All researchers were rigorously trained how to handle the discussion of sensitive topics like corruption, which helps responders 'discuss corruption with remarkable candor' (Reinikka and Svensson, 2006, p. 365).

The BEEPS survey includes firms from the transition economies in the former Soviet Union and Turkey (BEEPS, 2002, 2005) in a variety of industries (BEEPS, 2005). Turkey is not considered a transition economy, so we excluded it from our study. The surveys were designed for SMEs and so most of the respondents were owners of SMEs (Commander and Svejnar, 2011) – i.e., between 82 per cent and 90 per cent in 2002 (BEEPS, 2002, p. 19) and 86 per cent and 92 per cent in 2005 (BEEPS, 2005, p. 9). We focused on the 2002 and 2005 waves as they include firms surveyed in both years, making it possible to track the same firms over time using the unique firm-identifying variable 'seno2002' (Commander and Svejnar, 2011). In turn, this allowed us to assess how entrepreneurs' 2002 frequency of bribery affected their 2005 perceived degree of business obstacles, after controlling for their 2002 perceived degree of business obstacles.

Our starting sample included the 1,446 firms that were interviewed in both 2002 and 2005. As our theory pertains to owners of SMEs in the private (i.e., non-state-owned) sector, we focused on firms whose legal status was: single proprietorship, partnership, cooperative, privately held corporation, or other private sector entity (variable S2b = 1 in both BEEPS waves).<sup>1</sup> Of these private sector firms, we excluded firms quoted on stock exchanges (variable S2a = 5 in both BEEPS waves) and large firms with more than 250 full-time employees (variables S4b = 3 in BEEPS 2005 and S4a2 = 3 in BEEPS 2002). We further removed missing/unknown values for most of the variables in our study; for the level of bribes control variable, we substituted missing values with zero to prevent unnecessary sample loss. This yielded 356 privately held SMEs with data in both years on the variables in our study. We then created a cross-sectional dataset of these 356 firms whereby the explanatory variables are for 2002, keeping the industry and country effects as of 2005, and the dependent variable is for 2005. To preserve degrees of freedom for the subsequently included country and industry dummies, we discarded firms that had less than two observations for each industry per country in 2005 based on variables 'a1' (the country code in both BEEPS waves) and 'S3' (the industry code in both BEEPS waves).

Our final sample included 310 SMEs in 22 countries: Albania (20), Armenia (16), Azerbaijan (22), Belarus (7), Bulgaria (21), Croatia (4), Czech Republic (13), Former

Yugoslav Republic of Macedonia (4), Georgia (10), Hungary (21), Kazakhstan (13), Kyrgyz Republic (9), Latvia (5), Lithuania (8), Moldova (8), Poland (22), Romania (16), Russia (6), Slovak Republic (2), Slovenia (38), Ukraine (43), and Uzbekistan (2). The industries included Construction (35), Manufacturing (95), Transport storage and communication (15), Wholesale and retail trade (115), Real estate, renting, and business services (22), Hotels and restaurants (21), and Other services (7).

## Measures

*Dependent variable.* We captured entrepreneurs' *Perceived Degree of Business Obstacles* with the question: 'Can you tell me how problematic are these different factors for the operation and growth of your business?'. This measure was the average of 18 items that can be influenced by the bribery of public officials<sup>2</sup> (see Online Appendix), ranging from 1 (no obstacle) to 4 (major obstacle).

*Independent variable.* We captured *Frequency of Bribes* with the question: 'Thinking now of unofficial payments/gifts that a firm like yours would make in a given year, could you please tell me *how often* would they make payments/gifts for the following purposes?'. Framing the question with 'a firm like yours' instead of 'your firm' is standard practice in research on sensitive topics like bribery, as it helps reduce social desirability and 'holier than thou' biases: i.e., firms over-reporting good behaviour and under-reporting bad behaviour (Martin et al., 2007; Spencer and Gomez, 2011). Asking indirect questions about sensitive topics results in more honest responses to questions than direct questions (Johansson-Stenman and Martinsson, 2006). In addition, indirect questioning allows interviewees to reflect more deeply about their behaviours when they were not being monitored by the interviewer (Lusk and Norwood, 2009, 2010). To further encourage honest responses, such sensitive questions were only asked later in the survey, once the interviewer and the respondent had established a rapport (Lee and Weng, 2013).

Our measure of frequency of bribes focuses on firms' additional costs of doing business, such as obtaining government services that they are entitled to (e.g., obtaining licenses and permits) and dealing with bureaucracy during the regular course of doing business (e.g., passing inspections, dealing with courts or imports and customs) (see Online Appendix). We did not take into account bribes to obtain government contracts because this type of bribery is different from that which supports normal business operations and is meant to facilitate business-government contracting. We also excluded items that represent intentional state capture aimed to shape government policy or legislation (i.e., bribing to influence the content of new legislation) as research suggests that such bribery pertains more to large, public corporations than SMEs (Harstad and Svensson, 2011). Our measure was the average of 8 items where each item ranges from 1 (Never) to 6 (Always), with greater values indicating greater frequency of bribery.

*Moderator variable.* We captured *Family Firm* by assigning 1 to firms whose largest shareholder was a family or individual, owning at least 50.01 per cent of the company, and 0 otherwise (Ang et al., 2000; Holderness and Sheehan, 1988). The variable was based on questions Q4aa\_r1 in BEEPS 2005 (corresponding to Question Q4a\_r1 in BEEPS 2002): 'Which of the following best describes the largest shareholder(s) in your

firm?’ and Q3a in both BEEPS waves: ‘What per cent of your firm does the largest shareholder(s) own?’ (divided by 100 to obtain 0-1 scale). Overall, 50.97 per cent of the sample were family firms.

*Control variables.* Lastly, we controlled for a series of factors summarized in Table I.

## Statistical Analysis

As our dependent variable is bounded between 1 and 4, we tested our framework in Stata 15.1/SE with the two-limit Tobit model (Tobin, 1958). We standardized the right-hand side variables, except for the industry and country dummies, for ease of interpretation. Please refer to the Online Appendix for the common method variance, construct validity, multicollinearity, and heteroskedasticity tests we performed.

## Hypothesis Testing

The descriptive statistics are shown in Table II. The Tobit regressions follow in Table III. Models 1-4 show the results without robust standard errors. Model 5 adjusts the standard errors to be robust to heteroskedasticity. Both Models 4 and 5 yield qualitatively similar conclusions, so we tested our hypotheses on the more parsimonious Model 4.

Hypothesis 1 proposed that entrepreneurs’ prior frequency of bribes subsequently raises their perceived degree of business obstacles. The positive and significant coefficient for *Frequency of Bribes*<sub>*i*,2002</sub> ( $b = +0.077$ ,  $p < 0.05$ ) supports this hypothesis and reveals the effect is present and statistically significant. The conditional marginal effect, keeping the other variables at their means, is also significant:  $dy/dx = +0.075$ ,  $P > |z| = 0.027$ .<sup>3</sup>

Hypothesis 2 proposed that family firms perceive greater business obstacles from higher frequency of bribes than do nonfamily firms. This positive and significant coefficient for the interaction between *Frequency of Bribes*<sub>*i*,2002</sub> and *Family Firm*<sub>*i*,2002</sub> ( $b = +0.078$ ,  $p < 0.01$ ) supports this hypothesis. The marginal effect of frequency of bribes is positive and significant for the family firms ( $dy/dx = +0.145$ ,  $P > |z| = 0.001$ ) but not statistically significant for the nonfamily firms ( $dy/dx = -0.009$ ,  $P > |z| = 0.842$ ). Further, the marginal effect indicates that perceived business obstacles are 16.11 times greater for family firms than for nonfamily firms who frequently bribe (i.e.,  $0.145/0.009$ ), supporting our hypothesis. Figure 1 graphs the interaction effect from the predictive margins of the expected value of the observed dependent variable for family vs. nonfamily firms, keeping the other variables at their means. It provides visual support for Hypothesis 2. The Online Appendix provides additional robustness tests we performed.

## DISCUSSION AND CONCLUSION

### Discussion

How does the frequency that entrepreneurs pay bribes affect their perception of the ‘new normal’ business environment in a transition economy? Do entrepreneurs who frequently pay bribes see the bribes as ‘grease money’ that lessen their business obstacles? Or rather, do they see their frequent payment of bribes as ‘sand in the wheels of



Table I. Control variables

<i>Measure</i>	<i>Operationalization</i>	<i>Range</i>	<i>BEEPS Question #</i>
Past degree of business obstacles	'Can you tell me how problematic are these different factors for the operation and growth of your business?'	[1,4]	Q54 in BEEPS 2005 Q80 in BEEPS 2002
Competition	'How would you rate the importance of each of the following factors on key decisions about your business with respect to "Developing new products or services and markets: Pressure from domestic competitors"'	1 = not at all important; 2 = slightly important; 3 = fairly important; 4 = very important	Q63a in BEEPS 2005 Q88a in BEEPS 2002
Debt	'(100-% of working capital obtained from internal funds/retained earnings)/100'	[0, 1]	Q45a1 in BEEPS 2005 Q64a1 in BEEPS 2002
Business association membership	'Is your firm a member of a business association or a chamber of commerce?'	0 no; 1 yes	Q36a in BEEPS 2005 Q51a in BEEPS 2002
Foreign ownership	'What % of your company is owned by private foreign individuals/ companies/ organizations?'	[0, 1]	S5b in BEEPS 2005 S4c1 in BEEPS 2002
Firm size	'How many full-time employees work for this company?' = 1 small firms (2–49 employees), = 2 medium-size firms (50–249 employees)	= 1 for small size = 2 for medium size	S4b in BEEPS 2005 S4a2 in BEEPS 2002
Firm age	'In what year did your firm begin operations in this country?'	Positive, continuous (year of interview – S1a)	S1a in both BEEPS waves
Level of bribes	'On average, what percent of total annual sales do firm's like yours typically pay in unofficial payments/gifts to public officials?' replacing missing values with zero	[0, 100]	Q40 in BEEPS 2005 Q55 in BEEPS 2002
Government contacts	'How often is the following statement true? "If a government agent acts against the rules I can usually go to another official or to his superior and get the correct treatment without recourse to unofficial payments/gifts".'	1 = Never; 2 = Seldom; 3 = Sometimes; 4 = Frequently; 5 = Usually; 6 = Always	Q35c in BEEPS 2005 Q51 in BEEPS 2002

Table I. *Continued*

<i>Measure</i>	<i>Operationalization</i>	<i>Range</i>	<i>BEEPS Question #</i>
Industry effects	'How would you best describe your firm's main area of activity in terms of sales?' = 2 for Construction (omitted category), = 3 for Manufacturing, = 4 for Transport storage and communication, = 5 for Wholesale and retail trade, = 6 for Real estate, renting, and business services, = 7 for Hotels and restaurants, = 8 for Other services	Estimated with i.s3 dummies for each industry category -1	S3 in both BEEPS waves
Country effects	Country (Bulgaria is the omitted category)	Estimated with i.a1 dummies for each country category -1	a1 in both BEEPS waves

Table II. Descriptive statistics and correlations

Variable	N	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1 Perceived degree of business obstacles <sub><i>i</i>,2005</sub>	310	1.98	0.58	1.00										
2 Frequency of bribes <sub><i>i</i>,2002</sub>	310	1.86	0.98	<b>0.22</b>	1.00									
3 Family firm <sub><i>i</i>,2002</sub>	310	0.55	0.50	-0.04	0.03	1.00								
4 Past degree of business obstacles <sub><i>i</i>,2002</sub>	310	2.03	0.60	<b>0.36</b>	<b>0.42</b>	0.06	1.00							
5 Competition <sub><i>i</i>,2002</sub>	310	2.80	0.93	0.08	-0.03	0.05	<b>0.17</b>	1.00						
6 Debt <sub><i>i</i>,2002</sub>	310	0.24	0.34	0.05	0.11	-0.04	<b>0.13</b>	0.06	1.00					
7 Business association membership <sub><i>i</i>,2002</sub>	310	0.45	0.50	<b>0.11</b>	-0.05	- <b>0.26</b>	0.01	0.06	0.02	1.00				
8 Foreign ownership <sub><i>i</i>,2002</sub>	310	0.15	0.34	0.06	0.04	- <b>0.32</b>	0.00	-0.08	-0.06	<b>0.17</b>	1.00			
9 Firm size <sub><i>i</i>,2002</sub>	310	1.18	0.39	0.01	-0.02	- <b>0.19</b>	-0.06	0.00	0.01	<b>0.21</b>	<b>0.33</b>	1.00		
10 Firm age <sub><i>i</i>,2002</sub>	310	9.61	8.58	-0.02	- <b>0.14</b>	- <b>0.12</b>	-0.09	-0.01	-0.05	<b>0.23</b>	-0.03	<b>0.25</b>	1.00	
11 Level of bribes <sub><i>i</i>,2002</sub>	310	1.94	3.60	0.04	<b>0.36</b>	0.05	<b>0.22</b>	0.05	0.03	- <b>0.14</b>	-0.07	-0.09	- <b>0.15</b>	1.00
12 Government contacts <sub><i>i</i>,2002</sub>	310	2.94	1.49	-0.06	- <b>0.20</b>	-0.03	- <b>0.17</b>	-0.03	-0.04	0.09	<b>0.12</b>	0.09	0.11	- <b>0.13</b>

Note: Bold indicates significance at 5%. All variables are raw values.

Table III. Tobit regression results

	Model 1	Model 2	Model 3	Model 4	Model 5
Frequency of bribes <sub><i>i</i>,2002</sub>		0.08 (0.034)	0.08 (0.033)	0.08 (0.028)	0.08 (0.032)
Frequency of bribes <sub><i>i</i>,2002</sub> * Family firm <sub><i>i</i>,2002</sub>				0.08 (0.007)	0.08 (0.010)
Family firm <sub><i>i</i>,2002</sub>			-0.01 (0.657)	-0.01 (0.760)	-0.01 (0.763)
Firm age <sub><i>i</i>,2002</sub>	-0.005 (0.867)	-0.004 (0.892)	-0.005 (0.862)	-0.01 (0.711)	-0.01 (0.777)
Government contacts <sub><i>i</i>,2002</sub>	-0.002 (0.940)	0.003 (0.916)	0.004 (0.895)	0.005 (0.854)	0.005 (0.854)
Level of bribes <sub><i>i</i>,2002</sub>	-0.03 (0.405)	-0.05 (0.155)	-0.05 (0.148)	-0.05 (0.128)	-0.05 (0.091)
Past degree of business obstacles <sub><i>i</i>,2002</sub>	0.2 (0.000)	0.1 (0.000)	0.1 (0.000)	0.1 (0.000)	0.1 (0.000)
Competition <sub><i>i</i>,2002</sub>	0.009 (0.769)	0.02 (0.614)	0.02 (0.596)	0.010 (0.747)	0.010 (0.732)
Debt <sub><i>i</i>,2002</sub>	-0.03 (0.299)	-0.04 (0.217)	-0.04 (0.203)	-0.04 (0.238)	-0.04 (0.234)
Business association membership <sub><i>i</i>,2002</sub>	0.1 (0.004)	0.1 (0.005)	0.1 (0.005)	0.1 (0.005)	0.1 (0.009)
Foreign ownership <sub><i>i</i>,2002</sub>	0.05 (0.154)	0.04 (0.211)	0.04 (0.291)	0.04 (0.192)	0.04 (0.150)
Firm size <sub><i>i</i>,2002</sub>	-0.05 (0.136)	-0.05 (0.114)	-0.05 (0.111)	-0.05 (0.127)	-0.05 (0.095)

Table III. *Continued*

	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	2.2 (0.000)	2.2 (0.000)	2.2 (0.000)	2.2 (0.000)	2.2 (0.000)
Var(e.degree of business obstacles <sub>t,2005</sub> )	0.2 (0.000)	0.2 (0.000)	0.2 (0.000)	0.2 (0.000)	0.2 (0.000)
Country effects <sub>t,2005</sub>	Included	Included	Included	Included	Included
Industry effects <sub>g,2005</sub>	Included	Included	Included	Included	Included
Standard errors	Not Robust	Not Robust	Not Robust	Not Robust	Robust
LR chi2	<b>118.510</b>	<b>123.040</b>	<b>123.240</b>	<b>130.470</b>	<b>n/a</b>
Prob > chi2	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>n/a</b>
F	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>6.3</b>
Prob > F					<b>0.000</b>
Log likelihood	<b>-223.199</b>	<b>-220.931</b>	<b>-220.832</b>	<b>-217.219</b>	<b>-217.219</b>
N	<b>310</b>	<b>310</b>	<b>310</b>	<b>310</b>	<b>310</b>

Note: Standardized regression coefficients with p-values in parentheses.

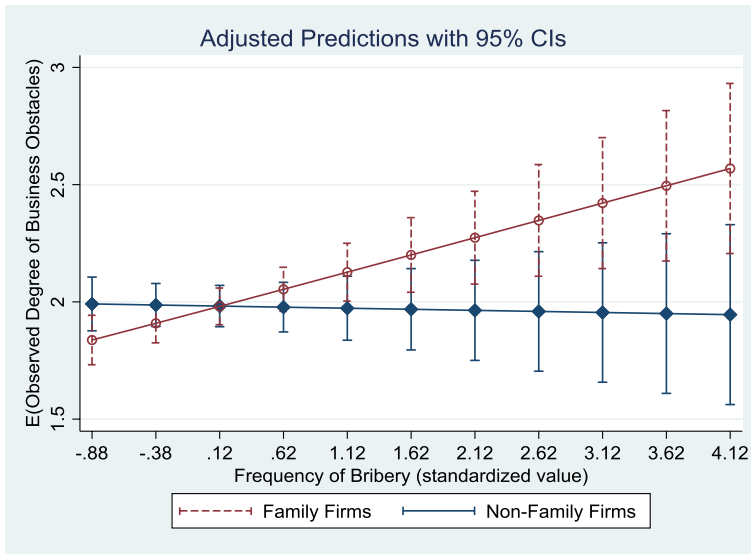


Figure 1. The moderating effect of family firm status on the relationship between frequency of bribes and perceived degree of business obstacles for entrepreneurs in transition economies

progress' that increases their business obstacles? To answer these questions we developed a sensemaking perspective of corruption that explains how entrepreneurs enact their 'new normal' business environment through their repeated paying of bribes, or their refraining from doing so.

Our findings reveal the presence of a *bribery paradox*: entrepreneurs may pay bribes in an effort to reduce obstacles and gain an unfair competitive advantage in the short run, but at the same time, they enact a longer-term, 'new normal' business environment that is perceived to be rich in institutional impediments. Further, our study reveals that owners of family and nonfamily firms who frequently pay bribes author the reality of their 'new normal' differently. In making sense of their business environment in light of their bribery activity, owners of family firms view their 'new normal' through the lens of the family, leading to greater perceived business obstacles as the frequency of bribes increases. Conversely, the perceived level of business obstacles does not intensify as the frequency of bribes increases for owners of nonfamily firms. As such, our study demonstrates why some entrepreneurs see bribes as 'grease money' that reduces business obstacles and others see bribes as 'sand in the wheels of progress' that amplifies such obstacles. Our sensemaking perspective of corruption therefore explains how entrepreneurs are active participants in the environment that author different versions of their 'new normal' based on the frequency of their bribes and whether they lead a family or nonfamily firm.

Unlike most previous research that has focused on explaining *why* entrepreneurs pay bribes (Martin et al., 2007; Ufere et al., 2012), instead we sought to investigate how entrepreneurs perceive their business environment after frequently paying, or not paying, bribes and how this perception is influenced by their identity and the associated social context. Here, we developed a nuanced perspective of corruption in transition economies by recognizing the heterogeneity among entrepreneurs in terms of a key

dimension: family firm status. More specifically, we hypothesized that family firm status would strengthen the predicted positive relationship between frequency of bribes and the perceived degree of business obstacles facing a firm because family firms sense make using a family lens. In contrast, nonfamily firm owners were hypothesized to perceive a more positive business environment as their frequency of bribes increased because they sense make using an economic lens. Thus, by considering how an entrepreneur's identity and social context shape sensemaking, we were able to identify conditions under which entrepreneurs perceive a benefit from more frequent bribes as well as when entrepreneurs perceive greater business obstacles from frequent bribes.

Accordingly, our study contributes to research on entrepreneurs in transition economies by demonstrating how entrepreneurs are active authors of their 'new normal' environment. They do not only vary in their bribery activity but also in how they ultimately perceive their business environment as a result of their frequency of bribes. Our study contributes to the sensemaking literature by demonstrating how entrepreneurs' actions influence their perception of reality over time. Those who frequently paid bribes tend to view their 'new normal' business environment as ridden with obstacles. Conversely, those who infrequently paid bribes tend to view their 'new normal' business environment positively. By recognizing that owners of family and nonfamily firms interpret their bribes and the associated environmental outcomes differently, we were able to explain why there is heterogeneity among entrepreneurs in transition economies in regards to how they perceive the 'new normal' business environment. As such, our study has important implications for theory and practice.

### **Implications for Theory**

Our paper makes two contributions to theory. First, we have extended the burgeoning literature on corruption and bribery practices of entrepreneurs and SMEs in transition economies. While prior studies on corruption have focused on the choice to extend illegal payments (Martin et al., 2007; Ufere et al., 2012), we have complemented this research by analysing the frequency with which illegal payments are extended, thus acknowledging differences between entrepreneurs who occasionally pay bribes and those who have made bribery a common, habitual practice. Additionally, rather than focusing on entrepreneurs' motivations to bribe, we instead focused on how bribery affects an entrepreneur's perception of the 'new normal' business environment. The findings from our study indicate that future research on entrepreneurs' bribery activity in transition economies should not assume that more frequent bribes translate into fewer business obstacles over time, nor that all entrepreneurs ultimately perceive their bribes as effectively applied 'grease money.' The opposite should actually be expected, especially for family firms, which appear to be creating a 'new normal' business environment, where bribery becomes a costly part of business life, rather than solving extant business problems.

Second, we have extended the literature on sensemaking, which had not yet considered the context of corruption or the frequency of an action in shaping sensemaking. Previous research on corruption has, to date, mostly applied an efficiency-based angle that assumes firms gain an unfair competitive advantage from paying bribes (e.g., Li et al., 2015; Ufere et al., 2012; Verbeke and Kano, 2013). Conversely, a contribution of our work is that we

have uncovered a *bribery paradox*: frequent bribes can produce a ‘new normal’ business environment that is seen as ridden with obstacles, and therefore creates corruption cycles, with upward and downward cascading effects, and from which it is difficult to escape. Our view contributes to the sensemaking perspective by highlighting how a frequent action shapes what entrepreneurs attend to in their environment. By displaying corrupt behaviours through their bribes, they might generate a ‘new normal’ environment that they see as fundamentally corrupt. Here, we also contribute to the sensemaking perspective by highlighting how actors can interpret the consequences from the same behaviour differently. While previous research has often applied sensemaking to understand how identities are formed (Brown et al., 2015; Maitlis and Christianson, 2014), we propose instead that an entrepreneur’s identity and social context influence how corruption is enacted. This allowed us to put the entrepreneur at the centre of the sensemaking process and explain why those who own family firms are likely to author their reality differently from those who own nonfamily firms, despite similar bribery frequency.

### **Implications for Practice**

Our study has important implications for practice. First, when entrepreneurs engage in more frequent bribing, they may end up enacting a ‘new normal’ with higher rather than lower perceived business obstacles, thus creating a dangerous cycle. Such perceived increases in business obstacles may trigger additional bribery activity from both the supply- and demand-sides. High perceived business obstacles may also lead to other negative consequences such as reduced resources for productive investment, weaker business growth, and even firm closure. Although the purpose of bribery may be to reduce institutional frictions, our results suggest the opposite over time. Entrepreneurs should therefore be encouraged to limit their bribery activity, particularly those who own family firms. Otherwise, they will need to contend with a ‘new normal’ business environment of increased obstacles that will likely hamper their ability to manage their business.

Second, our study revealed that in comparison to owners of nonfamily firms, owners of family firms suffer more from the *bribery paradox*: they perceive greater business obstacles over time as their frequency of bribes increased. Thus, family firms should be especially cautious when contemplating bribery activities. Our findings suggest vicious cycles of upward, downward and lateral cascading of corruption materializing for family firms that frequently pay bribes. Internally, a family may breed corruption by normalizing bribery as a management practice, and externally, public officials in this ‘new normal’ may increasingly demand bribes from family firms that appear to support corruption. Over time, family firms may thereby come to see their business environment as populated with obstacles. Therefore, family firms would be wise to minimize and eliminate their bribery activities and to foster a culture of ethical business practices that thereby creates a reputation for abhorring corruption.

Third, our study has relevance to policy makers in transition economies. While some prior studies have portrayed bribery as ‘grease money’ that lubricates the wheels of commerce (Leff, 1964), others have found that bribery payments are ‘sand in the wheels of progress’ that hampers growth and increases inequality (Johnson et al., 2000). Our findings tend to support the ‘sand’ side of the debate, as we have shown that higher frequency



of bribes tends to create a 'new normal' with perceived higher costs of doing business for most entrepreneurs, and particularly those operating family firms. However, our results also revealed that frequent bribes tend to 'grease the wheels of commerce' for owners of nonfamily firms. Hence, a 'dual new normal' comes into play: Approximately half of the firms in a country may be sensing obstacles from bribes while the other half perceive benefits in the newly created environment. We therefore advise policy makers to increase punishment and amplify the monitoring of both the supply-side and demand-side of bribery. Such increased vigilance would help avoid vicious cycles of escalating bribery and over time, as bribery becomes less frequent, could create a 'new normal' business environment that is perceived as more business-friendly.

### **Limitations and Future Research Directions**

Our study is subject to a few caveats that offer new avenues for future research. First, because our data are for the 2002–05 period, caution should be used if attempting to generalize the analyses beyond this timeframe. Future research can expand ours as more data become available beyond this period. Further, as our period of investigation was prior to the global financial crisis of 2007, it would be interesting to assess whether our results hold after this crisis.

Second, we focused our framework on privately owned SMEs in transition economies. Future research can expand ours with a comparative analysis of the degree of business obstacles faced by larger, public firms and particularly, how their managers perceive business obstacles in response to bribery activity. Due to their considerable market power, large, publicly held firms may experience less pressure to pay bribes and thus, perceive lower levels of business obstacles than SMEs. Further, it is also likely that various types of business obstacles (economic, regulatory, operational, or social) will affect large, public firms differently than SMEs.

Third, we focused our framework on transition economy SMEs due to the unique types of economic challenges they are facing. However, corruption pressures are also found in other developing and developed economies. Thus, our sensemaking framework could be extended to contexts where entrepreneurs and public officials face similar ethical dilemmas. For example, our theory implies that as entrepreneurs more frequently make unethical decisions, they will come to see their 'new normal' business environment as more burdensome. From a sensemaking perspective this suggests that their 'virus-like' actions will, over time, infect their views of the business environment, thereby creating a vicious cycle of negative acts and pessimistic views. But, on the bright side, our research also suggests that those entrepreneurs who behave ethically will create a 'new normal' business environment that they perceive optimistically. Although our study does not allow us to examine in detail whether the entrepreneurs' perceptions translate into subsequent strategic decisions, future research can further explore this avenue.

Fourth, our analysis builds on the implicit but critical assumption that refusing to extend or accept bribes will be 'socially protected'; i.e., will not lead to violent reactions from the refusal of bribes. A limitation of our analysis is that our measures only address the perceived degree of business obstacles associated with bribery, but not other outcomes associated with personal or family safety (Sundström, 2016). For example, especially in

the context of family firms, in addition to affecting perceived business obstacles, frequent bribes could be associated with concerns about a ‘new normal’ for personal and family safety. Future research should, therefore, explore perceived threats associated with a refusal to pay a bribe. Additionally, there may be more severe consequences associated with some types of bribes than others. For example, how do entrepreneurs make sense of routine bribes that every business appears to pay for a public service versus bribes paid to obtain a unique privilege (e.g., a monopolistic license)?

Fifth, although it would have been desirable to directly ask entrepreneurs from multiple transition economies about their *own firm's* bribery activity, because corruption is a delicate topic for firm leaders to discuss openly, studies commonly use an indirect questioning approach to gauge bribery (e.g., Blagoevic and Damijan, 2013; Spencer and Gomez, 2011; Svensson, 2003; Uhlenbruck et al., 2006). However, studies, while rare, that directly ask firm leaders about their bribery activity also suffer from limitations such as underreporting of bribes, truthfulness in responses, and a low response rate due to fear of implicating oneself in an illegal activity (De Jong et al., 2012; Krammer, 2019). Accordingly, research often asks respondents to indicate how frequently ‘a firm like yours’ engages in bribery and avoids asking ‘how frequently does *your* firm engage in bribery’ to mitigate misreporting and social desirability biases. The implication of this indirect measurement approach is that it may not fully capture bribery frequency of the individual firm. This is a potential limitation of all studies on corruption using the BEEPS database (e.g., Krammer, 2019) as well as other known databases on bribery activity such as the AIM Enterprise Survey (e.g., Mendoza et al., 2015) and World Business Environment Survey (WBES) (e.g., Ayyagari et al., 2014; Martin et al., 2007; Tonoyan et al., 2010).

## Conclusion

The main normative conclusion of our analysis for entrepreneurs in transition economies, especially those running family firms, is to avoid extending bribes. Our findings reveal a *bribery paradox*: entrepreneurs may pay bribes in order to reduce perceived obstacles in the business environment, but the end result may be an enacted, ‘new normal’ environment rich in institutional impediments to their business. Entrepreneurs operating family firms appear especially prone to enact a business environment that is perceived as hostile when they frequently bribe. Our research therefore suggests that owners of family and nonfamily firms author their new realities differently. While the family lens leads family firm owners to view their bribes as creating a new, hostile business environment, the economic lens of nonfamily firm owners leads them to see their bribes as lessening business obstacles. As such, the opposing views of bribes as ‘grease money’ and ‘sand in the wheels of progress’ are both correct; it just depends on who, an owner of a family firm or nonfamily firm, is interpreting the ‘new normal’ business environment.

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## NOTES

- [1] This step effectively excluded firms with missing legal status and firms from the state-owned sector: i.e., state/municipal/district-owned enterprises, corporatized state-owned enterprises, or other state-owned enterprises.
- [2] We thank an anonymous reviewer for suggesting this point.
- [3] This is the marginal effect of the expected value of the observed Perceived Degree of Business Obstacles variable censored between 1 and 4 and obtained with the `-margins, dydx predict(yvar(1,4)) atmeans-` command in Stata, which describes how the observed dependent variable changes with respect to the regressor of interest.

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## SUPPORTING INFORMATION

Additional supporting information may be found in the online version of this article at the publisher's web site:

## APPENDIX A

### A BRIEF HISTORY OF THE WORLD'S SERIES OF 'NEW NORMALS' SINCE THE 1930S

The global economy went through four 'new normal' stages, summarized in Figure A1. The first new normal (1930s–1988) was dominated by the post-World War II ideology battle between capitalism and socialism. The foundations of the modern-day capitalist economic system were laid at the Bretton Woods conference with the creation of the IMF and the World Bank that advocated limited government for economic development.

The collapse of the Berlin Wall in 1989 heralded the second phase with 'the birth of the current global economy' (Thirlwell, 2010). Over the next decade, the transition economies in Eastern Europe embraced free markets and democratically elected governments. This led some scholars to question whether this was the end of history due to the perceived 'universalization of Western liberal democracy as the final form of human government' (Fukuyama, 1989, p. 2). By the end of the 20<sup>th</sup> century, the United Nations also ratified the 'only legally binding universal anti-corruption instrument' in the world (UNODC, 2017).

The third phase of the new normal began in 2003 as a 'mini-Golden Age' for the world economy (Thirlwell, 2010). The U.S. stock and housing markets were booming (Wolf, 2009). Multiple former Soviet republics joined the European Union by 2004.

The Global Financial Crisis of 2007 ushered a world-wide reset against globalization as the fourth new normal phase of the world economy (Florida, 2010; Kobrin, 2017). This era is characterized by mediocre growth in industrialized countries, increased terrorism, inflationary pressures in previously prosperous emerging markets like China, overall dissatisfaction with global integration trends, and the emergence of the BRICS' New Development Bank to counter the IMF-backed policies of liberalization.

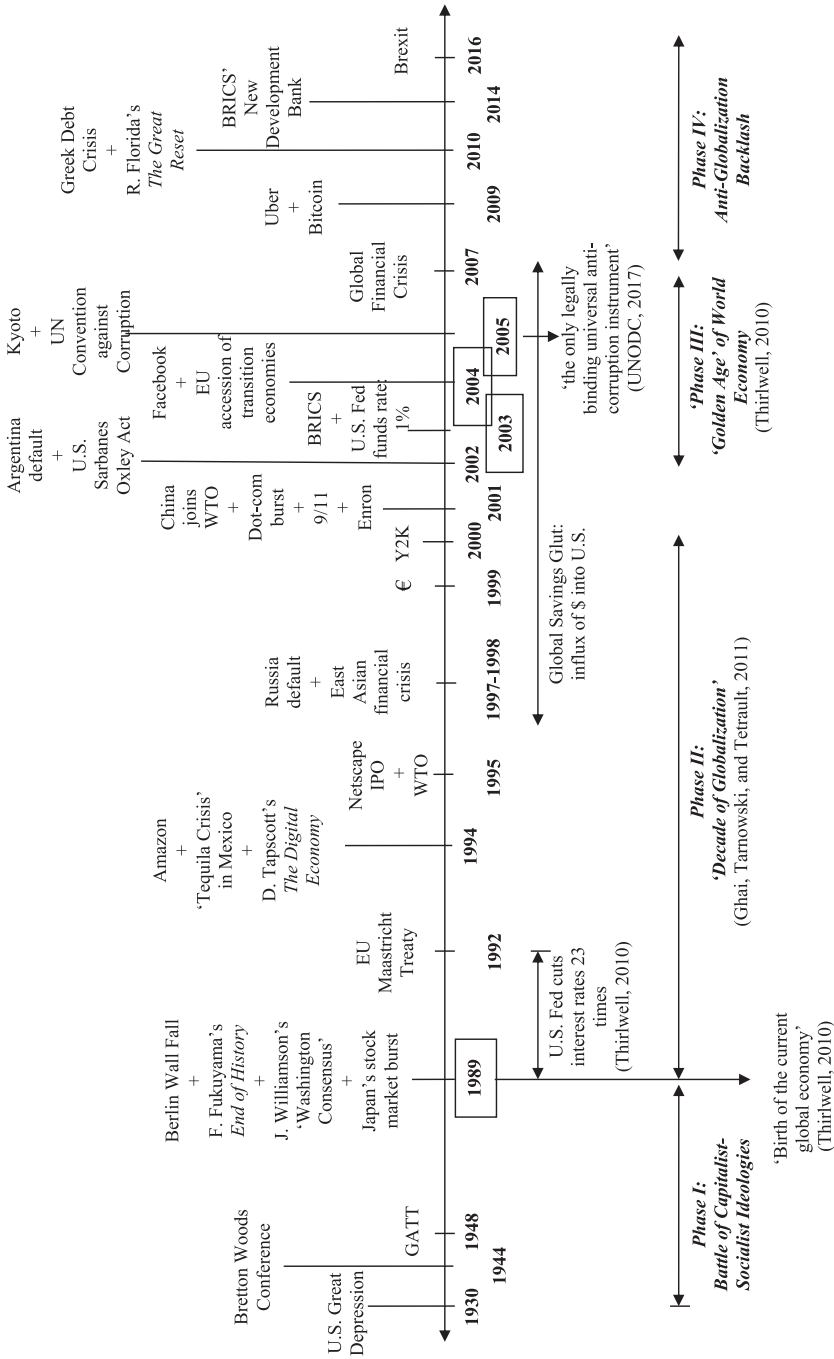


Figure A1. A brief history of the world's series of 'New Normals' since the 1930s