

## ACHIEVING COMPLIANCE IN EMERGING MARKETS – THE CASE OF BOSNIA AND HERZEGOVINA

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**Abstract.** Living by the rules is a struggle that emerging markets are facing. High corruption that affects those emerging markets means low levels of compliant behavior seen through not 'following the rules set by various laws and regulations. This paper aims to find whether imposing high penalties for committed offenses such as public corruption could be considered a plausible option for increasing levels of compliant behavior or whether introducing other actions would help emerging markets reach that goal.

**Key words:** deterrence, collective action theory, corruption, penalties, compliance.

## ДОСТИЖЕНИЕ СООТВЕТСТВИЯ НА РАЗВИВАЮЩИХСЯ РЫНКАХ – ПРИМЕР БОСНИИ И ГЕРЦЕГОВИНЫ

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**Аннотация.** Жизнь по правилам – это борьба, с которой сталкиваются развивающиеся рынки. Высокий уровень коррупции, который затрагивает эти развивающиеся рынки, означает низкий уровень уступчивого поведения, проявляющийся в несоблюдении правил, установленных различными законами и нормативными актами. Цель этой статьи – выяснить, можно ли считать введение высоких наказаний за совершенные правонарушения, такие как коррупция, в обществе, вероятным вариантом повышения уровня уступчивого поведения или введение других мер поможет развивающимся рынкам достичь этой цели.

**Ключевые слова:** сдерживание, теория коллективных действий, коррупция, наказания, соответствие.

### Introduction

The experience of living in a highly corrupt country, Bosnia and Herzegovina, which more often than not painted the picture of an unstable country, has always triggered the question of what could be done to, in reality, shift the scenario from 'it is what it is' to proactive growth. It is not just the personal experience that modeled the choice of the problem to be solved, but it is also the unfortunately ever-growing literature published on what adverse effects corruption bears.

However, the passion for this topic comes mainly from a subjective point of view. Corruption has swiftly infiltrated all areas of day-to-day life. The problem shifted from being a political or economic subject to a social and psychological phenomenon. It became a way of living, thinking, and a means to an end. For many, it was the only move that would ensure getting to the desired outcome, while for others, it posed as a

shortcut to the quick and painless handling of an issue. In both settings, the grand scheme either had to be or was chosen to be disregarded. Those who did not see the other way out justified it with 'what else am I supposed to do' while the others who consciously chose that route did not feel the need to justify it. Either way, the general approach of not perceiving corruption as an issue that affects each individual of a society led to a general belief of corruption as something that needs to be handled exclusively by the higher-ups while not requiring a change and adaptation on an individual level.

In the end, from the personal perspective, corruption as an issue is not something that would easily be handled using the bottom-up approach as the corrupted individuals and processes are those that could and should be resolved first. Even so, the question remains – what exactly could be done to begin combatting the issue itself.

Leaving the subjective point of view rooted in personal experience aside, and as was previously stated, numerous scientific articles were published to draw attention to the fact that corruption is not just a phenomenon negative from the moral perspective but rather to the fact that it hinders economic growth. Generally, many factors influencing economic development and corruption could take a toll on each separately.

### **Research question, methods of work, and research approach**

Inspired by the case of Singapore, which provided clear evidence that dealing with corruption is, in fact, possible but takes dedication and time, the only question left was if this approach could be replicated. In other words, what are the fundamental determinants or measures that trigger lower corruption rates, and are high penalties the factor bearing the most impact.

Quah (2016) conducted an in-depth review of what worked for Singapore and why he believes this approach could be replicated in China in this particular situation. After providing a detailed review of all the laws, regulations, policies, and changes in Singapore, the ending remarks consisted of clear rules to follow. Those could also be deemed as the main pillars of corruption combatting, listed in a somewhat hierarchical order, are as follows (Quah, 2016, S. 187-209):

- Political will is of critical importance.
- Having only one Anti-Corruption Authority (ACA) with a skilled and trained workforce and proper budgeting will always beat multiple ACAs.
- Enforcing the rules, regardless of an individual's status, is essential.
- Always solve the causes of corruption instead of exclusively following anti-corruption campaigns, which were proven ineffective over time.

The topic of combatting corruption with high penalties relies significantly on the enforcement of those penalties. This is a notion that was made evident through the case of Singapore. The question that naturally progresses is whether that is the only measure that effectively combats it in reality. On the other hand, the point of interest is determining whether high penalties affect lowering corruption rates.

Although there were many papers published on the topic of how to prevent or at least start combating corruption and it could be argued that in the vast sea of those published works, there is no need for further research, given the fact that besides all that research, corruption holds a throne of an unconquerable systematic problem, provides enough proof that further research should be welcomed. This is where this paper analyzes different factors that could potentially, individually or fused, provide a positive effect on lowering corruption rates in emerging markets. With that being said, this paper aims to combine the main findings from relevant research papers published on similar topics and define which actions seem to lead to lower corruption when approached from a broader perspective. These learnings should be relevant for the business industry as corruption will be recognized later in this paper as one of the main factors that hinder economic development, i.e., economic growth.

To reach the objective of this research paper's topic, research questions will be set:

- RQ1: Do higher penalties lead to higher compliance (=lower corruption) in emerging markets?
- RQ2: Can actions other than high penalties lead to higher compliance in emerging markets?

The first research question directly targets the discussion of high penalties' influence on corruption rates. The latter challenges that topic and includes other actions that could potentially be more minor, equally, or even more influential in highly corrupt environments.

## **Literature Review**

### *Corruption*

Corruption in itself is a complex phenomenon that can manifest either as an isolated event or as a systemized and organized occurrence and can vary in severity (Bac, 1998, S. 101). Technically, there are multiple facets of corruption, but one of the most common appearances is the unlawful and wrongful transfer of money or other monetary or non-monetary goods or advancements to place an individual's interests over those of the organization in which mentioned individual operates (Rose-Ackerman, 1975, S. 187)

The effect of corruption on economic development has already been partially analyzed when discussing the research problem chosen for this paper. Although the main point discussed was how corruption hinders economic development, it could easily be translated into the struggles of progression of business development in emerging markets where corruption levels are significantly high. To further prove this, in their work "Corruption and Entrepreneurship in Emerging Markets," the paper's authors analyzed the impact of corruption on entrepreneurship by researching data obtained for China in particular. The authors of this article analyzed sets of variables for different provinces in China. Those were employment categories, corruption degrees, resource allocation, market entry barriers, GDP, and various demographic information. Intending to link or unlink corruption to entrepreneurship conclusively, they extracted data from the employment category. They ranked it as 'entrepreneur' or 'non-entrepreneur,' which further enabled them to correlate the height of corruption to entrepreneurship while paying attention to moderating and controlling variables. The prominent model authors relied on is institutional theory – a model often used when it comes to the topic of the impact of corruption. The empirical results of their study allowed them to draw conclusive remarks that implied that high levels of corruption negatively affect entrepreneurship (Liu, Hu, Zhang, & Carrick, 2018, S. 1051-1068).

Furthermore, analyzing corruption in a business setting has been conducted by comparing and finding correlations between the corruption levels and Ease of Doing Business Indices. In this regard, Achim's (2017) paper discusses corruption's influence on business development. The study involved a sample of 185 countries, including both developed and developing markets. The methodology analyzed the Ease of Doing Business Index, entrepreneurial activity, and market capitalization for each country from the target group. This paper hypothesizes that the correlation between high corruption and low business development is positive, which was later proven.

The exciting part of the research is distinguishing the results between developed and developing countries. Although somewhat expected, the results for developed markets differed significantly compared to the developing ones. In developed markets, corruption's effect on business development was not that noticeable. In either case, corruption conclusively hinders business development; however, the impact is more prominent when developing markets are in question. Moreover, the results varied depending on which method of estimating business development is used and using the Ease of Doing Business Index allows for a clear understanding of adverse effects corruption yields for any type of development, whether it be business or economy in general (Achim, 2017, S. 85-100).

Although the topic of corruption is very much alive, the fact that it hinders any type of positive development is not a nuance at all. The concept of corruption and its role in the business setting was spread across various areas of research application. This ranges from studying the effect of country-level governance on the business environment along with entrepreneurship by analyzing multiple indicators on a large international sample (Grosanu, Bota-Avram, Rachisan, Vesselinov, & Tiron Tudor, 2015, S. 60-75) researching the interconnection of the shadow economy and corruption on a sample of 98 countries while still making a clear distinction between high-income and low-income countries (Dreher & Schneider, 2010, S. 215-238), relating corruption with entry regulations in 85 countries and analyzing the impact these regulations have on start-up firms based in the countries from the target group (Djankov, La Porta, Lopez-De-Silanes, & Shleifer, 2002, S. 1-37) or simply testing what the correlation between corruption and economic growth is through the lens of red tape, judicial system efficiency, and political stability (Mauro, 1995, S. 681-712).

The one thing all of the above-listed papers have in common is arriving at the same conclusion using different approaches – corruption will, in one way or another, serve as a massive obstacle to business and economic development. On top of that, this effect is most prominent in low-income and less-developed countries, i.e., emerging markets where corruption, a notion perceived to be a poverty-related subject, is substantially higher than in developed countries.

Quah (1999) discussed which actions could be undertaken to reduce corruption in Asian countries. This article provides beneficial information for many reasons, but most importantly, it discusses the case of Singapore by listing possibilities other countries could follow and draws a comparison line with the Singapore case itself. Primarily, the concluding part of this paper included the notion that corruption levels can be introduced with solid political will but that the case of Singapore might be complicated to replicate due to the high economic and political costs of imposed policies (Quah, 1999, S. 490-492).

Quah (2016) has also published another paper where the author elaborates in even more detail what Singapore did and how it made a significant shift in its anti-corruption policies. Four main pillars define Singapore's success – having a solid political will that will be the main underlying driver of positive change, having only one leading Anti-Corruption Authority, enforcing the penalties regardless of the status of an individual or their position in society, and focusing on the determined causes of corruption rather than on anti-corruption regulations which were proven to be ineffective. These four pillars, according to the author, had the potential to serve as learning points and mirroring recommendations for policymakers (Quah, 2016, S. 204-209).

With all of its accomplishments in the field of lowering corruption rates and beginning the era of rapid development, both business- and economic-wise, the Singapore case seemed to become a role-model approach meant to be replicated wherever, whenever and to whichever emerging market possible. The Quah's advancement and shift in perspective from believing that Singapore's case is hard to replicate considering all of the costs and effort it takes to clearly defining steps to be followed to replicate Singapore's strategy successfully shows how powerful and inspirational the case itself is.

Similarly to Quah's paper, Becker (1968) also touches on the related topic and is mainly focused on answering the questions of how much punishment should be used or how many resources should be used to enforce specific legislation successfully and with that, discusses optimal public or private policies that could be put into place to combat illegal behavior. Generally, finding optimal policies for combating corrupt behavior depends greatly on the circumstances and variables. Nonetheless, a fascinating finding from the author's concluding remarks was the fact that fines could be considered advantageous compared to other modes of punishment (in cases where they can be applied); fines are less costly and conserve resources, and they satisfy society while punishing offenders (Becker, 1968, S. 207-209).

### *Collective action theory*

If corruption could be analyzed as a social issue, and based on many published works, it definitely could, then perceiving it from the perspective of social theorists' might help determine how to tackle it. Although the starting assumptions of the collective action theory might seem not to work in favor of discussions about reducing corruption, the newly adapted versions seem to place this theory at the forefront. The only case where it maintains relevance is when it is perceived as a social issue rather than exclusively political or economic. Persson, Rothstein, and Teorell have tested this approach and generally justified it with the notion that corruption is a social phenomenon due to people rationalizing their behaviors compared to other members of society (Persson, Rothstein, & Teorell, 2012, S. 15-18).

Bauer's paper goes into detail about establishing a distinction between the 'need corruption' and 'greed corruption' while explaining how collective action might be the right path to choose, regardless of the persistence of 'greed corruption' even in societies with well-established regulatory organs.

### **Research methods**

The qualitative approach consists of interviews with a heterogeneous group of individuals (different ages, educational backgrounds, and employment statuses) where the only involvement requirement was the country of origin of interviewees, Bosnia and Herzegovina. Even though Bosnia and Herzegovina is technically not classified as an emerging market, the country possesses all relevant characteristics of one, and the outcome of that approach might provide valuable and insightful information relevant to this paper. There were no specific prerequisites for choosing which individuals would be allowed to participate in the interviewing process except that they come from Bosnia and Herzegovina.

As it has already been mentioned, even though Bosnia and Herzegovina is not officially classified as an emerging market, it possesses all the relevant characteristics of an Emerging Market, especially given that corruption is an ongoing and very noticeable issue. Through these interviews, there is a possibility that exciting information could be obtained regarding what people think about whether corruption could be reduced and, if yes, how. What of particular interest for this topic might be is researching whether citizens of a highly corrupt country perceive high penalties as a good and viable measure for reducing corruption and increasing compliance.

Interviews were conducted in the local language and then translated. The interviews themselves consisted of open and closed questions to avoid the possible risk of posing suggestive questions. Apart from that, the interview varied from questions to which the answer should be scaled – for example, asking interviewees to give their opinion by answering on a scale from one to five, to questions to which the answers will have to be further explained.

The planned and expected conversation flow followed the questions below:

1. On a scale from one to five, how compliant with the country's laws and regulations do you believe the people of Bosnia and Herzegovina are?
2. In your opinion, what actions could be undertaken to increase compliance?
3. In your opinion, do you believe that high penalties lead to more compliant behavior?

The answers were then separately analyzed and interpreted to reach conclusions.

The choice of the interviewed individuals was somewhat randomized. The only prerequisite was that all participants needed to come from Bosnia and Herzegovina. Apart from that, there are no other requirements to be fulfilled based on demographics, experience, or anything. However, the preferred outcome was to have a diverse group of participants in this research. What is meant by that is that the focus will be mainly on finding individuals from different age groups, levels of education, and professions to deduce how and if all those aspects alter anyone's perception.

### *Results*

Ten individuals were interviewed over the phone and in person. Although the preferable option would have been to conduct all interviews in person, the current Covid situation and travel restrictions related to it have caused issues with planning.

Interviewed individuals ranging from the ages of 25 to 60 had various educational backgrounds and employment statuses. This way, it was possible to gather perspectives from contrasting environments that have shaped one's thought processes.

All of the interviewees were asked the same set of basic questions. They were asked to introduce themselves, state their age, highest level of education, and whether they have had prior work experience. Afterward, they were asked what their perceived level of corruption in Bosnia in Herzegovina on a scale from one (low) to five (high) is. Questions that followed were in regards to whether they have been directly affected by corrupt activities or whether they have engaged in corrupt activities, what they believe the main reasons for corruption in Bosnia and Herzegovina are, and finally, what they feel might positively influence the anti-corruption battle in the country.

After conducting interviews with ten individuals from Bosnia and Herzegovina, the findings are as follows:

- The ages of the interviewed individuals ranged from 25 to 60. Three of the 10 participants have completed secondary education, while the remaining seven have completed higher education. Only one individual did not have work experience in Bosnia and Herzegovina, and this is due to moving out of the country at an early age. The remaining nine individuals have had working experience in Bosnia and Herzegovina.
- On a scale from 1 to 5, where one was recognized as a low level of corruption and five as a high level of corruption, the average positioning of Bosnia and Herzegovina on that scale, and as determined by interviewed individuals, is determined to be 4.25.
- Three of the ten interviewed individuals stated that they have not been directly affected by corrupt activities nor have experienced this issue in their skin, while the remaining seven have.
- On the topic of reasons recognized as primary reasons for why corruption is considered to be such a big issue in Bosnia and Herzegovina, in the order of occurrence – most common to least common, are flawed governmental system, mentality, lack of law enforcement, lack of expertise in the leading positions, faulty election system, low wages, low morale, and non-existent middle class.
- The main proposed actions for combatting corruption, again in the order of occurrence – most common to least common, are governmental or collective reform, improved education, strengthening governmental institutions and restoring trust in them, higher wages, new anti-corruption regulations, better enforcement, digitalization for better control, and higher penalties.
- Opinions on the effectiveness of introducing high penalties as a punishment for corruption are the following: 2 interviewed individuals recognized this measure as potentially effective, and two individuals recognized it as most likely ineffective. At the same time, the remaining 6 saw partial effectiveness in high penalties as a tool for fighting corruption. The main reason listed for deeming high penalties ineffective or partially effective is doubting that the government would enforce these penalties lawfully and fairly.

**Table 1 – Compiled Data from Interviews**

FIRST NAME	AGE	EDUCATION LEVEL	WORK EXPERIENCE	PERCEIVED CORRUPTION LEVEL	DIRECTLY AFFECTED	MAIN ISSUES	ARE PENALTIES EFFECTIVE?	SUGGESTED ACTIONS	
1	Selma	25	High school	Yes	4	Yes	Enforcement	No	Collective reform
2	Amila	41	High school	Yes	5	Yes	Non-existent middle class	Partially	Improved education and more robust institutions
3	Adnan	31	University	Yes	5	No	Lack of expertise	Yes, but not as a starting point	More vital institutions + higher salaries
4	Nermin	25	University	Yes	4	No	Elective system	No	New regulations
5	Ana	25	University	Yes	4	Yes	Low salaries	Partially	Collective reform
6	Armin	31	University	Yes	3,5	Yes	Mentality	Yes	Higher penalties + enforcement
7	Ivana	38	University	Yes	4	Yes	Low control	Partially	Digitalization
8	Almir	60	High school	Yes	5	No	Flawed system	Partially	Governmental reform
9	Dragana	55	University	Yes	4	Yes	Low morale	Yes	Governmental reform
10	Adnan	27	Higher school	No	4	Yes	Judicial system	In theory, yes	Governmental reform + education

*Source: Own construction of the authors.*

## Conclusion

The interviewing process was completed to obtain accurate field data and understand the general public's opinion about how corrupt the country of Bosnia and Herzegovina is. For reference, the CPI score of Bosnia and Herzegovina is 35 (Transparency International, 2020), while the height of penalty assigned for committing the offense of corruption is an imprisonment duration of between 6 months and ten years and a fine (Judicial System of Bosnia and Herzegovina, 2003). This indicates that the correlation between those two variables is still very weak.

The starting point was to determine whether there is an apparent connection between data collected on the demographics of the interviewed individuals and their answers. It was concluded that neither of the factors such as education level, age, or work experience has significantly influenced the final answers. The only response influenced by age was a personal experience concerning corruption in Bosnia and Herzegovina.

Overall, the general verdict was that corruption is perceived as a systemic problem in Bosnia and Herzegovina, where corruption is not only considered a political or economic but also a social problem, which, due to such nature, needs to be approached from various segments. Two of the most prominent issues mentioned during the interviews are the distrust in the government of Bosnia and Herzegovina, disbelief in proper and fair enforcement, and the perception that corruption is wholly normalized within all areas of society. This is, unfortunately, consistent with many published works, specifically those mentioned in this paper, relating to combatting corruption as a systemic problem. However, interestingly enough, proposals of how to combat corruption in Bosnia and Herzegovina range from collective reform, better education, raising awareness, and many more, which are highly consistent with the collective action theory. On introducing high penalties as a strategy for combatting corruption, interviewed individuals were doubtful that this would be efficient due to the distrust mentioned above in the government and proper law enforcement.

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