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### Corruption in Indonesia

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## Chapter 2

# Institutional Change and Corruption of Public Leaders: A Social Capital Perspective on Indonesia<sup>22</sup>

### ABSTRACT

Incidents of corruption by local public leaders have increased in Indonesia in the era of a decentralized democratic regime, in which local governments enjoy greater power and autonomy to manage regional resources. Previous research suggests that the shift of formal power from the central government to local governments resulted in new actors at the local level becoming involved in corruption. Building on ideas from social capital theory, the current study attempts to complement previous work by analyzing the shifts of public leaders' corruption behavior under the decentralized democratic government. We suggest that besides formal power relations, informal relations are important for initiating and sustaining corruptive transactions, and corruption requires a different social capital base in different institutional settings. The objectives of this paper are (1) to organize current knowledge on institutional change and corruption, (2) to extend current thinking on public leaders' corruption in Indonesia and beyond, and (3) to suggest a framework for future empirical study. We present an empirical study on the link between institutional change and corruption, based on a unique data set of real corruption cases as they were reported in Indonesian public newspapers. Based on this first exploration – which indicates that indeed the nature of corruption networks in Indonesia has altered since decentralization – the proposed theoretical framework is deemed of value for further empirical investigation.

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## 2.1. Introduction

Broadly defined, corruption is “the abuse of public power for private gain” (The World Bank, 1997: 8). In the public sector, this relates to efforts of public leaders in executive, legislative, or judicative branches of government to gain improper personal benefits for themselves or for their associates, by misuse of entrusted public power through illegal means (Fijnaut & Huberts, 2002; Shleifers & Vishny, 1993). An example is bribery or extortion by public officials, where they use their power in illegitimate ways to obtain a payment from individuals in exchange for a government service or permission (Nielsen, 2003; Jain, 2001).

Corruption is regarded as one of the most destructive, yet unresolved problems in society, especially in developing countries (Chang & Chu, 2006; Jain, 2001; Klitgaard, 1998). In most centralized developing countries, one of the strategies to address the harmful problem of corruption is by exploring ways to implement decentralization policies (De Asis, 2000; Crook & Manor, 2000; Litvack, Ahmad, & Bird, 1998). The World Bank defines decentralization as “the transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector” (Litvack & Seddon, 1999: 2).

A review of previous studies has shown contradictory arguments. On the one hand, several studies suggest that (fiscal) decentralization reduces the level of corruption because it increases the level of accountability at the local level by reducing the power of the national level. It thus brings the government closer to the people by empowering local governments and organizing public scrutiny at the local level. On the other hand, decentralization may enhance corrupt behavior for several reasons. First, decentralization is often associated with less control, monitoring, and evaluation from the central government, which leaves room for local officials to engage in corruption. Second, decentralized systems give greater power to local officials and this discretion may lead to closer relationships with citizens, which in turn may contribute to favoritism of public officials toward particular citizens or groups. This can lead to public service inequality and corruption (Gurgur & Shah, 2014; Shah, 2006; Shah, Thompson, & Zou, 2004).

In Indonesia, as is evident from reports, media coverage, and previous studies (see for example McLeod, 2000; Renoe, 2002; Vial & Hanoteau, 2010), corruption was a rampant phenomenon during the centralized autocratic regimes of the Suharto Presidency (1966–1998). In 2001, the regime changed with the initiation of decentralization policies, where heads of regions were selected by the local council (i.e., local representative democracy model) and the introduction of direct elections of the heads of regions in 2005 (i.e., local direct democracy model). However, corruption also still exists in the decentralized system at the national and sub-national level (Mietzner, 2010). Data from the World Bank (2013) pinpoint that the trend from 2001 to 2013 country’s percentile rank in controlling corruption ranged from 9 to 33 out of 100, with 0 indicating that the country is perceived to be highly corrupt. This percentile rank shows that even after the decentralization, Indonesia does not perform well in its attempts to

control corruption. Some scholars, therefore, argue that decentralization has not reduced corruption but shifted it from the central government to the lower tiers of government (Hadiz, 2004), involving public leaders from legislative, executive, and judiciary branches of government, as well as civil servants.

In this chapter, we focus on the persistent problem of corruption in Indonesia and investigate whether and how corruptive behaviors of local public leaders have changed after the implementation of a decentralized democratic system in Indonesia. We particularly focus on the manner in which institutional changes resulting from the decentralization effort in Indonesian society have enabled or constrained opportunities for corruption of public leaders. We argue that, whereas decentralization and democratization may increase accountability and transparency of the local government (Crook & Manor, 2000; Fisman & Gatti, 2002; Huther & Shah, 1998), the institutional change from a centralized autocratic regime to a decentralized democratic regime may also have had unintended side effects through which other players and forms of corruption became more likely.

One of the few attempts to investigate the relationship between decentralization and corruption in Indonesia was the Local Government Corruption Study (2007). Based on a qualitative comparison of ten corruption cases, it documents how the shift of formal power from the central government to local governments resulted in new actors at the local level becoming involved in corruption (Rinaldi, Purnomo, & Damayanti, 2007). Our study aims to complement this previous work. We suggest that the presence of formal power is a necessary but not a sufficient condition for initiating and sustaining corruptive transactions. A shared characteristic in many corruption cases is that they reflect attempts of individuals or groups to realize personal benefits by utilizing their social networks (Vardi & Weitz, 2004). We, therefore, complement existing research with a relational perspective, focusing on the (informal) social capital base of corruption.

By examining the structures of corruption networks in Indonesia, and the actors and set of relations linking these actors (Wasserman & Faust, 1994), we elaborate on the argument that corruption requires a different social capital base in different institutional settings. The actors' relations in themselves are legal activities. However, if, for example, the work relation between a head of region and a local council is followed by illicit transactions to gain personal profits, the ties will turn into illegal activities (Andvig, 2005; Granovetter, 2007; Warburton, 1998). Therefore, we suggest those actors' relations as part of leaders' social capital play a salient role in reinforcing or breaking a corrupt transaction.

Our study makes three distinct contributions to the knowledge on corruption of public leaders, in general, and the Indonesian case in particular. First, we develop a general theoretical framework specifying how institutional change affects the structure and nature of public leaders' social networks and corruption-related behaviors. Second, we present a descriptive analysis of the link between institutional change and corruption, based on a unique data set of real corruption cases as reported in Indonesian public newspapers. Third, in relation to the increasing numbers of incidents of corruption in

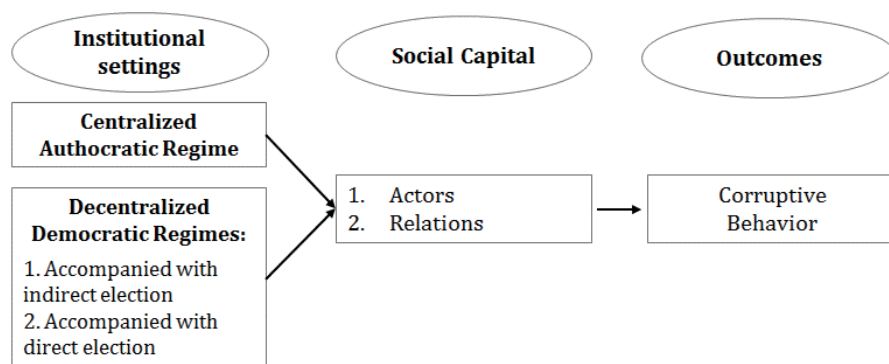
Indonesia, this study contributes to current thinking on public leaders' corruption in Indonesia, especially from a social capital perspective.

In the remainder of this chapter, we introduce our theoretical background. In the next section, we describe the research design of this study. This will be followed by the results. The last section will include the discussion and the conclusion.

## 2.2. Theoretical Background

The general definition of corruption implies some form of exchange of valued items between at least two parties (individual, groups, organizations) operating outside the law (Andvig, 2005; Della Porta & Vannucci, 2012; Warburton, 1998). The social capital theory suggests that individuals invest in social relations with others if the resulting obligations are likely to yield some benefit – such as benefits resulting from corruption – in the future (Flap & Völker, 2013). The return from a social relationship depends on the institutional arrangement in which it is embedded. In particular, election mechanisms and other social political conditions of government are determinant factors in the institutional arrangement (Andvig, 2005; Yilmaz, Beris, & Serrano-Berthet, 2008). Corruption and the social structures in which it occurs can thus be better understood by exploring the structural and functional characteristics of the institutions that govern the relations between different groups of interests (Economakis, Rizopoulos, & Sergakis, 2010). Such an analysis helps explain why, for example, specific types of social relationships that are valuable in some settings – like ‘weak ties’ in Western industrialized countries – may be of less value or even problematic in other settings. This institutional hypothesis about the ‘returns to social capital’ has been investigated in depth for the transition from a socialist to a capitalist regime in Eastern Germany (see e.g., Völker & Flap, 1995).

We develop on the above ideas to study how the change from a centralized autocratic regime to a decentralized democratic regime affected leaders' relational structures (social capital) in Indonesia, and the resulting opportunities and constraints for corruptive behavior (see Figure 2.1).



**Figure 2.1.** Conceptual model

Below, we first distinguish between types of corruption and two types of institutional settings, before we continue to reason how these regime types generally affect the opportunities for corruption. We then continue to elaborate on the specific social structure of corruption in terms of the number and type of actors as well as the type and nature of relations involved, as proposed by proponents of the social capital perspective.

### 2.2.1. Types of Corruption

Corruption in the public sector can be classified in various types, ranging from petty corruption, which involves low-level officials who receive a bribe for the provision of basic government services, to grand corruption, where kickbacks are provided to political elites and high-ranking officials to secure government procurement (bid rigging) through political decision-making processes (Jansics & Javor, 2012; Rose-Ackerman, 2008).

Based on the nature of corruptive transactions, corruption can be distinguished into more specific forms. In this study, we classify the types of corruption as follows:

- (1) Bid rigging or misprocurement is favoring a certain bidder in the government procurement process by tailoring the specification and the budget of the tender to particular bidders, thereby ignoring other bidders' existence (The World Bank, n.d.).
- (2) Bribery/kickback/payoffs refer to illicit payments to public officials (including cash, gifts, charities, and other types of contributions) to obtain government contracts, a license, or other improper business advantages (Amundsen, 1999; The World Bank, 2008).
- (3) Embezzlement is when public officials steal money from government budgets or mispend funds (Fan, Lin, & Treisman, 2010); usually there is no private agent or civilian directly involved (Amundsen, 1999; Andvig et al., 2000).
- (4) Favoritism, which also includes nepotism, is the practice among those with power or authority of favoring family members, relatives, friends, and anybody close and trusted to gain a government project or contract or any other benefit (Amundsen, 1999; Andvig et al., 2000).
- (5) Fraud is a manipulation of information, facts, and expertise in illegal transaction networks by public officials and individuals from the private sector, who seek to gain a private profit (Amundsen, 1999; Andvig et al., 2000).
- (6) Money laundering or reinvestment of illicit money is the process of concealing illicit gains generated from criminal activity in order to obscure its origins (Schoot, 2006).

### 2.2.2. Centralized Autocratic Regimes and Decentralized Democratic Regimes

In the period before 2001, Indonesia can be characterized as a centralized autocratic political regime. Centralized autocratic political regimes are characterized by extractive political and economic institutions (Acemoglu & Robinson, 2012). Power is concentrated in the hands of a few political elites, and these elites manipulate economic institutions to extract resources from wider society. In centralized autocratic regimes, all access to

resources, such as orders, are dominated by the central government, at the expense of the power base at the local level (Acemoglu & Robinson, 2012). For example, when electing the heads of regions during the centralized autocratic regime in Indonesia (1966–1998), the local council had a right to propose nominees to the central government through the Ministry of Home Affairs. However, the central government takes the final decision about the appointment. Hence, in this phase, the Indonesian central government had the authority to ignore local aspirations (Mietzner, 2010).

Since 2001, after more than 32 years of being a highly centralized government, Indonesia has become one of the most decentralized countries (Hofman & Kaiser, 2002). Decentralized democratic regimes reflect an ideal type of inclusive political and economic institutions (Acemoglu & Robinson, 2012). In decentralized democratic regimes, substantial power and resources are shifted from central to lower-level authorities. In Indonesia, these powers are transferred to the head of region and the local council. According to Law No. 22/1999, local governments, especially district and municipality levels, have an authority over all fields of governance, except in the fields of foreign policy, national defense, justice, monetary and fiscal policies, and religious affairs. With the distribution of functions among central and local governments, lower level authorities are thus more independent to make decisions in particular policy areas, including the budgetary aspect, and do not need to seek approval from the central government at all times.

Decentralization policies can, however, be implemented in various ways (Yilmaz, Beris, & Serrano-Berthet, 2008). In Indonesia, local governments experienced two phases of decentralization with distinctive characteristics (Mietzner, 2010). The first model is local representative democracy (2001–2004) and the second model is local direct democracy (2005–to date). The two models are different with regard to the general local election mechanisms (i.e., indirect election mechanism and direct election mechanism) and the power position between the local executive and legislative.

The local representative democracy model was implemented in the first phase of decentralization in Indonesia (2001–2004). The main characteristic of the representative democracy model is that the local council holds significant power as representatives of the people to select heads of regions (i.e., governors, mayors, regents, and their deputies) through indirect local elections. Therefore, the local council has a right to impeach and remove the head of the region. Furthermore, in the representative democracy, according to the Law No. 22/1999 on Regional Government, the local council in Indonesia has a wide scope of functions, namely a legislative function, a representative function, and a control function over the local executive body.

The local direct democracy model was introduced as part of Indonesia's democratic reform programs. Based on Law No. 32/2004 in the second phase of the decentralization in Indonesia, the direct democracy model assures the election of local executives through a one-man-one-vote mechanism, with the aim at representing the real interest of the local communities and strengthening accountability to citizens (Labolo & Hamka, 2012). In terms of formal power position, according to Law No. 32/2004, in the

second phase of the decentralization, the relation between local council and the head of region is characterized by check and balance mechanisms. Moreover, the executive body has more power and autonomy to manage local resources and local allocation budget, implement local government policies, involve in the provision of infrastructures and other responsibilities assigned to local government compared to the first phase of the decentralization.

### **2.2.3. Institutional Change and its General Implications for Corruption**

We suggest that different institutional settings create various opportunities and constraints for corruptive behavior of local public leaders. Below, we first briefly outline the assumed consequences of different institutional settings for opportunities for corruption in general, before we further specify our theoretical expectations by distinguishing key elements of a social capital (i.e., actors and types of relations), in the next section.

In *centralized autocratic regimes*, due to their strong economic and political power, members of the elite have the interest and the means to maintain the conditions for their favorable position. This can be achieved by directly investing in those actors who play a major role in maintaining the system (Kaufman, 1974), such as high-ranking bureaucrats and judges. This results in patronage or patron-client networks (Khan, 1998; Scott, 1972; Renoe, 2002). The patron provides his/her clients benefits and protection, and the client reciprocates with loyalty and support, usually in activities that are functional to maintain the patron's illegitimate sources of income and influence (Granovetter, 2007; Lomnitz, 1988; Scott, 1972). In a centralized autocratic system, local public leaders only have access to these networks by means of a patron higher in the hierarchy (McLeod, 2000; 2005). In Indonesia, the position of head of region and other high-ranking positions were thus most likely given to subordinates with a connection to the top leader at the central level (Renoe, 2002; Robertson-Snape, 1999). These appointed heads of regions had privileges to replicate the structure of patron-client corruption at the central government in the form of corruption at the local level under a tight control from central government. Heads of region could thus exploit the resources and maneuver the system as long as their loyalty to those higher up in the hierarchy remained (See: Liddle, 1985; McLeod, 2000; Renoe, 2002; Robertson-Snape, 1999).

Despite the fact that democratic decentralized regimes may increase accountability and transparency of the local government (Crook & Manor, 2000; Fisman & Gatti, 2002; Huther & Shah, 1998), such a setting also results in increased discretion at the local level which may create opportunities for local officials to engage in corruption (Prud'homme, 1995). Moreover, different types of decentralized systems may lead to specific opportunity structures for corruptive transactions. Decentralization with a representative election system, as was the case in the first phase of decentralization in Indonesia, can be expected to resemble the corruption structures of centralized autocratic regimes to a large extent (Mietzner, 2010). Political patronage in this system is still assumed to be present, particularly in Indonesia, where the local council has the power to



impeach and remove the head of region in this phase (McLeod, 2005; Mietzner, 2010). The heads of regions (particularly governors), therefore, frequently bought votes to secure their appointment, thereby creating classic patron-client relations (Hofman & Kaiser, 2002; Mietzner, 2010; USAID, 2009).

However, if decentralization is accompanied with direct local elections, political power will be much more dispersed and, due to periodic elections, potentially unstable. A politician who is unimportant today may be elected and become highly influential tomorrow or current local public leaders might lose their position with the next election. These conditions influence social relations of both local public leaders and those who might potentially benefit from them. For public leaders, for example, it then seems opportune to invest in relationships with those who have the power to (re-)elect them (Buehler, 2007; Choi, 2009).

#### **2.2.4. Institutional Change and Social Capital Traits of Corruption Structures**

We have argued how variations in institutional settings may create different opportunities for corruption. In this section, we specify this argument in various theoretical expectations by building on the social capital perspective.

The building blocks of social capital are good social relationships between at least two actors (Coleman, 1988). A good social relation implies that mutual reciprocity obligations and interpersonal trust have been developed through previous interactions (Coleman, 1988; Putnam, 1995). This perspective is helpful in the study of corruption, since corruption also implies some form of exchange of valued items between at least two parties (individual, groups, organizations) operating outside the law (Andvig, 2005; Della Porta & Vannucci, 2012; Lambsdorff, 2002). Since actors and types of relations are key in understanding social relationships and networks (Wasserman & Faust, 1994), we propose to focus on these basic elements of social capital to formulate specific theoretical expectations about the nature of corruption before and after decentralization in Indonesia.

##### **2.2.4.1. Corruption Actors**

We define actors as individuals or groups of individuals who are involved directly and indirectly in a corrupt transaction. In specific terms, Rose-Ackerman (2008) acknowledges that the most common corrupt transaction occurs between government officials (usually as bribe takers) and private actors (as bribe givers), and it involves power and resource exchanges. Similarly, Warburton (2013) points out that at least one of the actors who is involved in corruption must necessarily be in a position of power (power holder). However, we also acknowledge that in embezzlement and fraud cases, corruption networks might occur among public officials who have personal benefits without direct involvement of private actors.

We suggest that the institutional setting influences the number and nature of actors present in networks of corruption. As stated previously, in centralized autocratic regimes, all access to resources are dominated by the central government, with less power

and resources at the local level (Acemoglu & Robinson, 2012). Corruption networks are, therefore, highly centralized and dominated by patronage relations (Della Porta & Vannucci, 2012). The relationships are usually personalized, and the actors with access to the elite do not have an interest to share this access. They keep it exclusive and tend to maximize the benefits for themselves or their in-group members (Khan, 1998). In this condition, lower-level staff will face difficulties to gain direct access to top-level elite members, unless they have a patron themselves (Kettering, 1988; Scott, 1972). Therefore, the number of local actors involved in corruption will be likely limited to those who have access to the top leaders in central government.

Decentralized democratic regimes, in contrast, create a larger number of administrative or governmental tiers. More tiers will be associated with more local officials involved in corruption. As argued by Manor (1999: 101), decentralization “is always attended by an increase in the number of persons who are involved in corrupt acts.” This is also due to the fact that decentralization results in higher decision making and resource-allocation discretion at the local level (Acemoglu & Robinson, 2012), since in some domains the position of local public leaders is stronger compared to national decision-makers (Choi, 2009; Prud’homme, 1995).

Compared to the centralized regime, in a decentralized regime the newly acquired power and legal authority allow local public leaders to build internal and external organizational networks. They have more capacity to decide with whom to engage, whom to trust, and whom to turn to for information (Granovetter, 2007; Warburton, 1998). There are thus more opportunities for local public leaders to become involved in networks of corruption, because they have more discretion to control these networks (Lambsdorff, 2002; Scott, 1972) and to impose power over their subordinates to become an aide in corrupt transactions (Tanzi, 1998). Based on the above, we expect that given the institutional change from a centralized autocratic regime to a decentralized democratic regime with direct elections in Indonesia, in the latter regime more actors, and specifically more local public leaders, will be involved in networks of corruption.

#### **2.2.4.2. Types of Relation**

Corrupt actions are driven by the interaction between or a relation of at least two actors to gain personal benefits (Della Porta & Vannucci, 2012). Actors’ relations can be based on formal relations or informal relations (Hutchcroft, 1997; Vannucci, 2011). Formal relations, such as the work hierarchy between upper and lower-level officials (Bag, 1997; Hiller, 2010) contribute to conditions facilitating corruption when leaders exploit these hierarchical relations in combination with patron-client networks (Granovetter, 2007). Informal ties between actors involved may lead to the occurrence of corrupt behavior (Warburton, 1998). In particular, strong ties, such as kinship and friendship, can be used to enforce corrupt transactions (Kingston, 2007; Rose-Ackerman, 2008). The characteristics of informal ties are, when compared to formal ties, more symmetrical (Lomnitz, 1988), horizontal, and personal (Warburton, 1998), and demand long-lasting reciprocity (Andvig, 2005).

Differences in institutional settings are expected to facilitate certain types of corruptive relations in terms of their structure (dyadic or triadic) and their quality (formal or informal). Due to the specifics of centralized autocratic regimes, with strong patron-client relationships, we expect corruption in these regimes to be predominantly characterized by dyadic exchanges with strong unilateral dependence relations between a powerful patron and a low status client, resulting in a highly centralized structure. Such patron-client relationships are expected to be particularly based on a combination of formal and informal relationships, such as kinship or friendship (Nielsen, 2003; for the case of Indonesia see McLeod, 2000; Renoe, 2002). In particular, actors who both informally and formally have strong relationships, which are also called multiplex relations, will be able to reap benefits from the patron-client system.

In decentralized democratic regimes with direct elections however, local public leaders can exert higher discretionary power, which gives them opportunities to manipulate the system for corrupt purposes (Jain, 2001). Whereas we do not estimate the dyadic patron-client system to disappear completely in this phase, we do expect a diversification of types of relations in various ways. First, we predict more triadic relationships to be more frequent, because central control will diminish and this will allow for more and a higher diversity of actors to be involved in corruption (see previous section). In such a context, strong, multiplex patron-client relationships will no longer be the sole manner to engage in corruption. Decentralization thus is expected to create opportunities for larger and more diverse networks of corruptive actors to develop, which can also be based on unidimensional relations (i.e., not necessarily a combination of both informal and formal relationships).

Based on the above, we thus expect that both formal and informal ties play a prominent role in networks of corruption in both centralized and decentralized regimes. However, in centralized autocratic regimes, we expect corruption networks to be predominantly characterized by dyadic and multiplex relations, whereas in decentralized regimes (and especially in the setting of direct elections) we also predict triadic and unidimensional relations to be present, and thus overall we expect to observe a trend toward the diversification of types of relations.

### **2.3. Data and Research Design**

This study consists of a content analysis and a historical/comparative analysis. These methods include an investigation into government reports and the reports of international institutions (e.g., The World Bank), as well as previous research articles on decentralization and corruption in Indonesia, next to an analysis of newspaper articles.

In order to understand the structure of corruption networks in different institutional settings, we collected data on public leaders' corruption cases in Indonesia by means of reported news from newspapers. The motivation to use newspaper data for this study is that it can provide information when alternative data (e.g., statistical data) are unavailable or difficult to obtain (Franzosi, 1987; Kukutschka & Kelso, 2016; McCarthy,

McPhail, & Smith, 1996), which is very much the case for corruption research. Moreover, newspaper reports represent information that has become available to the public. They, therefore, constitute an important source of public opinion that shapes public perceptions of corruption (Andvig et al., 2000), which makes newspaper reports relevant to study in themselves. Furthermore, journalists' records, often based on court files, provide valuable information that can be used not so much to produce a representative picture of corruption in Indonesia, but to gain more insight into the variability in the social-structural foundations of corruption, which is the aim for this chapter. We further elaborate on the specifics of the data collection and analysis process prior to presenting the results of our analysis (see the results section).

We explore the value of our theoretical expectations on the basis of 200 corruption cases, derived from newspaper articles reported by *The Jakarta Post*,<sup>23</sup> a leading daily online English-language newspaper in Indonesia. This high-quality newspaper has won several awards in national journalism and has a high reputation for following the ethics and standards of journalism. As one of the national newspapers, the coverage of *The Jakarta Post* includes recent corruption phenomena of the regional level. In order to minimize data bias (Franzosi, 1987), the reported cases in *The Jakarta Post* were crosschecked with the information from other reliable national and local newspapers (e.g., digital editions of *Kompas*, *Tempo*, *Media Indonesia*, *Jawa Pos*, *Pikiran Rakyat*, etc.), as well as government (e.g., courts) reports.

The newspaper data collection was completed in three stages: We first identified and collected those articles related to public leaders' corruption reported in the newspapers. The unit of analysis is thus the group of public leaders who hold power in public decision-making and implementation processes. This can be individuals (e.g., a mayor or minister) or groups of individuals (e.g., the local council). The key terms that were included in the search were corruption, bribery, embezzlement, bid rigging, fraud, misprocurement, kickback, graft, favoritism, and nepotism. In a second step, we reviewed the content of the articles, removed the articles with repetitive news and made a list of articles ordered per corruption case, so we could calculate the total number of corruption cases covered in the newspapers in the selected years. In total, the search yielded 947 articles, covering a total of 200 corruption cases. In a third step, for all cases, we systematically coded the following information based on our theoretical expectations:

- (1) The type of corruption per case: bribery (kickbacks), embezzlement, fraud, favoritism (which include nepotism), bid rigging (misprocurement), and money laundering. One case can pertain to various types of corruption.
- (2) The type of actors involved from both public and private sectors: individual, a group of individuals, and a corporate group.
- (3) The total number of actors per case: an individual (e.g., a governor) or a group of individuals (e.g., local council).

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<sup>23</sup> Website: <http://www.thejakartapost.com>

- (4) The number of public leaders involved per case (depending on the decision-making power): an individual (e.g., a mayor) or a group of individuals (e.g., local council).
- (5) Types of relations:
  - a. Dyadic vs. triadic ties: whether the ties consisted of two central actors (or actor groups) or of three or more.
  - b. Formal vs. informal ties: whether the ties consisted of formal (i.e., work hierarchy) or informal (i.e., kinship, friendship, and horizontal work relation). Unlike work hierarchy, a work relation reflects an informal tie between actors based on interpersonal reciprocity and transactions (Andvig, 2005).
  - c. Multiplex vs. unidimensional ties: whether the ties consisted of multiplex (i.e., formal and informal ties co-occur), or unidimensional (i.e., the ties are either formal or informal in nature).

We chose three time periods for comparison in our Indonesian newspaper data. For the corruption cases before the decentralization, we collected data from the years before 2001. Due to a limitation of our data in pre-decentralization years, we also refer to previous studies for additional data and information (Aspinall & Fealy, 2010; Blunt, Turner, & Lindroth, 2012; Liddle, 1985; 2013; McLeod, 2000; Renoe, 2002; Robertson-Snape, 1999). For the corruption cases after decentralization, we distinguish the data based on the first decentralization phase (2001–2004, i.e., decentralization accompanied with indirect local elections) from the second phase (2005–2013, i.e., decentralization accompanied with direct local elections). In order to reduce potential selection bias, we included all reported corruption cases in both time points. Based on this data, we can provide a descriptive, preliminary exploration of our theoretical expectations.

## 2.4. Results

Up to now, local governments in Indonesia have experienced two phases of decentralization: the first phase characterized by indirect elections and the second phase characterized by direct elections. In our analysis, we distinguish and compare the corruption cases for the centralized era and the two phases of decentralization to study if and how this process of institutional change had an influence on local elites' corruptive behavior in both executive and legislative bodies, and the resulting networks of corruption.

From the total 200 cases, ten cases reported occurred before year 2001 (pre-decentralization), 96 cases occurred between year 2001 to 2004 (first phase of the decentralization, a three-year time span), and 94 cases occurred between year 2005 to 2013 (second phase of the decentralization, an eight-year time span). The average cases per year in the first phase are 24 cases, while in the second phase of the decentralization are ten cases. Since data on the centralized era are limited, we complement the analysis of this era with secondary sources.

Below, we present descriptive data to explore the value of our theoretical expectations. For each of the three phases, we compare the frequency and nature of: (1) corruption, (2) the actors involved, and (3) the types of relations of the corruption networks. We consider the first decentralization phase (with indirect elections) as a transition phase from full centralization to full decentralization (when direct local elections were introduced). Hence, we expect to find a longitudinal trend in the composition and nature of corruption networks in terms of actors and types of relations.

### 2.4.1. Types of Corruption

For the cases analyzed, we identified a variety of corruption types at various levels. Table 2.1 shows the number of corruption cases that were identified at the provincial or district/municipality level. This table shows that most cases in all three phases pertained to the lowest local level (regency/municipality), indicating that local level corruption is a phenomenon that can be observed throughout time. However, we also see an increase in the proportion of cases at this lowest level from 77% in the first decentralization phase, to 90% in the second phase of decentralization.

**Table 2.1.** The number of corruption cases at local governments

Corruption cases at local governments	Pre-decentralization (Before 2001)	1st phase decentralization (2001–2004)	2nd phase decentralization (2005–2013)	Total
Province	3	22 (23%)	9 (10%)	34
Regency/municipality	7	74 (77%)	85 (90%)	166
<b>Total</b>	<b>10</b>	<b>96</b>	<b>94</b>	<b>200</b>

Table 2.2 gives an overview of the types of corruption present in the sample and the extent to which types of corruption co-occurred in one case. Given the fact that two or more types of corruption can be present at the same time, the total number of types of corruption identified exceeds the number of cases (i.e., 200 cases versus 296 counts of types of corruption).

Before decentralization, five out of the ten collected cases are about the embezzlement of government funds. Similar to the pre-decentralization phase, in the first phase and second phase, embezzlement of government funds is the most frequently reported type of corruption, 42% and 38% respectively. This finding is in line with previous work by Valsecchi (2013), who shows that embezzlement is the most common type of corruption in local government after the transition to decentralization in Indonesia.

In the first phase of decentralization (characterized by indirect elections), the second most often-encountered type of corruption is bid rigging or misprocurement. In

this period, there are 29 out of 96 cases relating to a covert agreement where authorities favor a certain bidder in the government procurement process by tailoring the tender's specification and budget to manipulate the bidding process. The third most common corruption case in this phase is favoritism, including nepotism. We identified 26 cases out of 96 cases related to favoritism, which is the practice that those with power or authority favor family members, relatives, friends, or anybody close and trusted to receive a government project or contract or any other benefit.

In the second phase of decentralization (characterized by direct elections), bribery is the second most common corruption type (30 out of 94 cases), followed by bid rigging (18 cases) and fraud (16 cases). These bribery cases are not only about private actors bribing public officials, for example to secure a project or contract (N=20), but also about public officials from different institutions bribing each other (N=10). For example, several cases pertain to local public leaders who bribe parliament members to gain approval for a local budget or who bribe a judge to buy judicial decisions. When we compare the two phases of decentralization (see Table 2.2), we notice a prominent increase in bribery cases (from 13% in the first phase to 23% in the second phase), as well as a decrease in the percentage of embezzlement cases (from 42% to 38%), bid-rigging cases (from 19% to 14%), and favoritism cases (from 17% to 8%).

**Table 2.2.** Types of corruption

Types of corruption	Pre-decentralization (Before 2001)	1st phase decentralization (2001–2004)	2nd phase decentralization (2005–2013)	Total
Bribery	0	20 (13%)	30 (23%)	50
Bid Rigging	2	29 (19%)	18 (14%)	49
Embezzlement	5	64 (42%)	50 (38%)	119
Favoritism	2	26 (17%)	11 (8%)	39
Fraud	4	12 (8%)	16 (12%)	32
Money Laundering	0	2 (1%)	5 (4%)	7
<b>Total</b>	<b>13</b>	<b>153</b>	<b>130</b>	<b>296</b>

Furthermore, we conclude that corruption types sometimes overlap (see Table 2.3), meaning that two or more types of corruption could be identified per case, except for the centralized regime. In our sample, 39% of the cases in the first phase of decentralization consist of more than one type of corruption, whereas in the second phase approximately 33% of the cases consist of two or more types of corruption. For example, there were

networks of corruption consisting of actions to secure favorable contracts and to offer projects to a certain private company as part of a bid-rigging attempt, which was then followed by bribery (19 cases).

**Table 2.3.** Overlap corruption cases

<b>Types of corruption</b>	<b>Pre-decentralization (Before 2001)</b>	<b>1st phase decentralization (2001–2004)</b>	<b>2nd phase decentralization (2005–2013)</b>	<b>Total</b>
Case consisted of one type of corruption	10	59 (61%)	63 (67%)	132
Case consisted of two types of corruption	0	20 (21%)	26 (28%)	46
Case consisted of more than two types of corruption	0	17 (18%)	5 (5%)	22
<b>Total</b>	<b>10</b>	<b>96</b>	<b>94</b>	<b>200</b>

#### 2.4.2. Number and Types of Corruption Actors

In order to explore whether the number of actors involved in corruption cases has increased in the transition process from complete centralization to full decentralization, as we expected, we identified the total number of actors involved per corruption case identified. Per phase, we calculated the total number of identified actors and divided this by the number of cases per phase, in order to generate the average number of actors per phase per case. We did this in two ways. First, we calculated this average of the number of individual actors involved (see Table 2.4). This calculation shows that in the pre-decentralization case, an average of 3.6 actors per case were involved, although we have to be careful to draw strong conclusions due to the low number of cases. In the first decentralization phase, this was an average of 14.1 actors per case, while in the second phase the averaged dropped to six actors per case. This exploratory descriptive analysis does not confirm our expectation that the number of actors per case on average will increase with the progression of decentralization.

Second, we made a similar calculation based on the degree to which an individual actor is part of a collective decision-making authority or not (see Table 2.4). This is important because collective decision-making bodies may differ in size (i.e., number of members per decision-making body) and this might distort our data somewhat. For example, a corruption case that involves a local council with a large number of members is more likely to lead to a large proportion of local councilors involved in the case. This leads us to consider council members as a group of actors that have collective decision making. By considering councils as single actors, the average number of actors per case involved per phase change. In the pre-decentralization case, on average 2.3 actors per case were involved. In the first decentralization phase, these were 2.7 actors per case and in the second decentralization phase, these were three actors per case. This exploratory



descriptive analysis points to a preliminary confirmation of our expectation that the number of actors per case on average has indeed increased with the progression of decentralization, if we consider local councils as single actors.

**Table 2.4.** Corruption actors

Corruption actors	Pre-decentralization (Before 2001)		1st phase decentralization (2001–2004)		2nd phase decentralization (2005–2013)		Total	
	Individual actor	Group actor	Individual actor	Group actor	Individual actor	Group actor	Individual actor	Group actor
<b>Local government:</b>								
Governor/ deputy	2	2	19 (1%)	19 (7%)	5 (1%)	5 (2%)	26	26
Regent/mayor/ deputy	7	7	77 (5%)	57 (22%)	76 (13%)	71 (25%)	160	135
Senior civil servant	7	4	98 (7%)	68 (26%)	137 (24%)	86 (30%)	242	158
Supervisor & staff	1	1	10 (1%)	5 (2%)	52 (9%)	27 (10%)	63	33
Local councilor	14	4	1087 (78%)	49 (19%)	188 (33%)	22 (8%)	1289	75
<b>Central government:</b>								
Parliament member	0	0	0 (0%)	0 (0%)	13 (2%)	5 (2%)	13	5
Minister	0	0	10 (1%)	10 (4%)	0 (0%)	0 (0%)	10	10
Judge	0	0	0 (0%)	0 (0%)	18 (3%)	6 (2%)	18	6
High-ranked official	1	1	11 (1%)	11 (4%)	3 (1%)	3 (1%)	15	15
<b>Private sector:</b>								
Private company CEO, Director/ State- & regional-owned company director/ others	4	4	78 (6%)	41 (16%)	78 (14%)	57 (20%)	160	102
<b>Total</b>	<b>36</b>	<b>23</b>	<b>1390</b>	<b>260</b>	<b>570</b>	<b>282</b>	<b>1996</b>	<b>565</b>

We also expected that the proportion of local public leaders involved in corruption increases with the progression of decentralization. Our first observation is that in all 200 cases, various types of local public leaders were involved, including governors, mayors, regents, local councilors, and high-ranked officials (see Table 2.4). Once again, we first analyzed the average number of individual local actors involved. In the pre-decentralization phase, 31 out of 36 corruption actors identified in the cases are from the

local level (see Table 2.4). In the first period of decentralization, 92% of the corruption actors are local-level leaders or local-level staff, with local council members being involved in a total of 78% of the cases in this phase. In the second phase of decentralization, this slightly decreased to 80% of the total cases in which local actors are involved. The percentage of local councilors interestingly, however, dropped in this phase to 33%. This analysis does not confirm our expectation that more local actors will be involved throughout time. If we consider local councils as one actor, this does not alter the overall picture. In the centralized regime, 14 out of 36 actors were from the local level. In the first phase of decentralization, local council members were involved in 78% of the cases, whereas in the second phase of decentralization local council members were involved in 33%, also indicating a decreasing involvement of local actors in corruption cases. Local councils were an actor in the collected corruption cases in 19% of the case in the first phase; this reduced to 8% in the second phase of decentralization.

We do see, however, that next to local councils, other types of local actors become more prominent corruption actors throughout the decentralization process. For example, the percentage of regents, mayors and deputies increases from 5% in the first phase to 13% in the second phase, and a similar pattern can be observed with regard to civil servants (senior civil servants, supervisors and staff). In the first phase they were identified as corruption actors in 8% of the cases, in the second phase this increased to almost 33% (see Table 2.4). In the post-decentralization phase, subordinates in charge of local budgetary legislation and public procurement units were apparently often forced to become involved in corruption by their public leaders or higher-level managers. From a total of 60 cases involving low-level officials and staffs, 33 cases involved those who are in charge of local budgetary legislation and public procurement units (e.g., subdivision chief in finance and regional plan units, project manager, and treasurer). In several cases, as reported during the court trial, the reason low-level officials engaged in corruption was not to gain money, but because of an order and pressure from higher-level officials (7 cases).

A final interesting observation is that at the central level, while judges and parliament members were not identified as corruption actors in the sample of cases in the first phase, they were identified as corruption actors in the second phase. Ministers, on the contrary, were no longer identified as corruption actors in our sample of the second phase of decentralization.

### **2.4.3. Type and Nature of Relations**

With regard to the diversity and nature of relations in the identified corruption cases, we expect that in the centralized era, corruption networks were predominantly characterized by dyadic and multiplex relations that have an overlap in formal and informal relations, whereas throughout the decentralization process, also triadic and unidimensional relations would develop.

### 2.4.3.1. Dyadic and Triadic Relations

Among the ten cases identified in the centralized era, there were only two cases that involved three groups of actors, indicating that indeed most relationships were dyadic in nature (see Table 2.5). Based on the construction of each network of corruption in the pre-decentralization period, we identified that the basic relation between actors involved reflect the patron-client ties, either between head of region with the subordinate or between head of region with local councilor. This finding is confirmed in previous studies stating that during the centralized government in Indonesia, local public leaders relied on their informal networks to obtain local power, and in turn used their position and access to resources to maintain their informal networks (Choi, 2009).

**Table 2.5.** Types of relations

Types of relations	Pre-decentralization (Before 2001)	1st phase decentralization (2001-2004)	2nd phase decentralization (2005-2013)	Total
<b>Dyadic relations, between:</b>				
a. Individuals	5	39 (41%)	34 (36%)	78
b. Group/organization	3	35 (36%)	29 (31%)	67
<b>Triadic relations, among:</b>				
a. Individuals	0	4 (4%)	15 (16%)	19
b. Group/organization	2	14 (15%)	11 (12%)	27
<b>Relations with more than three actors (individuals &amp; groups)</b>	0	4 (4%)	5 (5%)	9
<b>Total</b>	<b>10</b>	<b>96</b>	<b>94</b>	<b>200</b>
<b>Formal/ informal relation:</b>				
Formal relations: Hierarchy	8	76 (45%)	70 (42%)	154
Informal relations:				
a. Horizontal work relation	7	80 (47%)	71 (43%)	158
b. Kinship	0	3 (2%)	13 (8%)	16
c. Friendship	0	11 (6%)	12 (7%)	23
<b>Total</b>	<b>15</b>	<b>170</b>	<b>166</b>	<b>351</b>
<b>Multiplex relations</b>				
a. Hierarchy-kinship ties	0	0	1	1
b. Hierarchy-friendship ties	0	0	1	1
b. Work-kinship ties	0	3	8	11
c. Work-friendship ties	0	11	11	22
<b>Total</b>	<b>0</b>	<b>14</b>	<b>21</b>	<b>35</b>

However, contrary to our expectations, dyadic relations remain a prominent trait of the corruption networks in our sample, also during and after the decentralization process (see Table 2.5). In the first phase of decentralization, 77% of all corruption cases in our sample are characterized by dyadic relations, whereas the remaining cases (23%) pertain to triadic relations, or relations between four actors or more. In the second phase, 67% of the cases is dyadic in nature, and 33% is triadic in nature or involves more than three actors. Based on this, we could conclude that non-dyadic relations might be slowly becoming more prominent in Indonesia's corruption networks through time.

#### **2.4.3.2. Formal and Informal Relations**

We expected that both formal and informal relations are important in the occurrence of corrupt transactions in all phases, both centralized and decentralized. Table 2.5 shows that this is indeed the case. In general, we can observe a slow trend in which formal relations become a bit less prominent than informal relations: 45% of the relation were formal versus 55% being informal in the first phase, whereas in the second phase 42% pertained to formal relations versus 58% to informal relations. With regard to informal relations, especially work relations are often mentioned in our sample of corruption cases: 47% of the cases in the first phase involved work relations, and in 43% of the cases in the second phase, work relations were a trait of the network. It is striking that kinship and friendship relations are not often reported on in our data. This could be related to the type of data we collected. We return to this issue in the Conclusion and Discussion.

In the centralized regime, we expected to find a combination of formal and informal relationships to exist, especially due to the patronage system, but this cannot be observed from the ten cases we collected in this phase. Therefore, we refer to the previous studies, which revealed that during the pre-decentralization the overlap between formal and informal relations of actors involved were obvious. Top leaders chose subordinates based on the level of closeness in the kinship or friendship, where loyalty is strong (See: Liddle, 1985; Renoe, 2002; Robertson-Snape, 1999).

#### **2.4.3.3. Multiplex Relations**

From the data, we identified that there were not many multiplex relations in the post-decentralization era (see Table 2.5). Most of the overlapping relations are between work relation and kinship or friendship relations between public officials and private actors. In the first phase of the decentralization, 14 out 96 cases were multiplex relations, with 11 of those cases related to work relation and friendship ties, and the rest of the cases were related to work relation and kinship ties. In the second phase of decentralization, there were 21 out of 94 cases (22%) with multiplex relations. Among those cases, we discovered one case combining a formal relation (work hierarchy) with kinship ties and one case combining a formal relation with friendship ties. Furthermore, 11 cases combined a work relation with friendship ties and eight cases had overlaps with a work relation and kinship ties between local public officials and private actors. Overall, we could conclude that the

percentage of multiplex relations had increased from the first to the second phase of decentralization, contrary to what we expected

## **2.5. Discussion and Conclusion**

Many studies have already addressed the relationship between decentralization policies and corruption, also in Indonesia. However, these studies show mixed results. Using an exploratory analysis of a set of 200 corruption cases obtained from newspaper articles, we studied the characteristics of corruption networks in different institutional settings in Indonesia based on a social capital perspective. We explored to what extent the institutional changes in Indonesia from a centralized autocratic regime to a decentralized democratic regimes influenced the structure of corruption networks at the local level. To our knowledge, this is the first time that corruption networks in Indonesia have been studied in this manner.

Given that our analysis is based on a particular sample of corruption cases (i.e., those reported and discussed in Indonesian newspapers), we do not claim that these findings represent all corruption cases in Indonesia, nor that we have presented a representative picture of corruption in Indonesia. Nonetheless, this sample allowed us to explore the variability of social-structural characteristics of corruption. However, as with any type of data used, our data has its limitations, because it is journalists who decide on which corruption cases to report and how to report on these cases. The lack of press freedom in the centralized authoritarian regime probably influenced the extent to which reporters could freely report about these cases, leading to less information quality of this sample of ten cases, compared to the samples during the two phases of decentralization. Second, the role of the anti-corruption body (i.e., the Corruption Eradication Commission) established in 2003 during the post-decentralization to fight against corruption in Indonesia has contributed to the high number of cases made public and published in newspapers. Third, there is limited mentioning of kinship and friendship relations in our data, whereas other sources pinpoint at the importance of these types of relations in corruptive actions (Scott, 1972). This potential underreporting could be a trait of the type of data we collected: it might be that in newspaper articles, these types of informal relations are not as much a focus compared to the relations in a work hierarchy.

Despite the limitations of our data, the evidence presented in this chapter suggests that corrupt transactions exist at the local level in both pre- and post-decentralization regimes in Indonesia, even though decentralization is seen as a promising strategy to control corruption. This finding is in agreement with previous studies on local government corruption in Indonesia (See: Rinaldi, Purnomo, & Damayanti, 2007). Compared to the pre-decentralization years, this chapter also shows that the decentralization policies have to some extent changed the nature of corruption networks at the local level, particularly in terms of the types of corruption, the actors, and the types of relations. First, whereas embezzlement remains the most prominent type of corruption in all three phases studied, we do see an increase in the bribery cases reported but a

decrease in the number of bid rigging and favoritism cases published. Second, although it has been argued that the scale of corruption may be smaller after decentralization (in terms of resources, actors' position, and size of the case) compared to the grand corruption cases during the Suharto era (Blunt, Turner, & Lindroth, 2012; Renoe, 2002), we conclude that in total more local actors are involved per corruption case. Third, while local councilors were prominent corruption actors in the first phase of decentralization, their role seems to have substantially decreased in the second decentralization phase. We argue that this phenomenon relates to the power position of local councils as regulated by Law No. 22/1999. According to the law, local councils have extensive functions, namely a legislative function, a representative function, and a control function over local executive. With members of local council having extensive powers and functions, opportunities for political corruption were aggravated in the first decentralization phase. However, in the second phase of decentralization, the relations between local council and head of region are more restricted to work relations. Under Law No. 32/2004, the local council's function is more characterized as check and balance mechanisms. We argue that because of these factors corruption implicating members of local council decreased after the decentralized democratic regime, as we see in the second phase. Fourth, we also see the increased prominence of civil servants' involvement in corruption at the local level. This result is in line with previous studies that stated that after the decentralization policies in Indonesia, corruption also escalated among lower-level officials (Kristiansen et al., 2009; Rinaldi, Purnomo, & Damayanti, 2007).

However, not all has changed. First, the overall participation of local actors in corruption does not seem to have changed significantly. This leads us to conclude that the decentralization policy also seems to create privileges and benefits to local leaders to establish extensive informal networks with various different actors from central and local governments as well as with private actors. This argument is consistent with Buehler's finding (2007), which demonstrates that strong personal networks of local politicians after the decentralization in Indonesia are even more beneficial in securing personal interest. A second aspect that changed minimally is related to the dyadic relationships in corruption networks. Patron-client networks, which we argued to be the main characteristic in centralized autocratic regimes, remain to exist even after the decentralization process was initiated in Indonesia. This is in line with Robinson and Hadiz's argument in Liddle (2013) that even after the authoritarian regime was replaced with decentralized democratic institutions, Indonesia is still a system in which a few powerful elites shape and control public policy. However, we must note that we do observe a slow trend in which other types of relations (with three or more actors involved) gain prominence in our data. Finally, the application of a social capital perspective shows that informal relations play an important role in the emergence of public leaders' corruption in all three phases studied. As argued by Rose-Ackerman (2001), together with formal regulation, informal relations may represent the key elements for fighting corruption.

In closing, we suggest that decentralization should not be viewed as the only solution for governance challenges in terms of controlling corruption. Democracy at the local level can have a positive impact on reducing corruption in the long run. However, without a comprehensive anti-corruption strategy, it will be very difficult to control the occurrence of corruption, also in decentralized democratic regimes. Elements of such a comprehensive strategy could include conducting fair and transparent local elections, enhancing professionalism, integrity, and commitment of bureaucracy to fight against corruption, improving the credibility of the anti-corruption agencies, strengthening the justice system in the prosecution of corruption cases, and allowing greater level of control by the public on corruption issues.

We hope that this study will complement previous research and at the same time provides some useful points for further research. As mentioned above, the findings of this study are related to several previous works on decentralization and corruption. However, the exploratory approach of this study would be more convincing if it was supported by empirical hypothesis testing. Therefore, in order to overcome the limitations and bias of our present study, in future research we will systematically analyze the social network of corruption by means of statistical methods and relational algebra and apply it to our sample of newspaper reports on corruption in Indonesia's decentralized democratic system.