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Management Dilemmas in Former Eastern Bloc Countries

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Abstract

This bachelor thesis examines how Swedish companies handle the problematics that can arise when acting on markets in former Eastern Bloc States, with Hungary as its central foci. The main dilemma that is focused on throughout the study is corruption and bribery. It is an explorative research based on interviews in Hungary that have been analyzed through Institutional and Transaction Cost Theory. There is an evident lack of qualitative research within the discourse regarding corruption related dilemmas that this thesis aims to decrease. Our work results in a model which describes the relation between public and private sectors and short vs. long term perspectives correlated to transparency. Furthermore, the thesis also unveils four strategies that companies use in order to increase their transparency and remain as successful business actors on an international market.

Key Words: Corruption, Bribery, Hungary, Sweden, Management, Institutional Theory, Culture, Norms and Value, Transaction Cost Theory.

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1. Introduction

World Bank President Jim Young Kim stated in late December 2013 that corruption is the “public enemy number one” (The World Bank, 2013), a statement which highly indicates the relevance of corruption as a global problem and challenge of our time. According to the UN Handbook on Practical Anti-Corruption Measures for Prospectors and Investors (2004), bribery ranks as the most common problem sprung from corrupt activities. As the phenomenon of corruption usually is referred to the public sector and aspects within political institutions, its comprehensive impacts on activities in the private sector often have tendencies to be pushed into the background and become somewhat neglected. Recent studies more narrowly emphasize to what extent corruption actually affects private business in the world, frequencies that inevitably prove its gravity and role as a potential undercover framework for actors doing business internationally (Hameed and Magpile, 2014). The Centre for Strategic and International Studies shows that corruption of the private sector in developing countries is increasing significantly with a cost of approximately €365 billion a year - which is more than three times of all foreign assistance in 2012 (Hameed and Magpile, 2014). Not only the developing countries are exploited soil for an expansive corruption, while on the other hand an estimated €120 billion is each year lost to corruption throughout the 27 EU member states (Nielsen, 2013). Therefore a further investigation of this obvious problem appears to be of both major importance and worldwide relevant concern.

Recently Ericsson’s involvement in bribe related activities in Greece was revealed in Swedish media strongly urging the current appearance also when it comes to multinational and well-reputed companies such as Ericsson (Affärsvärlden, 2014). This fact makes us believe and suspect that corruption in different attributes on the private market exists in a much broader and frequent way than most people are aware of.

1. 1 Definition

In order to enable an academic study of this broad, complex and in many concerns diffuse topic an attempt to find a possible definition of the phenomenon is crucial. Frames for what is referred to be regarded as corrupted activities differ from one country to another, a fact that certainly makes the problem of issue even more complicated to measure. There is a need to examine the definition of the phenomenon and its meaning more closely in order to grasp its

essentials. Numerous definitions of the phenomenon exist but most of them are confined to the public sector. Geoffrey M. Hodgson and Shuxia Jiang (2007) developed the meaning of corruption on a broader spectrum since it, as earlier mentioned, traditionally focuses on the public sector and officials. According to their definition there is no support to corruption as a phenomenon confined to the public sector. There is no reason to why it should not also concern private organizations, since corruption itself does not care for the dividing of private and public sector. It is also stated so in Ficeac's article on post-communist cultures, where he adds that corruption flourishes in the intersection between the public and the private sector (Ficeac, 2013). What should be evident by now is the fact that there is no one single definition of corruption; it has to be placed in its context. Ultimately we have a rather Swedish standpoint regarding corruption meaning that there is a zero tolerance towards bribery.

1.2 Background

Bribery exists in more or less every country across the globe to a certain extent. Countries that earlier were a part of the Soviet Union and its communist regime have gone through a transformation towards market economies since the early 1990's, are more exposed and vulnerable to corrupt activities. The change of social and legal systems has gradually created opportunities for officials who distribute resources to obtain personal advantages while dealing with companies, especially via the acceptance of bribes. In countries with a high PPP (Purchasing power parity) bribery is less common. Bribes do not necessarily take a financial form; they are certainly expressed in other ways as well. For instance, it can be manifested through a distorted image in the press in order to avoid negative publicity or other pressure to enforce possibilities of advancement in queue systems and school privileges for relatives and children. (Sanyal, 2005)

Transparency International creates an annual index that shows the level of corruption where a score close to 100 indicates low levels and vice versa. Sweden's score is 89 while Hungary has a score of 54 according to the results of 2013 (Transparency International, 2014). This obviously indicates that corrupt activities are more common in Hungary than in Sweden.

1.3 Cultural Differences

Cultural differences also have a significant impact on the view of and what is regarded as corruption. UNESCO (2002: 4) gave the following definition: “*Culture should be regarded as the set of distinctive spiritual, material, intellectual and emotional features of the society or a social group, and that it encompasses, in addition to art and literature, lifestyles, ways of living together, value systems, traditions and beliefs.*” Meaning that the cultural aspect has a huge impact on what corruption and bribery are, or should be considered to be (Ficeac, 2013). Naturally this also implies that there are different definitions of what bribes are in different cultures, for instance in Sweden and Hungary. Furthermore it also implies that the state of culture takes time to change, meaning that the heritage that the communist regime left is one that is difficult to “cure” (Ficeac, 2013; Hofstede, 1981). In other words, the complexity of the problematics that firms on foreign markets and cultures face are immense. The necessity of dealing with these differences and ways of facing corruption oblige companies to handle a rather complex and multidimensional dilemma.

In certain cultures the phenomenon of corruption is widespread and deeply embedded; one such area is the former member states of the Soviet Union. The communist regime left their inheritance hammered into the national cultures. (Rose, 1998) In the old communist regimes “*everything was forbidden unless it was expressly allowed*”, while today it is “*everything is permitted unless it is expressly forbidden*” (Sexty, 1998: 1312). The circumstances that existed during the communist regime forced managers to evade some of the rules in order for their company to produce some sort of a result. This in its turn led to that the ethics that the managers once may have had were eroded and their moral position became offset. (Sexty, 1998) Even if Hungary is not a transition economy today, the cultural values remain. Culture is deeply wedged into a nation and is hard to change. (Ficeac, 2013; Hofstede 1981)

1.4 Why Hungary?

Our initial aim with this bachelor thesis was to focus the research question on countries in Eastern Europe that until the fall of the Soviet Union were parts of the communist regime and its social structure. The curiosity was at this point mainly to study how the climate of the planned economy heritage potentially could be reflected in the current economic landscape, with a central focus on corruption related to the private sector. Furthermore a clear link to

how Swedish business tends to handle the possible problems, in the sense of corruption and its surrounded activities that might affect or contradict their own ethical positions. As the former Eastern Bloc Countries cover such a broad geographical area, including countries with rather divergent economic, political and cultural stability, we soon realized that a more narrow focus on a specific region was a necessity in order make such a research project possible. This not least due to our limits both when it came to time and financial means. To enable a study with as much depth and relevance for Swedish companies as possible, we decided to focus on an individual country amongst the former Eastern Bloc . Since we already had experience and knowledge of Swedish companies' extensive activities and importance for the Hungarian market, we chose to target the study entirely to Hungary and Swedish companies operating there.

The reason of choosing Hungary as the core country for our study also strengthens by the fact that Swedish-Hungarian trade has increased significantly during the last decade. Today Hungary is Sweden's 33rd most important export partner and 26th most important import partner. The Jas Gripen cooperation has had a great impact on the countries' bilateral relation, something that also makes a research of this character highly relevant. (Embassy of Sweden, Hungary)

1.5 Gratitude Money

A common form of bribery in Hungary is what in Hungarian is called gratitude money, meaning, for instance that an individual gives a doctor an envelope, which is often accepted. Naturally these earnings are part of the shadow economy. This can be seen as bribery, though in a smaller scale than what companies might pay officials. Furthermore two thirds of the Hungarian population has no problem with a doctor "demanding" some sort of gratitude payment after a treatment. The difference between countries like the UK, USA and Germany whom all have different systems (public or private), where gratitude payments are rare, is the transparency of the healthcare system. With this said, it can be stated that it is a heritage from the Soviet era when public affairs were hidden. (Kornai, 2000) This shows the widespreadness of corruption and bribery within Hungary. Since this phenomenon seems to be a part of the national culture, as a norm, the step from healthcare to other sectors is fairly small, proven by the low score according to Transparency International's (2014) Corruption Perception Index.

2. Problem Discussion

In the following chapter we will discuss the problematics concerning research regarding corruption and its connection to the private sector: the cultural differences, the consequences and the problem of measuring corruption.

Opportunism

The idiom: “*the opportunity makes the thief*” seems to be very applicable on the phenomenon of corruption. Both the recipient and the briber are very opportunistic, they grab the chance to gain a certain advantage when it arises. Since a corrupt transaction or act happens outside of the legal environment, numerous chances to take advantage of one another arise. (Husted, 1994)

Consequences

The phenomenon of corruption is accompanied with costs, both direct and indirect. The direct costs are transaction costs such as “grease money” and “speed money”. These are typically between a firm and an official or government. Even though all countries consider bribery illegal, only the “tip of the iceberg” is visible, most bribes never get discovered (Noonan, 1984). The costs for companies can be huge, also if they decide not to get involved in bribery since government might make doing business hard via bureaucratic delay or red tape decisions. (Doh et. al., 2003) The indirect costs are as the name suggests harder to trace, they are not connected with one single transaction. Nonetheless, they result in vast costs. The public sector might fail with certain institutions, misguide resources or it might result in an insufficient infra system. Factors like these lead to a slower economic growth which in its turn may lead to social failures such as increased poverty, high income inequality, rising illiteracy due to failure by the government to enhance the school systems and other socio-economic problems. In other words: problems that make development much harder. (Doh et al., 2003)

Measurements of Corruption

There are two key factors that act as measurements: pervasiveness and arbitrariness. The first expression is a sort of measurement that takes the frequency of corrupt transactions into account, generally the higher the pervasiveness is, the higher direct and indirect costs. The

latter expression explains how organized the corruption is, meaning that you know whom to pay off to receive what you want and so forth. The less organization, regarding corruption, the harder it is to figure out whom to bribe, resulting in many smaller amounts. The latter measurement is more complex due to the fact that independent officials and institutions tend to want to maximize their own bribe gains, regardless of the impact that it may have on other officials and institutions. Naturally in such cases, it is difficult to ensure smooth running of operations that are connected with corruption. In Hungary there is a high level of arbitrariness and a lower level of pervasiveness. This means it is hard for a firm to estimate the costs and even more complicated to estimate the impacts that corrupt activities have on their operations. (Doh et al., 2003)

Why Study Corruption Connected to Management?

Due to the fact that research with a broader multilevel perspective on corruption and bribe activities is exceptionally scarce, we intend to highlight the issue with focus on problems it can involve in the private sector. Interestingly enough not a single country across the globe does treat bribery as legal, a quite surprising fact if you look at Transparency International's annual corruption index (2014). Simultaneously managers tend to regard bribery as an ethically offensive practice no matter of nationality, background or where in the world they are asked. (Martin et. al., 2007) This, in our assessment, rather contradictive view makes the topic even more interesting to study.

When the Berlin wall fell in 1989 and the Soviet Union later on collapsed, a market characterized by tremendous opportunities opened up towards the rest of Europe – but possibilities did not come without parallel problems and challenges. When the former Soviet states left the planned economy behind and began the transformation towards a market economy, an immense change was to take place. Behaviors and patterns characterizing the Eastern European countries that were against Western policies had to change in order to reach the new regulations and standards. Public corruption naturally also infected the private sector and business activities, a fact multinational companies with interest in entering these markets logically had to face. During the past two decades since the regime shift enormous changes and improvements have taken place but plenty of differences in a negative sense are still very obvious. While working and doing business in today's global economy cross-border interactions are of key importance for companies in order to maintain a high level

competition. Trade between countries all over the world has gone through a rapid increase over the last few decades and borders of the past are gradually losing their key role in the sense of protection, especially within the European Union. Swedish business is utterly a part of this evolution of international interaction, synergy and dependency not least due to the fact of being an export oriented country. A highly relevant question is therefore how companies handle the situation when the market or country in concern possesses and requires actions that substantially are in conflict with the own company's policies and the home country's norms and values? As earlier mentioned there is an evident lack of research within this field and especially when it comes to this very question. Even though this dilemma appears to be of rather widespread concern as a global problem among business actors, it has been surprisingly hard to find any further studies that actually focus on these relevant aspects. This shortage of earlier research therefore opens up possibilities for us to actually investigate a highly relevant research field with a potential of discovering new valuable facts that can be of concrete importance not just in the sense of research and theory but also as practical implications for companies dealing these problems on a daily basis. We aim to investigate further how Swedish companies handle these dilemmas - what experiences they have gone through and what actions and tools they prefer when such situations arise. Is there a best way or concept of treating this challenge? The intention is to interview leaders at Swedish companies on the Eastern European market with focus on Hungary and hear their opinion and voices in order to get a broader view of the size of the dilemma, how affected companies are and how they deal with it. To open up for general assumptions and conclusions are not key goals, rather the value of finding every unique respondent's experience.

2.1 Research Question

This study will enable a deeper insight in how companies reflect on the topic and how they prefer and recommend to handle potential corruption related dilemmas. Ideally reflections, shared experiences and advice can serve as a guideline and contribute to a perspective that gives a further understanding of how to deal with the complexity corruption is synonym with.

How do Swedish companies and their managers handle situations when corruption contradicts their own fundamental policies?

2.2 Purpose

Investigation of how Swedish companies get affected by corrupted tendencies on markets in Hungary and how they manage to do business there without getting involved in activities that contravene their own policies.

2.3 Delimitations

Since the problem of corruption is such a large, complex and global issue, there is a pressing necessity to delimit the area of which we aim to explore. One such limit that we need to enforce is the actual physical area of interest, even though the problem is of a global character. Even looking closely at Europe is too vast of a region to examine. This study is therefore limited to Eastern Europe, with Hungary as its central foci.

3. Theory

In this chapter we will briefly describe two major theories that are essential for our research. Furthermore there are a couple of supportive strategies as well that will be described and explained.

3.1 Institutional Theory

Institutional theory is a broad field with many sub-fields and theories covering economic, social and political discourses, with its roots around 1880. It had its major break-through in the mid-1970s and is still being developed today. (Scott, 2001)

3.1.1 Institutions, Norms and Culture

A definition of institutions was given by Scott: (2001:48) *“Institutions are composed of cultures-cognitive, normative and regulative elements that, together with associated activities and resources, provide stability and meaning to social life”*. Furthermore he argues that institutions give stability, although they are subject to change over time. Institutions are also resilient meaning that they do not change over-night (thus the stability), and exist in all levels of society ranging from a worldwide basis to local relations. (Scott, 2001)

Culture can be defined as: *“Culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. Culture, in this sense, is a system of collectively held values”* (Hofstede, 1981: 24). Then he further argues that in the heart of a culture are the norms, a certain set of beliefs and values that are accepted by the majority of the population. The norms lead up to a functioning society, and to the construction of institutions. An organization acting within a national culture must be impacted by it, meaning that the organizational culture must be a subculture to the national culture, even though there are similarities within professional cultures across the world. (Hofstede, 1981)

A framework for analyzing institutions is Scott’s “Three Pillars of Institutions”. The three elements are the regulative pillar, the normative pillar and the cultural-cognitive pillar. Together or separately these three pillars are the elements that make up the institutions, thus the way of the social life. The regulative pillar is made up from regulatory processes such as

rule-setting, monitoring and sanctioning activities. It acts as an organ that tries to influence future behavior with both punishment and rewards. The normative pillar contains both norms and values. It dictates and defines how things should be done and the tools one use to acquire goals. The norms and values can target either the entire population or parts of the population. The normative pillar is considered to impact social behavior, or rather limit social behavior. At the same time the normative pillar also enables stability for a culture. The cultural-cognitive pillar is the third and last one. This pillar symbolizes the importance of the cultural-cognitive aspects of an institution. It emphasizes the nature of social reality and the fact that behavior and routines are expected to be followed. (Scott, 2001)

Table 3.1: Scott’s Three Pillars of Institution (2001:52)

	Regulative	Normative	Cultural-Cognitive
Basis of compliance	<i>Expedience</i>	<i>Social obligation</i>	<i>Taken-for-grantedness Shared understanding</i>
Basis of order	<i>Regulative Rules</i>	<i>Binding expectations</i>	<i>Constitutive schema</i>
Logic	<i>Coercive</i>	<i>Normative</i>	<i>Mimetic</i>
Indicators	<i>Rules, Laws and Sanctions</i>	<i>Certification and Accreditation</i>	<i>Common beliefs, Shared logic of action</i>
Basis of legitimacy	<i>Legally sanctioned</i>	<i>Morally governed</i>	<i>Comprehensible, Recognizable and Culturally supported</i>

3.1.2 Institutional and New Institutional Theory

The formal structure of an organization may be seen as “blueprints” of the firm. At the same time it is known that the day-to-day work differ from the blueprints. Organizations are also assumed to be rational structures that are formed in such ways to maximize the rationality and its effectiveness, with its roots in the Webern bureaucracy. Although, at the same time organizations, whether governmental or non-governmental are surrounded by the social landscape. (Meyer and Rowan 1977)

In this landscape there are institutions, norms or sets of beliefs. Norms may spring from social environments or from legal basis. These norms are incorporated or adopted by the organizations that also act within the social landscape (Meyer and Rowan 1977; Hofstede 1981). The norms are myths; these myths are rational means that the organization may use to obtain its goals, similar to building blocks which in its turn create the formal organization. By using building blocks the organization obtains the legitimacy that the accepted norm holds, naturally the organization itself becomes legitimate. With this in mind, an organization reflects the environment that it acts in. An organization that adopts the environmental institutions obtains its legitimacy from the institutions and is then not built from a rational perspective, in terms of effectiveness but rather in a rational way from a perspective of external legitimacy. Furthermore, organizations tend to be isomorphic since they reflect their environment, thus an organization is greatly influenced by its surroundings, or even depicted by it. There is also an increased interconnectivity between organizations and this isomorphism ensures a sort of smoothness while interacting. It maintains certain stability and applies both to internal and external communication. Incorporating norms maximize the legitimacy of the organization which ensures survival and success for the firm. (Meyer and Rowan, 1977)

3.1.3 Corruption as an Institution

The idea of corruption as an institution is not a new one. It has often been assumed that corruption is a product of the absence of certain institutions. Instead, corruption can be seen as an institution itself. Actually, it thrives due to the fact that it is an institution that is a natural part of other institutions, thus putting pressure on the society to follow the norm. It is also stated that institutions are what makes up the social capital, thus if they are corrupt, corruption then must be one of the institutions. (Robins, 2000) This is strengthened by the idea that a government or a state cannot act outside institutions that already exist in the society. Meaning that the power relations that are already set in place cannot be changed, else the state would not be accepted. (Foucault, 1980) Furthermore both Teorell (2007) and van den Bersselaar and Decker (2011) agree that corruption is an institution in many cases and it is in societies that corruption once was a problem we can find the “cure” to this institution.

3.1.4 Institutional Theory and Rational Choice

Rational choice theory aims to explain the choice made by human beings, with its base in the fact that humans are opportunistic and want to maximize their own gains. An assumption that the theory makes is the fact that all humans choose on a rational base, weighing the alternatives against each other in order to choose the alternative which offers the highest gain. (Hindmoor, 2006)

Even though criticism against rational choice theory is one of the major themes within the institutional theory, there are situations when it is applicable. For actors in an institutional environment there must be some sort of incentive to break the norms. In the situation where a bribe might change hands, the participants have to do a “calculation” if it is worth breaking the norms and institution in order for the bribe to exchange hands. There must be a gain which is larger than the possible punishment for the illegal act. If it is a culture where corrupt activities are relatively scarce the “reward” must be higher. Naturally if it is in an environment where bribery is common the “reward” is lower. Furthermore, the level of the regulator has a rather large impact on the “reward” as well, thus the risk for being caught while bribing is larger. (Erlingsson, 2006)

3.2 Transaction cost theory

In the 1930's the first foundation of the Transaction cost theory was created, a theory with a long runway that was to be developed much later.

It is important to consider costs in reality, not only the costs that are from the market. According to Williamson: (1981: 552) “*A transaction occurs when a good or service is transferred across a technologically separable interface. One stage of activity terminates and another begins*”. Then the transaction cost is the cost for the actual transaction, meaning that it is not only the market price but all other costs related to the actual transaction as well, including the cost of organizing the transaction (Coase, 1937). The basics in the Transaction cost theory derives from that statement leading to the reason for firms to exist; which is to minimize the transaction cost for every economic act that needs to be executed, thus having lower costs than the market. Naturally this also includes comparing costs of in-house or outsourced production as well. Another fundamental part in the theory is that a firm is not able to control the transactions between the organization and the market. The internal

transactions can be controlled, this due to the fact that the internal transaction costs can be eliminated (to a certain extent) since there is less external impact, such as taxes or negotiation costs. This means that the size of a firm will depend on keeping the internal transaction costs lower than the external transaction costs, including the actual cost of organizing. (Coase, 1937) What was lacking in Coase's foundation was a more explicit idea of what transaction costs actually are and how they arise. There are two factors that impact from a human behavioral perspective: bounded rationality is one and the other is that humans most likely are opportunistic. The first factor relates to a transaction by not being able to acquire perfect information, leading to incomplete or insufficient contracts, thus rising costs. The latter factor meaning that humans are opportunistic might lead to rising costs due to theft, lies or other illegal actions. Furthermore three aspects or attributes that impact the costs of the actual transaction are: uncertainty, the frequency and the specificity of the good or service. The uncertainty is of course, impartible from bounded rationality and perfect information. (Williamson, 1981)

3.3 Strategies

Doh et al., (2003) suggests a number of strategies that may help the understanding of how firms act on foreign markets and why they act the way they do with its base in direct and indirect costs as well as pervasiveness or arbitrariness.

Avoidance: The first strategy is to avoid markets with high levels of arbitrariness and pervasiveness, due to the fact that investments get delayed and therefore costs rise. Naturally avoidance is a strategy that not only avoids the direct costs but the problem as a whole. The catch with this strategy is that the firm risks missing out on business opportunities.

An example: IKEA has been trying to start up business in Ukraine for the past 10 years or so without any success due to their animosity towards bribery. By enforcing their strict policy they may have lost a business opportunity, thus a large cost by missing out on a potential market. (Dagens Industri, 2014)

Adjusting Entry Model: Joint Venture is a common way to penetrate a new market, though it differs whether it is a joint venture between multinational enterprises or local and MNEs. There are different strategies depending on the levels of arbitrariness and pervasiveness. With

a higher level of arbitrariness international joint ventures are increasingly more common. While with a high level of pervasiveness it gets increasingly more common with joint ventures together with local actors.

Corporate Codes of Conduct: A complementary strategy, as the name indicates it is a rigorous set of principles enforced by the company. It applies on both direct and indirect costs as well as on markets with both arbitrariness and pervasiveness.

Training, Development and Public Education: The fourth course of action can be seen as an extension of the previous strategy. There is often support from large organizations such as the UN or the World Bank. Furthermore it might help to enforce the firm's ideologies regarding corruption on future generations and the local setting.

Social Contributions and Public Donations: Using this strategy allows the firm to bypass the act of corruption, though it is difficult to draw the line whether the donation or contribution is a bribe or not, a moral dilemma rather than a dilemma ruled by law.

Laws and Agreements: There is only so much a company can do to eliminate corruption outside its own fictive borders or limits since it is often deeply embedded in the national culture. Though, by laws and agreements they have a certain measure of power to impact the creation of those, for example lobbyism. This strategy is more suitable for markets with high level of pervasiveness. (Doh et al., 2003)

4. Methodology

This chapter explains the used methodology throughout our thesis research.

Our intention throughout our thesis is to carry out a combination of an inductive and a deductive method in order to accomplish a result covering both a broader perspective, as well as making a deeper understanding of the phenomenon possible (Bell and Bryman, 2007). The inductive part will be based on our interviews with managers and other officials in Budapest, whilst the deductive part is referred to articles and earlier research we have taken part of. In other words, both primary and secondary sources will be necessary.

4.1 Choice of Theories

Corruption is a phenomenon which stretches across many fields and theories since it exists in many parts of our society. In order to understand such a complex problem the chosen theories represent different perspectives on the issue at hand. The Transaction cost theory covers a more economical aspect while institutional theory represents social behavior and the surroundings. Our intent when choosing the selected theories is based on our aim to present a holistic approach, in order to achieve a multi-faceted discussion. Furthermore the selected theories pushes us further towards an interview based study as one needs to probe the culture in order to be able to understand it.

4.2 Interviewing in qualitative research

Using interviews as a qualitative research method obviously has both its pros and cons, just as every other method has. In order to minimize the disadvantages it can bring, a number of aspects have to be considered. Differences that easily erupt from inconsistency between interviews is a common problem that preferably is avoided through an initial clear structure and a somewhat standardized setup. This fact is important to continuously relate to, but our intention is although not to apply this complete structured interview where the aim is to receive answers that are in response to identical cues that will enable aggregations. We rather prefer to get a wider range of multi-faceted answers that will open up for a further understanding of every respondent's own experience. In this sense the importance of using the interview method's all advantages will be a key tool, for instance by elicit all information of

relevance via; behaviors, attitudes, norms and beliefs. (Bell and Bryman, 2007) Furthermore a qualitative research does not aim to give a general description of the problematics but rather to draw upon the knowledge and experience of people to understand why the problem is what it is and how it is dealt with, thus leading to a nonprobability sample (Cooper and Schindler, 2014).

While the interview situation can become rather stressful due to many reasons, recording and taking notes are usually highly recommended procedures. This will reduce the risk of forgetting information of value, miss-interpretations or even the possibility of any kind of embellishment afterwards. To accomplish this, preparation is of uttermost importance as well as to minimize the use of confusing and complicated terms during the interview. Ambiguity most likely results in wrong or different interpretations among the respondents which will imply errors when all material is to be examined. Another source of error is if some respondents have been asked questions that others have not. (Bell and Bryman, 2007)

Following bullet points have been considered during all interviews in order to ensure a smooth flowing conversation that eradicates as many errors as possible from the interviewers' point of view. The questions have been thoroughly thought through, worded carefully, explained to the respondents when needed. Later on in this chapter the remaining bullet points will be explained.

Common sources of error:

1. *Poorly worded question*
2. *The way the question is asked by the interviewer*
3. *Misunderstanding on the part of the interviewee*
4. *Memory problems on the part of the interviewee*
5. *The way the information is recorded by the interviewer*
6. *The way the information is processed, either when answers are coded or when data are entered into the computer* (Bell and Bryman, 2007: 211)

4.2.1 Semi Structured Interview

According to *Business Research Method* a typical semi structured interview is based on an *interview guide* with a list of questions on rather specific themes that are to be answered or in some way covered. Nevertheless the respondent is supposed to have a great deal of leeway in the way of replying and the interview does not therefore have to be exactly structured as on the schedule prepared on beforehand. Slight differences between interviews are also allowed, but preferably framed rather similarly with some kind of consistency. However, it is featured as a flexible process. The interview process focuses to a broad extent on how the respondent frames and understands the issues and questions of concern. One of the main objectives with the semi-structured interview is namely, to grasp the interviewee's views and explanations of interest and try to understand decisions, patterns and behaviors through his or her point of view. For instance; why does the respondent answer in certain ways? Are there any potential reasons behind it? (Bell and Bryman, 2007)

The gathering of data will be done via the above mentioned semi structured interviews. The reason for that choice is that it gives our explorative research a chance to understand how the chosen companies act in a hands-on environment. Furthermore it gives us the opportunity to have a more free flowing conversation with the respondents compared to a structured interview, which would not enable answers on a broad enough perspective, by keeping to a too strict of a script (Bell and Bryman, 2007). Naturally it may also make the respondents feel more comfortable as they have a chance to explain their answers in longer sentences rather than in short structured answers. This chosen approach opens up for a much wider data base as not only the answers are data but the way the respondents behave in the interview situation as well. This research strategy will give us a deeper insight in the actual practice of the respondents. It also gives us the chance to ask follow up questions during the interviews that enables us to more closely examine a certain subject that is important to our thesis. An unstructured interview is not an alternative due to the fact that it would be too volatile and increase the risk of losing the topic or receiving answers that are too opaque to enable any sort of conclusion in the analyzing process.

Before the interviews, we conducted a guide for the interviews with questions that acted as a base for the interviews. The guide helped us to focus on the questions that we believed important for our data collection, and not to get side tracked.

Pyramid Structured Interview Model

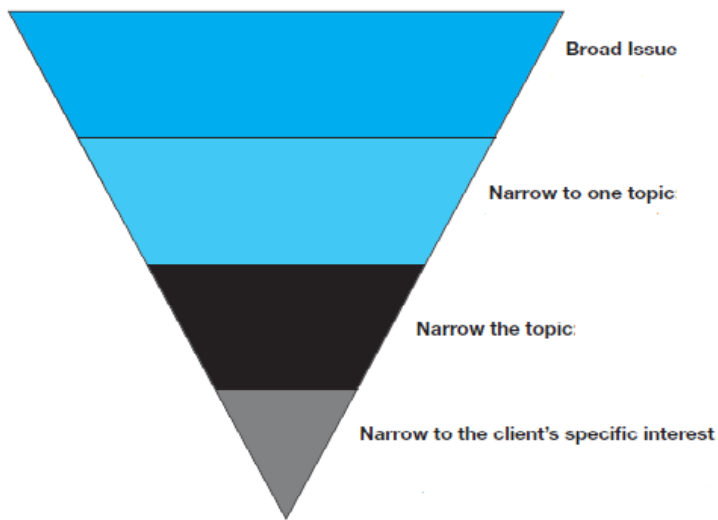


Image 1: Source: Cooper and Schindler, 2014 :154

An initial objective for the qualitative methodological work was to access as much information as possible through all performed interviews. Therefore, at an early stage we realized the need of keeping the topic as wide as possible and then gradually narrow down the topic, in order to reach the most essential and relevant questions for the thesis research. To successfully accomplish this, we used an outlined model that resembles an upside-down pyramid, where we started the interviews relatively broad and then continuously compressed the discussion towards the main core: the problem of corruption. Exploiting this approach proved to be very effective and certainly contributed to a very informative overview, where we also managed to get to those aspects that we beforehand feared could become difficult to get respondents' opinions and experience.

4.3 Romantic Approach

Alvesson (2003) introduces a term called *reflexivity*; this term describes the importance of seeing the accounts in an interview situation from many different perspectives. To do so he also suggests eight metaphors as one's tool while analyzing and interviewing. We kept a number of these in mind while constructing our guide and also when we were analyzing the accounts. It is important to see the interview in its real context; it is a complex situation that is constructed by the interviewer in order to obtain certain data. Furthermore the respondent

might want to construct a response that follows a certain cultural script or code of ethics that a third party has established. We used Alvesson's romantic approach towards the interview, meaning that establishing a trust between the interviewer and the respondent is important. This approach is more useable for us since it enables an interview with a certain depth to it. The other two approaches would be a neopositivistic and a localistic approach, the former aims to imitate a more quantitative structure, and the latter is very critical to interviewing as a method of research, obviously not suiting our purposes. (Alvesson, 2003) The effort of applying these approaches could although help us to understand why respondents answer in certain ways, related to their circumstances and a broader surrounding context. Perhaps it/there could be a "hidden agenda" concealed behind the expressed answers that we have to take into account in order to reach as much objectivity as possible. Alvesson's approaches are in other words helpful tools to analyze other effecting factors, beside the actual answers during the interview process. By having his ideas in mind while constructing our guide and while analyzing the collected data we obtained a more multifaceted and true result.

4.4 Sample of Respondents

The process of choosing and finding possible candidates has its roots in our research question and delimitations. The respondents need to be active on the Hungarian market, thus we are obligated to find firms with such connections that have their origin in Sweden. Since we have quite strict criteria that need to be fulfilled we used a purposive sampling in order to find candidates. Such a sampling is necessary in order to examine our research question, especially keeping in mind that it is a nonprobability sample (Cooper and Schindler, 2014). By using these types of respondents we were able to draw upon their experiences and knowledge in order to conduct a deeper research.

4.5 Procedure of Finding Respondents

To find firms according to our restrictions we co-operated with Business Sweden in Hungary to obtain contact information. We believed that it would be advantageous for us to use an establishment that already existed in Budapest, Hungary.

Our choice of selected interview respondents was initially based on a clear vision of finding different views to our research question. To make a study of management dilemmas related to corruption activities with connection between Swedish companies on the Hungarian market and the current business environment possible, we found at least two approaches necessary. One insight from the top management layer of Swedish companies' and one perspective from less dependent actors in that sense such as respondents connected to the diplomatic corps. The early steps were taken through e-mails to a dozen of companies we knew were established in Hungary. As we had a rather obvious goal of what we aimed to look at we also pointed out the intention of studying activities related to corruption to our potential respondents. This choice of openness and straight revealing structure was soon to be realized as a non-efficient nor successful approach. Due to possible suspicion according to corruption related activities we were only given short somewhat negative answers and submitted to lack of time or policies given on their official homepages. Therefore we developed a new strategy with focus on the cultural aspects and how it can affect international business activities. This way of introducing our thesis idea soon appeared to be a much more efficient method and meetings with our potential interviewees were then easily arranged.

All interviewed respondents were inquired through a sample of twenty-five companies with business established in Hungary. Out of these companies only eight were willing to take part in our interviews and seven respondents ultimately participated in our study. All respondents had links to Sweden or Swedish companies in Hungary and six of these took part in separate interviews during one week in May 2014, that we spent in Budapest to collect our empirical material. All interviews were set with scheduled time to compile all empirical data. On average the performed interviews did last for about an hour, with two exceptions to the interviews with János Tákács and György Nagy that took approximately two hours. All but one of the interviews in Budapest took place at the respondents' office or meeting room, characterized by formal and quiet surroundings where the interaction easily could perform without any disturbance. The one not included was a lunch meeting at a restaurant close to the interviewee's head office. Also this one could be conducted exceptionally well. In general all interviews were set up by a guideline with questions applying to the respondent's position and potential knowledge. It all went on very smoothly and quite surprisingly we were always treated overwhelmingly well, almost as if being potential business partners. Perhaps this could be taken as a sign of their attempt to show their seriousness when working with especially transparency related questions. In general we got a good impression and felt that we

throughout all interviews could ask the questions we wanted without getting into any uncomfortable situations or anything that caused problems. All but one of the interviews were conducted in Budapest. The one that was not a physical interview was done via e-mail conversation instead due to insufficient time on the respondents behalf. This could be criticized as an insufficiency due to the fact that we could not establish the same amount of relation. On the other hand this interviewee's responses were relatively short and were therefore not used to the same extent in the empirical data as the others.

None of the interviews were recorded due to our respondents' requests. This could potentially be questioned but we have to admit that we eventually felt that it gave us an advantage because of our respondents' expressed openness that otherwise perhaps not would have been the case. It also seemed to increase a certain trust because of an easy going interaction with included personal views. When one of us took the main responsibility for asking the questions and getting the interview smoothly going the other one put more focus on listening and taking notes. Immediately after all interviews we separately compiled everything we had written, heard and remembered which gave rather substantial materials to work with.

A possible way of increasing the research's credibility could be an extended survey which would help the research by obtaining a larger basis, on the other hand it would not enable a deep analysis. Nonetheless it could help to validate the thesis with more respondents, but unfortunately we had neither the resources nor the time to conduct such a survey.

4.6 Empirical Accounts

After compiling all performed interviews our empirical data will be presented under different themes with the intention to discover connections, but also disagreements, between the respondents. Hopefully this approach with an attempt to a free-flowing and structured text will enable a clear and broad understanding for the reader. A thorough understanding for the empirical data on the reader's behalf is vital in order to be able to follow the analyzing process afterwards and to take part of the result.

4.7 Validity and Reliability

In order to obtain as much validity and reliability as possible we have worked continuously on consistency throughout the study. We have maintained the same structure for each interview with the same questions as far as possible, the recording of the data and the analyzing process. The steps which have been taken have been done so in order to handle the collected data with a coherent process, trying to eliminate as much differences as possible while still keeping true to the core of the interviews. By doing so we enable for other researchers who wish to repeat this study on a different object can do so easily. We have stayed true to our criterion, eliminating much error that could have occurred without this strategy. The consistency in the method and the way of conduct contribute both to the validity and the reliability of this study, even though a qualitative interview method has its disadvantages. (Bell and Bryman, 2007; Cooper and Schindler, 2014)

4.8 Critiques

We are uttermost aware of the difficulties a study of this character can bring but also positive about its possibilities and valuable approaches. A vital problem though, that has to be emphasized is the operationalization process - in other words the challenge of making the theoretical concepts measurable and definable. Also the validity and reliability have to be of great concern as the interview method has its clear insufficiencies.

5. Empirical Data

In this chapter we present the accounts from the interviews, divided into different themes.

5.1 Corruption; Does it Exist?

In Hungary corruption is quite evident. It is a phenomenon that exists; in fact it is widespread across most sectors and levels within the Hungarian society. According to all respondents it exists in all layers ranging from gratitude money that is being paid to a doctor to corruption within the government and public affairs. The payment to the doctor is a norm to such an extent that the ambassador even knew the “price” for giving birth: 90.000 Hungarian Forint. Furthermore the same respondent meant that corruption is something that we all know surrounds us but it is something that is rarely spoken of. It is a foul term that no one likes the taste of. Another example that was presented during the interview with Ambassador Karin Olofssdotter, a Hungarian company receives more than 50% of the public procurements regarding construction business. Furthermore all the respondents believed that corruption and bribery are most common within construction and other infrastructure sectors such as telecommunication. The reason that these sectors have relatively high levels of corruption is quite obvious, since this is an enormous crossroad where private and public sectors meet. The respondents also mean that most of the corruption is confined to national small and medium enterprises, and of course to the public sector, due to the fact that large companies cannot afford corruption while the smaller businesses can. This mainly due to that large companies are extremely sensitive to changes in their reputation which easily can be distorted. Another large problem in Hungary is that many smaller businesses go bankrupt, but are soon “resurrected” under a different name with no bills to be paid according to the managing director of Kinnarps in Austria and Hungary, meaning that companies rarely “disappear”, instead they only transform.

It is estimated that within the private sector prices are 3-15% higher than they would be without corruption. In the public sector the same number reaches an alarming high figure of 25% according to János Takács, former CEO of Electrolux. Furthermore he gave a vivid calculating example to illustrate the magnitude of the value of corruption. All figures are fictive but are meant to represent a possible public procurement:

Total price: €135, where €100 is the actual price of the deal at hand. €25 is the bribe to be paid and the remaining €10 is money that is intended to “cover the tracks”, Raising the actual price from €100 to €135. (Takács, János. Personal interview, 9 May 2014)

He also adds that not all public procurements are corrupted, that is why the numbers do not add up to 25% in his example. He clarifies that the 25% is an average. The same respondent also states that it is a handicap for Swedish firms who do not bribe in any way, when it comes to public procurements. It is hard to win deals with the government when the competitors can offer better deals.

5.2 Cultural differences' impact on Swedish business in Hungary

An initial difficulty when studying corruption is not only the problem of finding a clear and comprehensible definition of its meaning, thus what is referred to be corrupted activities in one country do not necessarily be so in other countries. These divergent opinions therefore play a significant role when Swedish business is to be carried out in Hungary, Márta Böddi at Business Sweden states.

According to a majority of our respondents an uttermost important aspect Swedish companies have to take into account when doing business on foreign markets are the cultural differences and how contradicting sets of norms affect the overall business possibilities. Companies from Sweden in general tend to use the "Swedishness" to a great extent in order to reach out on new markets and emit reliability and transparency. These values often expressed as "Swedish values" in a Hungarian context obviously bring huge opportunities and work as formidable competitive advantages, an opinion that all respondents clearly agree upon. Honesty and straightness in combination with business characterized by quality have historically served as key to Swedish business success in Hungary. The importance of finding a balance between the company's initial core values and the norms on the new market is something all our respondents highlight in order to become an efficient and successful business actor. This necessity is commonly expressed through reflections similar to what the managing director of Kinnarps in Austria and Hungary, Tiberius Soltész (Personal Interview, 7 May), stated as: *“Our vision is always to remain our fundamental values and use the Swedish principles we are famous for as competitive advantages, but at the same time always put effort on adapting to the local market's specific norms and needs.”* This ability appear to be performed very well

by Swedish companies and Mr. Soltézs (Personal interview, 7 May) emphasized this through the quote; “*Swedes are generally very good at cooking goulash with local ingredients*”, with allude to the use of applicable combinations of both Swedish and Hungarian tools in order to create a successful product or service on the market.

New market entries usually commence via Swedish representatives who implement the cultural values and norms during the first couple of years and then leave the responsibility to local employees to maintain the foundational ideas within the company. Promotion of equal treatment at the workplace and especially efforts on increased opportunities for women are appreciated steps that Hungarians generally regard as issues Swedish companies are at the forefront on. A common tendency is that most companies succeed in implementing and spreading their fundamental values and also keep them as core policies after that the Swedish company's expatriates have retreated. This means that traditions and behaviors are installed which also creates a positive circle that makes the “Swedishness” more easily retained. This widespread reputation of Swedish companies only connected to fair business is therefore a huge advantage also when it comes to aspects related to corruption. In this respect most Swedish companies appear to work effectively in order to stimulate a general progress in transparency related questions in the country. At the same time as the already existing view of Swedish as non-corrupt in some cases potentially can decrease the pressure on Swedish companies to achieve further improvements in relation to the surrounding and competitors.

When a market and a political landscape is shaped by a relatively comprehensive mistrust against the surrounding and competitors on the market, especially illustrated through a somewhat negative and pessimistic mentality, the value of trust in business relations is invaluable. A statement that explicitly proves this common enviousness is one of our respondent's quotes:

“If my living conditions are bad, yours should be as well” (Böddi, Márta. Personal interview. 8 May)

A mentality that clearly tells something about the Hungarians' focus on their own path without necessarily seeing the advantages of co-operation. This negative approach is even more obvious when expressed against the government and the public sector, where the Swedish actors who have taken part in our study also confirm tendencies that in many respects

contradict fundamental democratic principles. The general mentality of mistrust against the surrounding has created a market landscape built upon strong networks where business mainly occur through already known partners, or via enterprises related to current established partners. This development quite obviously has shaped the circumstances for business possibilities and a clear majority of our respondents confirm an existing “network corruption” where fees in order to make new market entries or obtain business deals are necessary. Within this business environment a distinct tendency is also to find loopholes in order to dodge problems and to bypass laws. Respondents from the business sector highlight this attitude as something very common throughout a majority of the Hungarian mindset. To get rid of this mentality new generations with different attitudes are certainly needed and big changes take time, our respondents mean. The managing director of Kinnarps in Austria and Hungary, Mr. Soltész expressed a quite illustrative description of the interaction between corrupted actors on the market and when a Swedish company with a zero-tolerance principle know to take a step back:

“Corrupted individuals always recognize other corrupted individuals” (Soltész, Tiberius Personal interview, 7 May)

5.3 Minimum Wage

Many firms pay some of their employees the minimum wage, this goes for both blue and white collars. All respondents agree upon this, one respondent even stretches so far and means that a mere third of the total salary is paid via legal instruments. That leaves two-thirds of the total salary which an employee receives to be distributed via corrupt channels. Two other respondents, Mr. Soltész and Márta Böddi, strengthen this by examples that companies pay their employees via intricate systems of invoices. Bonuses can be received via such invoices, at time employees are contracted as “companies” instead of regular employees in order to be able to skip paying taxes. By using the “legal way” of invoices the money can all be accounted for, however being distributed without passing through the channels where taxes are cut out. Naturally this also applies to the case of the doctors getting their envelopes.

5.4 Long and Short Term Perspective on Corruption

As previously stated the Hungarian population is a bit pessimistic and opportunistic. According to a majority of our respondents this leads to a very narrow or short horizon while doing business. The local small and medium enterprises want to make money now, thus not wait for another perhaps better opportunity. When asked about the possibilities of making or saving money via bribery all the respondents point to the fact that in short term there are business opportunities and money to be gained. Though if a company were to do this the long term effects would be devastating for the firm, with bad publicity and lost customers, besides the fact that it is illegal. Furthermore the stable Swedish firms have the opportunity to plan on a long term basis; they have the economic stability to wait for the right opportunity. A creed uttered by Márta Böddi that Swedish companies may live and work by, but that does not apply to the Hungarian business is:

"It's impossible to live an entire life during one year" (Böddi, Márta. Personal interview, 8 May)

5.5 Transition and Onwards

The heritage that the communism left deeply lodged in the Hungarian culture has clear impacts on today's situation according to a majority of the respondents. There is still a need or at least an underlying aspiration to be an autocratic state, especially amongst the elder people that lived in it for many years according to the former CEO of Electrolux. He also believes that it takes at least a generation in order for these values to disappear from the population. The other respondents also mention that it takes time to "cure" or "get rid of" the heritage left by the Soviet sovereign. When all the respondents look back over the last two decades they agree upon the fact that there has been an enormous change. There has been an increased stability over most areas in the country. The entrance into the European Union 10 years ago has helped "*binding the corruptions hands*" as Márta Böddi (Personal interview, 8 May) puts it, since the European Union has the power to put pressure on Hungary and its governors. In its turn the government continuously works to decrease corruption in the country and their ambition is the complete depletion of corruption.

The worst trait that the communists left in the Hungarian culture is that of a certain lack of trust, leading to an uncertainty in the country, which a majority of the respondents speak of. You do not know what is going to happen tomorrow, maybe there are new laws or taxes in place? Tiberius Soltész means that this has led to a business culture where relations are extremely important, maybe even more important than the actual price or the product itself, one can only trust a connection that has been recommended.

The respondents also mean that the globalization of the world with its shrinking distances and its awareness has also helped blurring the cultural borders (much through internet). The European Union has also had a great impact according to our respondents. Letting values from the outer world flow freely into the country, many businessmen adopt “Western values” and then apply them in Hungary as well.

The money that is transferred from the European Union into Hungary is often handled more carefully according to the respondents; they rarely touch any sort of corrupted hands.

All of the respondents mean that the climate today in Hungary for business is a very good one for international and Swedish companies. They mean that it is a less bureaucratic process for the companies to go through when acting on the Hungarian market, making it much easier for them to stay out of corruption. János Takács describes the relation like this:

“The more bureaucracy there is in a country, the more corruption there is as well.” (Takács, János. Personal interview, 9 May 2014)

He also means that in Hungary today, the bureaucratic processes are much smoother than they were only a few years ago. On the other hand, the overall great improvements have brought a dilemma to Hungary:

“The problem is that in Romania today, you can trust corruption, while in Hungary you cannot”. (Takács, János. Personal interview, 9 May 2014)

Though, this may be a necessary “evil” in order to get rid of corruption.

5.6 How Do Swedish Businesses Handle these Problematics?

A majority of the respondents mention that relations are very important. Once you find a contractor that you are able to trust, you stick with that contractor. Due to the pessimistic view and general lack of trust in Hungary relations are very important according to the respondents, you trust the firm or person that you have had recommended to you. A Swedish company in Hungary often comes from a very stable economy and has the possibility to wait for the right business opportunities to arise, something that Country Manager for Sigma Technology György Nagy explains. This is something that the Hungarian small and medium enterprises cannot afford to do, partly due to their opportunism and partly due to the fear of uncertainty. Another strategy that many follow according to one of the respondents, Mr. Takács, is to hire a consultant or a bureau to draw up the necessary paperwork for a deal, especially a public procurement. It costs approximately 4-10% of the total transaction depending on the size. The consultant or bureau can guarantee (to a certain extent of course) that the deal is made in legal and correct manners. Even in this case it is not possible for the company to follow every cent to its intended receiver. Naturally these consultants or bureaus also know the dark side of the same matter, meaning that they know how to shuffle money around, whom to pay off in order for a public procurement to appear legal and legit. In other words these companies never have to “get their hands dirty”, but indirectly they ultimately are a part of the corrupted system.

An obvious pattern maintained by all our respondents throughout our research in Hungary is the idea of how to avoid involvement concerning corruption. As corrupted activities incuse the political environment to a great extent, the strategy evidently is to stay out of interaction with the public sector and state related business affairs. Furthermore a majority of the respondents also emphasize that most of their business is done between the different multinational companies whom share the same policies regarding corruption and bribery. Since most of the business is B2B they rarely come in contact with state-owned corporations or the government itself, thus managing to maintain their policies regarding corruption intact. This is a conscious way of approaching the market and keep a non-corrupted professional business possible.

Another aspect that most respondents indicated was the importance of never even touching the “dirty business” due to the rather fatal consequences an involvement can cause. For instance Mr. Soltész expressed:

“Once the company’s reputation is hurt, it’s incredibly difficult if not even impossible to cleanse”. (Soltész, Tiberius Personal interview, 7 May)

6. Analysis

The following chapter aims to connect the theories with the empirical collected data in order to construct a model or a schematic of how Swedish companies handle the problematics that arise when acting on a market characterized by corruption.

6.1 “The Three Pillars”

We have established that corruption is an institution during our interviews; all of the respondents state that so is the case (as Robins, 2000; Teorell, 2007 and van den Bersselaar and Decker, 2011 also discuss). When applying the model (Scott, 2001) concerning the regulative pillar there are rules and regulations in place, though the problem is that the enforcer and creator of these laws seems to be the largest criminal regarding its own rules and regulations. Even though the regulative pillar has a mechanism of being coercive the government somehow manages to avoid their own rules and regulations, unless of course there is money with its origin in the European Union. The only actor that seems to have the power to enforce rules with an actual consequence is in fact the European Union. There are pointers to that there is a measure of decoupling when it comes to government and their policies regarding bribery and corruption.

Unfortunately it is not only in public procurements where corruption flourishes, when it comes to SMEs it is an institution that is vividly present, especially in the construction sector. The petty corruption is also regulated but since it is often paid in cash it is very hard to trace and prosecute.

Regarding the normative and the cultural-cognitive pillars it is a norm to bribe in many cases, again especially in the public and construction sector. Since it is normative to pay the doctor in an extra envelope under the table people tend to mimic the tradition, thus transforming it into culture. This tradition does not only exist in the healthcare but it reaches into many sectors, especially to SMEs and the public sector. When it is rooted in the culture it is the logic way to do business. Furthermore as the empirical data tells it is “put into system” when it comes to salaries, meaning that the salaries themselves are lower due to the incomes that come from bribery, leaving the whole system a bit skewed. In fact, bribery, since it is a part of the culture is the “orthodox” way to do business, it may even be expected. Of course this

system retains the country in a viscous circle of corruption as the government in its turn needs to increase their incomes due to tax losses.

Interestingly enough is the fact that the MNEs manage to keep out of this cultural corruption. In order to avoid being a part of the corrupt system they enforce four strategies which are to be presented shortly later on.

6.2 Cultural Norms and Differences between the Public and The Private Sector

A study of transparency related activities in Hungary with our aimed focus on Swedish companies on the current market naturally opens up for several views and interpretations. The existence of corruption within the Hungarian society undoubtedly appears to be rather common according to all interviewed respondents. When looking at the cultural aspects the most significant difference tend to be the definition of what a corrupted activity is. Although bribes and similar tendencies among the interviewees are mentioned as widespread we are able to recognize a clear larger frequency within the public sector. The theories applied concerning *pervasiveness* and *arbitrariness* (Doh et al., 2003) ultimately turn out with seemingly applicable connections. Pervasiveness that measures the frequency of corrupted activities in a society is throughout our thesis indicated to be primarily high within the public sector. Bribes related to healthcare and a general width of non-transparent procurements increase this fact significantly. On the other hand these circumstances also indicate a rather widespread occurrence of arbitrariness in the Hungarian society. People obviously appear to be aware of how the system works and know when non-transparent activities are necessary. Also in this regard our respondents suggest a much higher frequency mainly connected to the public sector and between smaller local enterprises in the private sector.

Cultural aspects appear to play a strong role in the consideration of taking part of bribes and other non-transparent activities or not. In the sense of rationality Swedish companies appear to be very much aware of what negative consequences corrupted activities can cause and therefore systematically work with a long-term perspective correlated to a “non-taking-part” strategy. The risks of hurting the reputation in a corruption involvement clearly seem to be much larger than the possible chances of reaching any sort of advantage and therefore they exclude that consideration. Of course this could be an insincere veneer created by the Swedish

companies we have interviewed in order to avoid all kind of suspicion, but a clear accordance between each individual respondent gives nonetheless clear links that we believe strengthen the credibility of everyone's separate statements and considerations.

When looking at the cultural impacts in the certain respect of moral aspects we also tend to see another correlation. Swedish companies in our study appear to highlight the significance of acting in a morally correct way as well, not only with the intention of gaining money and business opportunities, but also in the sense of actually working with transparency in order to achieve broader improvements in the entire society and business landscape. A part of the cultural difference in this case therefore illustrates through a moral mentality where Swedes to a greater extent appear to believe in general progress that could be to everyone's advantage instead of just focusing on one's own profit and short term survival. When a local SME does its "calculation" as Erlingsson (2006) mentions, the reward does not need to be very high since bribing is very common in that sector. When it comes to the Swedish and multinational companies the reward has to be immensely high in order for them to be attracted to the corrupted deal.

Contrary to what Meyer and Rowan (1977) and Hofstede (1981) state in respect of how companies adjust to norms in their social landscape in order to become legitimate, our study to a certain extent suggests the opposite. In other words, our interpretation concludes that the examined companies don't necessarily tend to follow the surrounding's set of norms on the actual market, but rather obtain legitimacy through not being a part of the corrupted system. Multinational companies, perhaps quite surprisingly, therefore appear to act against the existing norms of the local environment in order to reach credibility and success.

As Meyer and Rowan (1977) further argues about organizations' tendency to be isomorphic in the sense of imitating and getting influenced by its surrounding, as a means to achieve legitimacy, we also reached a somewhat divergent conclusion. A rather clear difference that was explored in this concern was namely the behaviors between MNEs and SMEs. While multinational companies appear to make efforts towards more transparency and not following the domestic market's admitted principles, smaller and medium size enterprises more likely turned out to adapt to these norms and patterns. In terms of isomorphism this ultimately gives the impression that a company's competitors shape this path of imitation rather than the current social landscape they act in. In our case this means that Swedish companies with

ongoing activities in Hungary act according to the norms set by an international business standard, instead of using attitudes and procedures that although are morally and legitimately accepted by the Hungarian market.

6.3 Transaction cost theory and Rational Choice

A bribe is without any doubt a cost linked with the deal as grease money in order for the deal to go through, a cost for the transaction to happen, thus a transaction cost. Transaction cost theory (Coase, 1937 and Williamson, 1981) does play an evident role regarding corruption. A transaction cost always has to be compared to the actual revenue which comes from the same transaction. That means that bribing in fact could be very rewarding, meaning that the bribe price is lower compared to the revenue that it renders (winning a deal or losing a deal). This statement is one that all the respondents have pointed out, that in short term there are revenues to be gained. On the other hand they also point to the fact that in the long run it only leads to all over increased prices and rising transaction costs.

Furthermore this could be linked to Erlingsson's (2006) theory connecting rational choice: if the price is lower than the reward the deal should be done. Naturally the opposite is also true: if the costs are higher than the reward the deal should not be taken. Taking the bribery into consideration it might change the outcome, though, as stated in the paragraph concerning culture and institution there are more than just the actual revenue to be included in this "rational choice".

6.4 The Strategies

The strategies that we discovered were used within the Swedish multinational companies in order to stay clear of the corruption are:

1. "The Swedishness"
2. "Keep the Private Private"
3. "Look Beyond the Horizon"
4. "Keep Clean"

These strategies may be used separately, but of course they are strongest when used together in combination as they strengthen each other. Furthermore, the more of them a company uses the easier each one is to maintain and support as they all fuel one another.

6.4.1 “The Swedishness”

This strategy uses values that the companies regard as Swedish: straightness, honesty, quality and responsibility. Of course they have their origin in Sweden or what Hungarians perceive as Swedish which are the above mentioned qualities. By implementing these values from the start they are kept in the company and taught to all the employees, even after the Swedish expatriate has left the subsidiary. By keeping the company’s reputation as what is perceived as Swedish the company in its turn does not get approached by corrupt activities as much as they would without this strategy. György Nagy mentioned at one point during the interview that:

“A person who has worked within a Swedish company says that he or she would love to be employed by a Swedish employer once again” (Nagy, György. Personal interview. 12 May)

What he means with this sentence is that employees as well as the owners are happy and content with these values as a sound platform to rely on, which in its turn means that they are less inclined to neither accept nor give bribes.

The Swedishness can be seen to have clear connections to the strategies (Doh. et al., 2003) presented in chapter 3, mostly to: “Corporate Codes of Conduct”, “Training, Development and Public Education”, but also, though to a less extent “Adjusted Entry Model” To the first strategy there is an obvious link since the values incorporated by the company act as guidelines for the employees to work with. Furthermore there is a fairly evident connection to training as well, meaning that the firm is obligated to train its employees in order to keep “The Swedishness” within the company and of course it requires a development within the company. Unfortunately they might miss out on the public education, even though Sigma Technology has tried to approach the universities in Budapest. As stated in chapter 3 the strategy: “Adjusted Entry Model” (Doh. et al., 2003) depends on whether there is a high level of arbitrariness or pervasiveness. In the case of the Swedish firms who all are large and not dealing with public procurements, leading to that there is a high level of arbitrariness. By

keeping to this strategy corruption is not a problem that they have to face since the company emits the “The Swedishness”, which in its turn states that bribing is not a possibility. Furthermore this strategy has a clear connection to institutional theory; thanks to the fact that there are cultural differences between Hungary and Sweden. The company can play “The Swedishness” card showing the differences and the honesty emitted by “The Swedishness”, thus not being approached by corruption to the same extent.

6.4.2 “Keep the Private Private”

This fairly straight forward strategy is one that all of our respondents emphasize and use. They avoid doing business with the government or other state owned companies in order to avoid their corrupted practices. This either disadvantage or advantage has a clear link to the “Avoidance” (Doh. et al., 2003) strategy. The firm misses out on a potentially large market, the market where the government and state owned companies control the major shares. Even though this might seem as a possible source of revenue the long term effects would be devastating with lost business on a global scale due to bad reputation and a distorted brand.

6.4.3 “See Beyond the Horizon”

The third strategy is also something that all the respondents’ firms work with, a long term perspective on their businesses. Many of the local SMEs cannot afford a long term perspective or they do not have one due to the Hungarian opportunism which in its turn has its origin in the general mistrust and pessimism. Wanting to obtain revenue on the spot, devouring the first possible opportunity that may arise, even if it is not the right or even a good opportunity for the firm, is not a sound strategy. If a company were to proceed with this opportunism and short term perspective it would be easy to side step from their zero tolerance policy and get a deal which is not clean in the sense of corruption, even if the deal might not seem to be corrupt. Clearly the opportunism and pessimism is connected to the institutions and norms that are embedded within the national culture. Instead the company should seek to build long lasting relations with contractors that can be trusted over the years. A firm which has been active for more than five years is most likely a firm with nothing to hide, thus a good sign, according to Mr. Soltész.

There is an obvious link to the Transaction cost theory (Coase, 1937 and Williamson, 1981) which some of the respondents talk about, the fact that there is money to be gained on short term with bribery. In the short term the actual transaction cost is quite low, a bribe here and a bribe there, still higher than no bribe but generating large profits. On the other hand, in a long term perspective the company gets a reputation of bribing, thus it is expected, raising the transaction cost over the years until in the end every transaction has a bribe connected to it, leading to enormous transaction cost levels. As the respondents also mention, in the long run this is a strategy that will undoubtedly lead to bad reputation and lost business. It should be fairly evident by now that by keeping to the “See Beyond the Horizon” strategy the firms can avoid many “dirty” deals and at the same time avoid rising transaction costs.

6.4.4 “Keep Clean”

The fourth and last strategy that is evident and used by all respondents is the “Keep Clean” strategy. As the name quite obviously states it is straight forward and “simple” to maintain; never accept nor give a bribe. Keeping clean might not be as simple as one might think; most respondents have been approached at one time or another by situations where bribery has been proposed. If a company were to accept a bribe only once, no matter the size of the actual bribe, it most likely will give an echo into the future of the firm. As stated many times throughout this report, keeping ones reputation clean is of uttermost importance. Again there might be short term revenues in sight but the long term effects with a distorted brand or reputation may prove to be fatal.

This strategy is of course a part of the “Corporate Codes of Conduct” (Doh. et al., 2003) within a company, still they need to be emphasized and put into training and development in a company. Furthermore a company may “Keep Clean” via corporate social responsibility acts and such, but if a firm only once receives a reputation of being corrupt in Hungary it is very hard to wash clean or cleanse ones reputation. This strategy implies that one single side step from the corporate guidelines may prove fatal for the firm in the long run.

As shortly mentioned in the first paragraph regarding these strategies they work on an individual level but strengthen each other. There are obvious links between them: “The Swedishness”, “Keep the Private Private” and “See Beyond the Horizon” all help obtaining the last strategy “Keep Clean”. The last strategy is of course also the goal for all Swedish

companies with a zero tolerance towards corruption and bribery. There is a necessary assumption that needs to be made regarding if the last strategy can be obtained or fulfilled: that the company stayed clear of corruption from the start. The first three strategies are means to realize the zero tolerance policy.

6.5 A Critical Approach

A rather interesting fact that have been discovered or unveiled during this study is the fact that institutional theory (Meyer and Rowan 1977; Hofstede 1981) has a surprising gap, or inconsistency. The MNEs seem to obtain legitimacy from avoiding, or by disassociating the firm from what appears to be an accepted norm and institution. Traditionally if the institutional approach is applied to a society it is expected that the firms within the society adopt the norms in order to appear legit and get accepted by the locals. This means that there has to be a certain force, values or policies within the company that are so strong that the company can emit that “power” and gain legitimacy from that instead of the traditional adopting of local norms and values. The empirical data collected in this study points to the fact that there is a gap within the institutional discourse. It is quite evident that the endeavor for transparency is more important than adopting the local way of life for the large MNEs. Institutional theory is not applicable on large MNEs in Hungary with their origin in Sweden. According to Nagy, György (Personal interview, 12 May) these values do not necessarily originate from Sweden but from a rather international perspective. He emphasizes their extreme importance nonetheless.

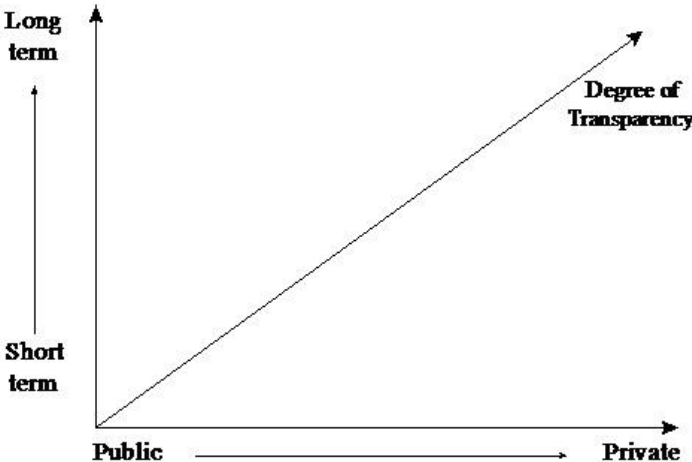
Our theory with support from the empirical data is that there are institutions on a much larger level which always trump those that are local. Naturally the local norms and institutions are adopted to a certain extent, but maybe, they can never be part of the core values within a company. The core values are instead based on norms that are set on a much “higher level”, on a global scale. Even though they are not part of the Hungarian culture these norms and values emit legitimacy that cannot be gained based on the national institutions. Maybe these values and norms can be said to be superior to the local norms? In fact, maybe there is a need to oversee the institutional theory and adjust it in order to fit the “New Global World” and the global culture, institutions, norm and values that time and space convergence has brought.

7. Conclusion

How do Swedish companies and their managers handle the situations when corruption contradicts their own fundamental policies?

7.1 The Model

In order to present our result we must start to explain the connection between the variables: public to private sector and short to long term perspective.



As illustrated in the model the degree of transparency increases with both the variables. As the analysis foretold two aspects impact the transparency or the level of corruption that firms have to face. The two variables are ranging from a short to a long term perspective and from the public sector to the private sector. When a company has a more long term perspective the company also, besides ensuring success, manage to stay clear of corrupt tendencies on the market as the local SMEs have a rather short horizon. The longer perspective a company has the further up they follow the Y-axis. Regarding the X-axis, a company should have their target market aimed to the private sector, thus moving away from the public sector and ensuring less corruption. The result of following the two aspects is a movement along the line “Degree of transparency”. The goal for a company with a zero tolerance policy towards corruption and bribery is of course total transparency. In order to reach this much sought goal the four strategies presented in the analysis are most helpful means:

1. “The Swedishness”
2. “Keep the Private Private”
3. “Look Beyond the Horizon”
4. “Keep Clean”

Thus the answer to our research question is the four strategies that help firms move along the “Degree of Transparency Line” towards total transparency. This is the way that the interviewed companies handle the problematic situations that arise when acting on the Hungarian market which is characterized by corruption. These four strategies have been chiseled out from the collected data due to the fact that they were evident in all the interviews that were conducted. The respondents emphasized the importance of these strategies in order to be competitive on a market where the conditions may be unfair at times when the competitors bribe. Even though they were not named during the interviews the strategies were evident and important means to reach towards transparency for the companies.

7.2 Concluding comments

This bachelor thesis aimed to examine how Swedish companies with business activities on markets in the former Eastern Bloc consider how possible cultural differences affect them, and if Hungary’s significantly higher level of corruption is a problem. It has clearly been stated that corruption is in fact a problem in Hungary and something that Swedish companies continuously have to deal with. An obvious and comprehensive approach and position all of our respondents have against all kinds of non-transparent activities is to avoid participation. After connecting our applicable theories with our empirical data we have been able to develop a model useable for companies in order to improve their work in direction towards increased transparency. The suggested strategies are all means that help the company to obtain the transparency according to our launched model.

As this paper is based on interviews we have critically examined the answers that have been given to us, in order to find out if there has been a possible hidden agenda. Since we saw clear links between the different respondents’ answers we ultimately trust their opinions in a sense of validity, although we eventually cannot rule out decoupling completely. Ultimately we consider our study being positioned with clear links to already existing research, but with further observations and in some cases contravening results that contribute to the field.

7.3 Implications

The result that springs from this study appear to be able to help Swedish business that are present on the Hungarian market. The strategies are already in use by our respondents and should be transferred to other companies as well. By adopting our strategies companies have a goal to strive for and the tools necessary to reach it. The model together with the four strategies applied to companies who struggle with corruption on the market may prove to be a sound strategy to follow. The more actively the company work with the strategies the easier it is to maintain their clean business, far from corruption, all while increasing their transparency and setting a good Swedish example. Ultimately we recommend Swedish business to incorporate these strategies in their daily work in order to help their struggle against corruption.

Regarding the theoretical framework there is an implication that needs to be highlighted: the fact that the companies gain legitimacy by avoiding a norm which exists in the national culture. As developed by institutional theorists, for instance Meyer and Rowan (1977) or Hofstede (1981), the legitimacy is usually gained by adopting the social environment's norms and values, whereas in this study it seems to be the opposite. Not only do the companies avoid an accepted norm in the Hungarian society but by doing so, the firm gains legitimacy.

7.4 Suggested Further Research

This report has begun to fill a gap within the literature. Even though there have been several statements regarding the vast problem that corruption is, hands on research is scarce. This study has opened a door into a world where Swedish companies are forced to fight the phenomenon of corruption. We believe that it would be very interesting to study the very same subject in a much broader perspective, by stretching to other cultures across the globe as well, in order to help Swedish export. Another further research that would be of great interest is a study with values of harder variables, quantifying the problem that corruption causes. There is of course still the problem of determining what a bribe is in a global perspective, which also needs to be further developed.

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8.3 Tables

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8.4 Images

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9. Appendix

9.1 Interview Guide:

1. What is your history with XXX?
2. For how long have you and the company you represent been on the Hungarian market?
3. What are the main difficulties you have experienced concerning these market entries and co-operation there over time?
4. What have you experienced as **the** most difficult and significant problem?
5. Have you ever faced any sort of corruption in Hungary?
6. Could you give an example? Would you say that that is a common problem, maybe even a part of the culture?
7. Is it possible to operate on a market characterized by corruption without being a part of it?
8. Have you experienced a potential loss of market shares due to your zero-tolerance regarding bribes?
9. Do you use any special strategies in order to resist corruption?
10. If you realize that most of your competitors are involved in corrupted activities in order to do better business, how do you confront that? Is it possible to be competitive and “a part of the game” if not following the same rules?
11. Have you ever considered to cancel/avoid a market entry/action due to activities related to corruption?
12. Has the somewhat vague definition of corruption ever caused problems between the local decision makers and the headquarter in Sweden due to different opinions/definitions of what corruption really is?
13. Do you make any efforts to reduce corruption on markets where it is common?
14. Are there any positive aspects of corruption? Can it pay off to bribe?

9.2 Interviewed respondents between 2014-05-06 and 2014-05-13 in Budapest

- Böddi, Marta. Office Manager at Business Sweden. 8 May, at 9:00 a.m. Business Sweden, Office, Budapest.
- Istiván, Rita. Secretary General, Swedish Chamber of Commerce and former Managing Director of Kinnarps. 9 May, at 9:00 a.m. House of Sweden, Budapest.
- Nagy, György. Country Manager, Sigma Technology, Hungary. 12 May, at 12:00 a.m. Restaurant, Budapest.
- Olofsdotter, Karin. Ambassador, Embassy of Sweden in Budapest. 8 May, 2:30 p.m. Embassy of Sweden, Budapest.
- Oswald, Håkan. General Counsel and member of board Atlas Copco, Chairman of Commission of Competition of ICC (International Chamber of Commerce) Sweden. E-mail interview.
- Soltész, Tiberius. Managing Director Kinnarps Austria and Hungary. 7 May, at 10:00 a.m. Kinnarps Office, Budapest.
- Takács, János. Former CEO Electrolux Hungary and Eastern Europe, and current president of Swedish Chamber of Commerce, Hungary. 9 May, at 10:00 a.m. Swedish Chamber of Commerce, Budapest.