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Osipian, Ararat

Vanderbilt University

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## Methodology of Research on Corruption in Education

Essay review of

Segal, Lydia. (2004). *Battling Corruption in America's Public Schools*. Boston, MA:

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Ararat L. Osipian

Dept. of Leadership, Policy, and Organizations  
Peabody College of Education  
Vanderbilt University  
Peabody #514  
230 Appleton Place  
Nashville, TN 37203-5721

Ph: (615)322-8000

Fax: (615)3432391

[ararat.osipian@vanderbilt.edu](mailto:ararat.osipian@vanderbilt.edu)

[araratos@yahoo.com](mailto:araratos@yahoo.com)

Correspondence:

3105 Bellwood st., apt. H  
Nashville, TN, 37203, USA

### **Biography.**

Ararat Osipian is a PhD candidate in the Department of Leadership, Policy, and Organizations at Peabody College of Education at Vanderbilt (USA). He holds a Doctorate in Political Economy from Kharkov National University (Ukraine) and an MA in Economics from Vanderbilt University. His research interests include corruption in higher education and inequalities in access to higher education in international perspective, nexus of education and economic growth, modern welfare states, and political economy of transition.

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The book *Battling Corruption in America's Public Schools* by Segal (2004) is well written, easy to read, very interesting and provocative, and offers to the reader a wealth of detailed information of corrupt cases in the system of public schooling as well as an overview of corrupt practices overall. The major contribution of the book is in its description of corruption and unsuccessful actions to prevent it as well as prescriptions that in the author's opinion may help fight corruption. This makes the book groundbreaking research in the field of educational corruption, and corruption in public secondary education in particular. However, the book cannot be viewed as a revolutionary work. It is explained first of all by the absence of theoretical and methodological contributions to the interdisciplinary field of corruption, as well as by the lack of sophisticated theoretical lenses and frameworks applied in researching the topic. It is obvious that deeper theoretical developments are needed.

Key words: bribery, corruption, education, fraud, methodology

JEL Codes: I22, K42

## **Structure and object of the research**

### Our approach

A traditional approach in reviewing such a nontraditional work would be to confirm the facts of misconduct in the system of public secondary education, presented by the author, and approve or criticize the prescriptions, i.e. political recommendations on how corruption should be dealt with. We take a different approach. Our approach is based on the fact that the book offers us a wealth of factual material on different forms of corrupt activities in the system. Consequently, we intend to apply and, as may be necessary, revise the methodological grounds as well as the methods of investigating corruption. We are more interested in deriving our own prescriptions and policy recommendations on battling corruption, rather than focusing exclusively on the analysis of the prescriptions, proposed by the author. We also utilize economic perspective, including microeconomics, principal-agent theory, structuralistic, rational behavior and networking approaches in analyzing building blocks of the research.

### Object of the investigation

The book addresses corruption in the education industry on a macro level and in the school as a productive unit of the system on the micro level, rather than the process of education itself on macro and micro levels. Accordingly, the title of the book could be “Battling corruption in America’s public schools industry,” with emphasis on the last word. The author approves such an approach by stating that systemic fraud almost never takes place in instruction, and so the major focus should be on noninstructional activities (Segal, 2004, p. 19). We would like to pose two reservations in this regard. First, the fact that fraud is not frequently detected in instruction (as the author herself admits) does not necessarily mean that it is almost nonexistent in this core area of public schooling. It would be useful in this regard to discover some possible grounds for

corrupt activities in instruction, such as grade inflation, bribery, misconduct, racial discrimination, unfair treatment of students etc. We are certain there would be plenty of these if properly investigated. Second, fraud alone does not describe corruption in its entirety. Corruption in education is not limited to abuse of public funds and public property. Fraud is just one of the forms of corruption and may be not the major one. To summarize, school bureaucracies, maintenance, and auxiliary enterprises are not the lone grounds for fraud. While administrative corruption is visual or at least traceable through the financial audit and other mechanisms of identification, educational corruption is often difficult to specify, identify, and measure.

#### Structure of the book

Part 1 of the book gives a description of the system of public schools in general and the three largest school districts in the country, including New York City, Los Angeles, and Chicago school districts, and describes numerous cases of corruption that have taken place in these districts for years and even decades. The author states that corruption in public schools is not universal but rather limited to large school districts and especially inner city schools. She offers some definitions of corruption and presents her view on other forms of abuse, including gross waste:

“Much of what is wrong with the three largest districts is not criminal or illegal. Rather it is abusive and grossly wasteful. Abuse is conduct that deliberately or recklessly advances a group’s or individual’s personal interests at the expense of the agency’s primary formal goals. Gross waste is the obvious overpaying of items that are obviously unnecessary... In fact, abuse should and probably would be illegal if it were not sanitized by collective bargaining agreements, arbitration decisions, district policy and practice, and poorly drafted laws.” (Segal, 2004, p. 15)

The author builds extensively on the organizational theory.

The second part of the book presents an historical perspective of corruption in public schools in the large cities. Such a chronology is helpful in following the changes in legislation and attempts of the authorities to curb corruption. It shows that the problem itself was recognized decades ago and that numerous attempts have been made to reduce or prevent corruption in public schools. As the author indicates, these attempts were mostly unsuccessful due to their partiality, incompleteness, and lack of understanding of the problem as well as organizational resistance. Here Segal emphasizes the importance of accountability in top-down authoritative relations. She distinguishes compliance accountability, performance accountability, and political accountability. Compliance accountability controls for inputs and their utilization, performance accountability controls for output and outcome, and political accountability includes, among other things, transparency and public scrutiny. Based on such a concept of tripartite accountability, borrowed from Ouchi (1995), the author gives the priority to performance accountability, as it controls for the productiveness of the system.

In the third part, the author develops an argument about complexity of the system and why the system is not working properly. She criticizes the monolithic structure of the system with its highly bureaucratized and slow mode of decision making.

Parts four and five present both the “wrong medication” applied and the “right prescription” to deal with the problem of corruption. Most emphasis is on decentralization and the empowerment of school principals. Custodians are presented as one of the major evils in the system, corrupting the system itself and preventing the development of teaching and learning. System restructuring is presented as a stem for possible future organizational reform.

### Corruption as disease

The parallel between corruption and disease is also appearing to be very interesting. The author makes two lines in naming the chapters. First, there is a general medical terminology used in the text, while the other line discloses the meaning of these terms as applied to problems in education. We can present this duality, taken from the table of contents, as the following:

- The pathology
- The remedies tried
- The diagnosis
- The wrong medication
- The prescription

The second line is presented as the following:

- Laying the record bare
- The frenzied search for accountability
- Getting to the root causes
- How not to fix the problem
- How to fix the problem

These two lines perfectly correspond with one another. At the same time one may notice that the “medical” line is not necessarily perfectly consequential. For instance, diagnosis follows the remedies tried, while it might be vice versa. More importantly, there is no strong link between prescription and diagnosis.

### Comparative perspective

The author prizes the academic achievements of some other developed nations and at the same time calls for a decentralized system of public education in the U.S. This comparison and

recommendation lead to several questions, of which some would be: 1) Do these other developed nations have decentralized systems of public secondary education? 2) What is the level of corruption in these systems? 3) Are the officials, managers, administrators, and other bureaucrats, who run the system of public education in these countries elected (by analogy with the educational boards in the U.S.), or are they appointed, lets say, by the Ministry of Education? The author does not answer these questions, which are of key importance for any serious comparative analysis. As far as we are concerned, the developed countries of Western Europe and Central and Eastern Europe, including the former Soviet Bloc, (where academic achievements of pupils in secondary education might be higher than of their peers in the U.S.) traditionally have centralized systems of public secondary education with a strong vertical axis of power; and the officials in these systems are appointed directly by the top governing bodies, rather than elected, at least in some of these countries.

#### Historical perspective

The author gives a good historical overview of the problem of corruption in the three school districts, illustrated with many facts and comments. In our view, it might be beneficial for the author to attempt classifying the history of the districts onto certain periods, depending upon changes in legislation and in the system overall. This would be absolutely feasible since the author uses extensively a chronology of legislative changes in school governance and management.

#### **Method**

First, the author shows evidence of corruption, its scale and scope, indicating the significance of the problem. Second, the author identifies necessary preconditions or the grounds



for corruption to exist, including the scale and scope of the system, the intensity of monetary transactions, and the complexity of the system, including its net of horizontal and vertical, as well as formal and informal relations.

#### Necessary grounds or base for corruption

The author describes several grounds for corruption, including size of the system, funds used in the system, intensity of monetary transactions, and complexity of the system.

#### Size of the system

The author gives a good outlook on the scale of the K-12 industry in the three districts, using recent numbers. Referring to the work of Ouchi and Segal (2003), the author notes the following:

“New York City, the largest school system in the country, has over 1.1 million students, a budget of over \$13 billion, over 1,200 schools, and 140,000 employees. Los Angeles is the second largest, with three-quarters of a million pupils, a \$7 billion budget, 900 schools, and 80,000 employees. Chicago, the third largest, has half a million students, a \$3.5 billion budget, 600 schools, and 45,000 employees. The operating budgets of the New York City and Chicago school districts are each bigger than the entire amount most states spend on education.” (Segal, 2004, p. 5)

Number of employees seems to be proportionate to the size of the budget, number of schools and number of children in each of the school districts.

#### Monetary grounds

Describing the size of the school system in New York City, the author gives the following illustration:

“The system owns more square footage than any agency in the nation after the U.S. Department of Defense and the U.S. Post Office. It receives 45,000 work orders a year that range from requests to “build a new floor” to requests to “fix the toilet.” With 74 percent of its students eligible for free or reduced lunches under federal law, it is the second-largest food provider in the country after the U.S. Army. It delivers over 850,000 meals a day during the school year and 300,000 a day in the summer at a cost of over \$250 million a year.” (Segal, 2004, p. 5)

It is important to notice that the author explicitly states that annual budgets in billions of dollars constitute a money base for corruption: “With so much money flowing through the schools, the amount they can potentially lose to fraud or questionable billing is significant.” (Segal, 2004, p. 8) Substantial amounts of money or a large material base of the system along with intensive monetary transactions constitute one of the essential grounds for corruption. The author states that procurement fraud is one of the prevalent forms of corruption in New York City (p. 112).

### Preconditions for corruption

#### Complexity of the system

Another ground for corruption may be identified as the complexity of the system. Corruption can only exist in complex systems, unless it is formally or informally approved by the state. The book addresses the issue of complexity by pointing out the organizational structure of the system as well as its extremely complex net of formal and informal interrelations in both horizontal and vertical dimensions.

The organizational complexity of the system is well illustrated by the diagrams 1 through 4, which depict Organizational charts of the New York City, Los Angeles, and Chicago Boards of education (Segal, 2004, p. 46-49).

Organizational complexity also contributes to the difficulty of proper oversight and control. These may become very costly with the rising complexity of organizations and their enlargement. Inflexibility and institutional rigidity of public institutions in particular make once effective systems of oversight and control outdated, ineffective, and cumbersome. The author captures this important point by noticing that: “After decades of accumulating top-down controls, most large urban districts today have no idea which ones, if any, are working as intended. Most districts have no clue whether their oversight structures cost more than they benefit. They do not seriously search for alternative, cheaper, more effective oversight mechanisms. Once rules are on the books, they tend to stay there.” (Segal, 2004, p. 74)

#### Legal system

Presence of the legal system that regulates public education, including its governance, management, finance, procurement and disbursement and many other legal aspects is a precondition for corruption. This statement is based on the concept of legal responsibility which anticipates that corruption is an illegal act. Simply put, if there would be no legal regulations for the industry, there would be no corruption. This approach comes from the four-level frame of legal responsibility, economic responsibility, social responsibility, and ethical responsibility.

#### Conditions for corruption

Among the necessary conditions for corruption we would highlight two, namely imperfect legal system and imperfect market.

#### Imperfect legal system

An imperfect legal system in its broad understanding, including rules and regulations; and law enforcement creates opportunities for certain groups and individuals to advance their interests at the expense of the public. An imperfect legal system, the lack or complexity of rules and regulations, a malfunctioning of bureaucratic mechanisms, and the lack or corruptness of the law enforcement agencies leave some space for public officials to abuse their positions in order to pursue personal benefits that contradict laws and regulations in the public sector as well as private sector. This statement supports the finding of Segal (2004) about such problems as overspecification of money, tight bureaucratic control, numerous rules and regulations, which often contradict each other, their interpretation in personal interests, lack of performance accountability and control. Along with the line of thesis—antithesis—synthesis, corruption is a denial of the legal system, and in combination it leads to development of formal and informal rules and regulations.

#### Imperfect market

The idea of an imperfect market as a necessary condition comes from the key theoretical problem of the possibility of coexistence of public and private sectors in a given market economy and the degree to which abuse, or corruption, in such systems can be minimized. Socially complex societies historically maintain a large public sector. At the same time the presence of a public sector results in abuse of public funds that often occur from the side of the private sector. Accordingly, the concept of corruption as a result of an imperfect market anticipates that any economic activity that does not go in line with the natural laws of the market is subject to corruption.

In some societies the predominant form of corruption may be embezzlement, while in others it may be kickbacks and bribes. The former USSR was an excellent example of large scale

embezzlement and fraud, based on the state ownership of enterprises and the entire national economy being a public sector. Many African countries are a good example of kickbacks and bribes. Svensson notices that: “All of the countries with the highest levels of corruption are developing or transition countries. Strikingly, many are governed, or have recently been governed, by socialist governments.” (Svensson, 2005, p. 24)

Rose-Ackerman (1978, p. 2) suggests that any intrusion of the government in a market system results in potential abuse and corruption. The public school industry is a part of the public sector of the national economy, governed, funded, and regulated by the government and so is constantly under threat of corruption and erosion of common values, developed and accepted within the society. The author presents an excellent set of data, where such a nexus of public and private sectors goes along with the intensity and volume of monetary transactions as a base for corruption: “The Los Angeles Unified School District (LAUSD) pays about \$80 million a year to just six bus companies to transport pupil.... The New York City school system spends \$2 billion a year on supplies, over \$60 million on textbooks, \$40 million on leases, \$300 million on private preschool vendors, and, in 2000, \$18 million to train parent lead school leadership teams.” (Segal, 2004, p. 8)

Controlling organs have investigated numerous abuses of the system: “In New York City, the FBI charged that the construction company had submitted \$4.5 million in inflated school construction bills over five years. In the LAUSD, investigators charged that a single vendor hired to provide special education services had billed nearly \$1.5 million in questionable costs. In Chicago, a single private provider of off-site special education instruction allegedly received \$115,000 by falsifying attendance records.” (Segal, 2004, p. 8) Construction contracts with the large school districts are a lucrative business. One of New York construction contractors raked in

nearly \$1 billion in contracts from 1959 to early 1990s. LAUSD invested \$160 million in 1990s in construction of a single high school (p. 8).

### Evidence of corruption

The book presents a wealth of evidence of corruption in the system of public secondary education in New York City, Los Angeles, and Chicago school districts in particular.

### Quantitative approach

Quantitative aspects of corruption include data on the oversight, abuse, gross waste, kickbacks, bribes, overpaid contractors, and advanced payments, with oversight being most innocent, to corruption related suicides and murders being most outrageous.

Oversight often happens due to the inattentiveness of the school officials. As the author contests: “The LAUSD paid one company \$14.3 million for a three-year telephone contract for nothing.” (p.8) Chicago public schools mistakenly overpaid employees \$348,000 in 1991 alone. Bribes are often paid to school officials in advance in order to obtain contracts on everything from constructions to textbooks to school meals.

Kickbacks are another widespread form of profiteering. Segal (2004) suggests that in New York City kickbacks often constitute 10 to 15 percent of the total sum of procurement, construction, and repair contracts. Following the problem of kickbacks the author highlights hierarchy in corrupt schemes and the fact that public officers on the upper steps of the hierarchical ladder gain the most out of corruption: “Upper-echelon officers have collected between \$150,000 and \$200,000 to approve phony bills; mid- to lower-level administrators, between \$2,500 to \$5,000 per contract; and low-level inspectors from \$10 to \$1000.” (p. 9)

High stakes around the lucrative contracts sometimes result in suicides and homicides. Competing contractors and custodians become victims of targeted violence. The book presents

number of such cases that have occurred over the last decades and shows that all of the murders and suicides were linked to some suspicious contracts with the New York City school district officials (p. 10-11).

### Qualitative approach

The author presents an excellent set of examples of a qualitative character to describe corruptness in the way the system is managed and operated. “One custodian brazenly announced to his principal shortly after he was transferred to her school that, since he had two other jobs, she should contact his secretary, not him, if she needed anything. Another custodian let his boiler operator store his gun collection near the lunchroom and live in the basement, where he slept, entertained women, and kept a dog. Yet another custodian used his school basement to raise chicken for cockfighting, telling inspectors that the hundreds of labeled eggs he was incubating there were to feed students.” (Segal, 2004, p. 147) The author characterizes such behavior as a deviant culture (p. 146).

We also find it interesting that the author presents several passages where she uses analogies with medicine in defining corruption and describing corrupt practices. This may be considered as an original link between method and methodology utilized in the work. For instance, she notes: “The presence of employees out to swindle their district indicates a deep pathology akin to a disease like cancer, where the patient’s own cells attack him. The presence of employees who break rules to get their jobs done connotes a less serious condition akin to, say, boils, where the body is actually trying to protect itself by eliminating toxins through the skin.” (Segal, 2004, p. 14) Another example of using analogies with medicine would be the following passage: “As with the surgeon who cuts out a tumor but not the surrounding infected tissue, the disease will grow right back.” (Segal, 2004, p. 164)

Other examples may include: “Once the infection and surrounding tissue have been excised, the patient may seem fine. But unless his constitution and immune system are strengthened, it is just a matter of time before he gets sick again.” (Segal, 2004, p. 170) The authors also uses such terms as sclerotic process, while describing government’s culture of historical budgeting (Segal, 2004, p. 74) and more commonly used term of managerial paralysis (Segal, 2004, p. 86).

### **Categorization**

The author draws different possible categorizations of corruption in organizations from the white-collar crime literature, including categorization by severity of the crime, type of crime, or operational function (Segal, 2004). She also establishes three categorizations that are in her opinion, unique for public schools. These include motive, legal vs. illegal, where corruption occurs, and intensity of corruption.

Categorization based on motive anticipates corrupt activities committed in self interest versus corrupt activities or misconduct committed for the good of the organization or common good. Legal vs. illegal approaches in categorizing corruption form three categories: corruption itself, as something illegal, plus abuse and waste. The latter two are not illegal, but still harmful for the common good. The third identifying characteristic for corruption is where it occurs. The two major categories include instruction and noninstructional areas. The author notes that systemic fraud hardly occurs in instruction. Instead it effects noncore areas, such as transportation, construction, adult education, building maintenance etc, and that the highest incidence of corruption occurs among central, district, and school noninstructional personnel



(Segal, 2004, p. 18-19). A fourth way of categorization is based on intensity of corruption, i.e. density of cases that projects on either sporadic or systemic character of corruption.

The author points out some differences between categories of misconduct, used in investigating corrupt practices. She notes that such categories as abuse and waste have a different meaning in respect to corruption per se. In her understanding: “Abuse is conduct that deliberately or recklessly advances a group’s or individual’s personal interests at the expense of the agency’s primary formal goals. Gross waste is the obvious overpaying for items that are necessary or the paying for items that are obviously unnecessary.” (Segal, 2004, p. 15)

The author states that unlike corruption, abuse and gross waste are not illegal at the same time recognizing the fact that these two forms of misconduct may be as harmful to the system, as corrupt activities. We tend to consider such an approach as somewhat superficial. While we accept the difference between abuse and gross waste, we believe that these two types of misconduct have certain motives and carry functions that might be qualified as grounds for corruption. By this we mean that wasteful purchases of equipment are also done to benefit certain insiders and outsiders. This involves remuneration and should be considered an act of corruption. Here motive and hidden links become more important than the direct evidence, which is often lacking in studies that investigate corruption. This may well be explained by the specifics of the field and its relation to legality/illegality nexus. To the author’s credit we should note that the book suggests a possible illegality of abuse and gross waste and recognizes that this raises the problem of poor legislation and powerful lobbying groups, including trade unions and other political groups.

To summarize, much of what is done in the public education industry is abusive and wasteful, but not illegal and does not constitute explicit acts of corruption. Abuse takes place

when an official puts his personal goals or interests ahead of institutional goals, while gross waste takes forms of overpayment and misallocation of allotted resources. Consequently, there are three categories to be considered: abuse, waste, and corruption. A major criterion for assigning activities to any of the three groups is the legality of the act. Such a categorization leads to the following duality. On the one hand, those who abuse the system based on their discretion while pursuing personal interests or benefits through embezzlement and distortion are considered wrongdoers, yet not explicitly corruptioners. On the other hand, those functioners, administrators, or bureaucrats, who commit acts of wrongdoing to get things done while pursuing public benefit, are not considered wrongdoers or corruptioners. In the latter case the rules might be broken, but the system presumably benefits from it. The two related questions that rise out of such approach are: 1) how do the functioners, administrators, bureaucrats, or teachers know what is better for the system? and 2) how do we know that what they do indeed, benefits the system?

The answer on the first question, according to the author, is in local self-governance and the belief that the people who have their hands on the process, i.e. school principals, administrators, and teachers know the situation in their school better and can address the needs of the school at their workplace. The answer on the second question would be the assumption that the public accepts the idea of local self-governance in large-scale systems of public education. We are not convinced by this approach and would like to notice that while the former undermines the centralized nature of the system, the latter raises questions of professional competency and public accountability.

The author suggests estimating corruption, waste, and abuse on the basis of intensity by raising the following question: “Are they opportunistic and occasional or systemic and chronic?”

(Segal, 2004) Referring to Ermann and Lundman (1978), the author admits that some sporadic, opportunistic fraud and waste is almost inevitable in any large organization, while noting that systemic patterns suggest a deeper, constitutional problem: “What is striking about the New York City, Los Angeles, and pre-1997 Chicago school districts is how systemic and persistent corruption, waste, and abuse have been in certain noncore areas. The intensity of the problem is such that... investigators unearthed the same kinds of schemes year after year, sometimes for decades.” (Segal, 2004, p. 19)

To finalize, we do not consider the different approaches for a categorization of corruption presented in the white-collar crime literature as exhaustive; and, furthermore, we do not consider four approaches to categorizing corruption, including motive, legal vs. illegal, where corruption occurs, and intensity of corruption, as uniquely related to the public schools. Nor are the categories, drawn based on such approaches unique. These are categorizations often used in other areas of research on corruption, including development economics and public policy studies.

Different authors use the word *corruption* in different contexts, expressing different meanings. The word comes from the Latin *corruptio*, which in Medieval Latin expressed a moral decay, wicked behavior, putridity, rottenness. It was consistent with the classical notion of corruption, comprising in the ancient Greece less the actions of individuals than the moral health of whole societies (Johnston, 1996, p. 322). The author should be given credit for capturing the essence of corruption in terms of *corruptio*, and differentiating between the two. She states that corruption in organizations and the behavior of employees leads to corruption in the functioning of the system, perverting educational purposes, i.e. negatively influencing processes of teaching

and learning. This leads to the conversion of corruption as an illegal activity into *corruptio* as perversion of major purpose.

Corruption in politics, public policy, and bureaucracies was addressed in works of Bardhan (1997), Benson (1978), Berg, Hahn, and Schmidhauser (1976), Buchanan (1980), Keller (1978), Krueger (1974), Moore (1992), Noonan (1983), Nye (1967), Payne (1975), Peters and Welch (1978), Philip (1997), Rose-Ackerman (1978), Tirole (1992), and Weber (1978), to name but a few.

Johnston says that not all behavior that breaks rules is corruption. “Corruption involves abuse of a public role or trust for the sake of some private benefit.” (Johnston, 1982, p. 4) Private benefit is a very broad term and may be understood differently depend on the context. Again the question arises whether abuse and gross waste are explicit corrupt activities or they are not. The author seems to be holding to the approach, presented by Johnston, i.e. considering private benefit as a necessary characteristic of corruption, whereas we tend to consider gross waste as an act of corruption as well. The key is that the benefit may not necessarily be explicit, visual, or clearly understood. It is often the case that the system of drawing benefits from what appears to be a gross waste is more complex than just direct kickbacks. Lucrative employment after retirement is one of the forms of such invisible kickbacks. Consulting, membership on the board, discounts, etc are all may well be kickbacks paid to reward gross waste. In fact, we are convinced that behind most of the cases of waste there is not just bureaucratic rigidity, low professionalism, or ignorance of the interests of the institution or the system overall, but a hidden interest and a private benefit.

Leon contends that: “political corruption is a cooperative form of unsanctioned, usually condemned policy influence for some type of significant personal gain, in which the currency

could be economic, social, political, or ideological remuneration”, and concludes that political corruption is an integrated, systemic part of the American political process (Leon, 1993, p. 25). The same suggestion could probably be made for the system of public education in the US, and public schools in large school districts and inner-city schools in particular.

In the modern economic literature, corruption is normally described in the area of the shadow economy and to a lesser extent in relations between the economy and different levels of bureaucracy and administration that are political organizations. A newer trend in research on corruption in developing countries is in presenting a descriptive analysis of perceptions of corruption by the population based on polls and surveys. The author does not rely upon a survey but collects her material from interviews, secretly recorded conversations, legal processes, confessions etc. This makes the material extremely valuable and of high degree of reliability. Nevertheless, it might be of benefit in the future to try developing and conducting surveys on the subject of corruption and corruptness of schools and governing organizations as well. This may lead to discoveries of corrupt activities in such areas, as core educational process, i.e. teaching and learning, which was left aside by the author.

Education corruption is still not described theoretically. To estimate corruption in education is much more difficult than to estimate the shadow economy. The shadow economy in many countries is mostly legal in its process and becomes illegal at stages of different forms of realization. Products produced by the shadow economy are legal and do not differ from those produced legally, but avoiding taxation and illegal agreements make the sector a shadow economy. As follows from the facts, presented by Segal (2004) and estimations, corruption in public education alone is a multibillion industry.

One of the approaches is to consider corruption as illegal by its nature within any organization, even if it is broadly accepted and treated as normal. Corruption in many countries or large organizations is deeply rooted in the culture of the society and has a proud tradition. In historical perspective the concept of “feed from the service” is not new. When salaries were not paid for years, state or public serviceman collected their benefits from the public, developing clientele. Those were bribes in kind and rarely money. Embezzlement was a most common form of corruption in the countries with large public sector, including countries with planned economies and state ownership of enterprises, healthcare, and education (Osipian, 2007). Quite the same situation takes place in large school districts, where employees excuse their corruptness and embezzlement by the low salaries and suppliers and contractors justify inflated prices by delays in payments from the administration of school districts. While in small school districts and suburban schools corruption is not widespread and generally not tolerated by the public, in large school districts corruption simply becomes more sophisticated, concealed and difficult to investigate than it used to be, though still would be illegal. Involvement in illegal activities requires braking personal ethics and certain norms of behavior and establishing new type relations with the same and new people and organizations. That might be another reason why nepotism is flourishing. Not only “profitable” positions are distributed among the relatives, but relatives are less likely to turn in their corrupt colleague or supervisor.

### **Building blocks**

#### Economic analysis, microeconomics

The author uses intensively some economic tools in describing corrupt practices in the large school districts. These include overpayments, monopolization of certain rights and creation

of artificial monopolies, extortions from contractors, sharing in profits, profiteering, economically unjustifiable fixed rates on supplies, violations of conflict of interest rules, nepotism, including hiring of unqualified relatives, no-show family members, and 'dead soles' overtime, illegitimate charges, consulting fees, inflated bills for every kind of service and others.

Commenting on the evolving privatization of educational services, Molnar (2005) notes that Chicago Public Schools spent \$53 million in federal funds in 2004 to provide tutoring for 80,000 students. About 40,000 students got tutoring from private firms, at an average cost of \$1,300 per student, while the other 40,000 got tutoring from district teachers, at an average cost of \$400 per student (Molnar, 2005, p. 128). Justification for such spending is often problematic, since there is normally no causality established between the amounts of money spent and the academic progress achieved, if at all. Molnar (2005) refers to the survey of the public school system, where "\$200 to \$300 million had been spent in supplemental services in the 19 districts with almost no scientific evidence that this spending has contributed to academic achievement." (p. 130) The questions one might ask are: Should these activities and outcomes be considered as corruption or just overestimations and unmet expectations? Should more expensive private tutoring be considered as corruption with possible kickbacks to school administrators? These are the questions that should rise every time the problem of existing large public sector within the market system is concerned.

Overpayment of contractors and suppliers causes inefficiencies as it happens in just about every large organization of such scale. Everyone tries to rob the government through the mechanisms of embezzlement from the public schools. Suppliers often become monopolists on the market of supplies for the school districts. This leads to higher prices as well as poor quality

of the products supplied. De facto legalization of such monopolies leads to institutionalized corruption as expressed in well-arranged schemes of contracts and payments.

Extortions from contractors, practiced by some public officials, are based on the discretion of these officials over the distribution of lucrative contracts and supported by the low level of transparency, insufficient accuracy and control in procurement and disbursement, pre-arranged unfair bidding processes and lack of access of competitors to the market of school contracts. This leads to lack of competition and overpricing. Anonymity as well as transparency may be suggested as the tools of improving competitiveness in bidding processes. Well-arranged system of sharing in illegal profits, systemic abuse of the conflict of interest regulations, nepotism, chronic overtime payments, and unjustified consulting fees all point to well-institutionalized corruption in the school districts. As the author notices, even good corruption siphons money away from the system (Segal, 2004, p. 32).

Considering the idea and practice of creating so called credit pools against “use it or lose it” rule of the center we would like to emphasize the following. Credit pool is not a replication of the central budget. It makes possible decomposition of the chain of payment in time. School asks for money first, then receives the money, places it into the credit pool, and then spends it when the time comes. Simply put, credit pool is about buying what you need when you need it. Another issue we would like to highlight is considering corruption as a right due to the low salary. This is quite common in every bureaucracy and according to the author widespread among custodians and maintenance staff. There are two major theoretical questions that can only be answered based on substantial empirical research. The first question is whether corruption, or more specifically, bribery, is a function of the recipient’s salary? The second question is whether the size of every bribe is a function of the size of the salary of the corrupt official, or a custodian,



or a maintenance worker? We would consider the institute of custodians as a number of positions established to indirectly embezzle from the government. They are an element of institutionalized corruption.

The major difference in types of corruption between a planned system and a market system is in the following. In any planned economy with the state ownership of enterprises a major problem for just about every corruptioneer is how to cash out from the system. The good example of it would be the former USSR, where embezzlement was the most prevailing form of corruption. The stolen products, however, were difficult to sell simply because there was no open market in the country. This undermined the very incentives to steal, except for personal consumption and distribution among close relatives, on whom the corruptioneer could rely. In any market economy with a substantial public sector the major problem for a corruptioneer is how to obtain from the system more money than was initially or legally allotted. This task appears to be somewhat easier than the one under the planned economy, and so one should potentially expect quite a significant scale of corruption in such systems as public school districts in the US.

Neptism is detrimental to the system for three major reasons. First, the people who get selected to occupy positions in education are not the most competitive ones. This results in lower quality of the service and lower productivity of the system. Second, supervisors are less likely to demand good performance of duties from their relatives-subordinates. This further diminishes effectiveness of such workers and negatively impacts productivity of the system. Finally, relatives are less likely to be turned in if involved in corrupt activities. Risk of being punished for involvement in corrupt activities decreases. As a result, level of corruption may increase dramatically.

Diffusion of local politicians and educators in pursuit of mutual interests and exchange of favors is based on coercion, favoritism, and anticipated penalties. Voting power of school constituencies is exchanged for present and future promised favors from the local politicians. Misuse of staff for one's own or a friend's political campaign illuminates the coercive nature of patronage and its demoralizing effect. Politization of schools broadens the ground for corruption. As noticed by the author, community run schools are corrupt as well (p. 120).

It would be beneficial to address all of these issues with the usage of microeconomic techniques of analysis. Even though the author claims utilizing microeconomic theory, the evidence of it is hard to find in the book.

#### Rational behavior and networking

Issues of nepotism and diffusion of local politicians and educators, mentioned in the preceding section while considering possible applications of economic models and microeconomic analysis in particular, lead us to yet another building block focused on rational behavior and networking as a part of such behavior. Networking is an immanent part of an individual's rational behavior whenever corrupt behavior is concerned. First, it substantiates level of security of corruptioneer and minimizes his risks through informational exchange and informal early warning systems. Second, networking broadens his base and clientele.

Primary structure of human organization is a net of relations, which occur among the people and groups, based on their interests. Ignorance and psychological vacuum are anti-relations that indicate condition of the structure. Bolman and Deal (1997) note: "In organizations, as elsewhere in life, many of the greatest joys and most intense sorrows occur in relationships with other people." (p. 144) Argyris and Schon (1974, 1996) argue that individuals' behavior is controlled by personal theories for action: assumptions that inform and guide their

behavior. Bolman and Deal say that “These authors distinguish two kinds of theories. Espoused theories are the accounts that individuals provide whenever they try to describe, explain, or predict their behavior. Theories-in-use guide what people actually do. A theory-in-use is an implicit program or set of rules that specifies how to behave... Lurking in Model I is the core assumption that organizations are competitive, dangerous places where you have to look out for yourself or someone else will do you in. That assumption leads individuals to follow a predictable set of steps in their attempts to influence others.” (Bolman and Deal, 1997, p. 145)

Corrupt networking might be especially well-developed and widespread in large organizations or systems. Here, intra-institutional as well as inter-institutional links are of equal significance. The evidence to it is close ties between the organizations along both vertical and horizontal axes of subordination, control, and cooperation that exist on individual level. Culture of corruption is yet another part of rational behavior and adhering to this culture might well be a necessary behavioral pattern for survival. Within the organization one should follow both formal and informal rules and respect the culture of the organization. For Schein (1985) “Culture is a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.” (p. 495) In the system of public education and its underworld, described by Segal (2004), culture of corruption that includes “pass the buck” formula, hierarchies, informal networks, and even the lifestyle of the participants as well as their relations with the outside world are all part of corrupt human relations. It might be further predicted that stronger ties will develop between custodians, school principals, public

officials, external private contractors, and law enforcement to adopt and resist new anticorruption policies.

### Accountability

Search for the prescription from the standpoint of both economic models and rational behavior and networking lead to the idea of accountability. Accountability may be approached from the positions of principal-agent theory. Principal-agent theory, first developed in economics to study relations between the owners of the enterprises and their managers, is now widely used in investigating numerous issues in public policy. Principal-agent problem can clearly be observed in the realm of corruption in education.

Principal-agent problem in the fields of public policy and education is described by Banfield (1975), Becker and Stigler (1974), Darden (2002), Rose-Ackerman (1975, 1978, 1999), and a few other authors. McLendon (2003) states that: “In the context of bureaucratic politics, principal-agent theory posits two simultaneous conditions that are likely to conflict with one another. First, the relationship between principals and agents is said to be hierarchical in nature; to the extent possible, principals (elected officials) desire control over agents (bureaucrats), who are accountable to their elected principals. However, principals and agents are both self-interested actors, so their preferences often diverge.” (p. 174) This agency problem not only urges principal to monitor the agent, but also to try different mechanisms of controlling his behavior.

Agent abuses his position by getting involved in corruption and by encouraging his subordinates to do the same in order to blackmail them later. We suggest that the principal-agent problem should be investigated in regard of the concept of corruption and coercion in managing public schools. Describing collective corruption Gong (2003) says that its purpose is “to

maximize individual gains and/or minimize the risks associated with corrupt activities.” (p. 88) In fact, vertical hierarchy uses risk minimization as a tool for maximizing total benefits. Informal minimization of formal risks is an essential part of corruption and coercion scheme that works in public K-12 education industry.

Fundamental problem of the principal-agent framework in approaching corrupt relations is that the principal, i.e. the highest in the hierarchy of authority, is not an agent, i.e. does not represent political will and interests of his constituents. Application of the principal-agent framework in the context of the corruption and coercion concept is truncated by this initial stage where central authority is an agent of the population. Agent becomes accountable to his principal not only on the formal level, but also and mostly on informal level.

Presence of formal channels of power is explained by the two factors: 1) certain social constraints imposed on the members of the central authorities by the voters, and 2) by the necessity of legal coercive power to enforce mechanism of corruption and coercion. At the same time informal channels of power become predominant ones.

The principal who cannot rely on population as a primary base of his power and formal authority requires from the agent both loyalty and compliance and expects from him to be helpful in getting public support. In exchange the agent gets both the informal authorization for the corrupt activities and cover-up from the principal. In this case principal is more concerned with personal fidelity of the agent and his willingness to share the benefits from corruption rather than with his performance of the formal duties.

The author addresses the issue of accountability through consideration of compliance accountability and performance accountability. Centralized control and compliance accountability in the three major school districts appears to be not up to the task of coping with

corruption. Overcentralization and tight controls undermine market forces in the industry. School officials should be given a right to choose prices and not vendors. This would be more in line with rational choice theory. The Weberian model suggests restricting employees' discretion over contracts. As the author notices, scientific management implemented to stanch corruption, waste, and abuse is ineffective (p. 58). Corruption comes from fundamentals to which scientific management is superficial. This results in ineffective oversight, informational overload, inaccurate information, and opaqueness. There is a whole culture of "deny, defend and deflect." (p. 72) Deviant cultures of corruption, illuminated by the language that uses such terms as "pass the buck," "godfather", "pieces," and others are well presented in the book (pp. 122, 146).

One of the major questions to be addressed is whether corrupt people create corrupt environments or people are drawn into corruption by either having material incentives, or being invited by the other members of corrupt networks, or simply forced to live by unwritten rules. We suppose that at the root of the answer to this question is rational behavior. If the system is corrupt it might be irrational for an incoming individual to stay away from benefits of being corrupt. Here culture is complemented by the purely rational approach of cost-benefit analysis, where benefits are obvious and costs are represented by certain risks. Addressing the issue of measuring effectiveness of massive oversight the author notices that the authorities "have no clue" whether cost of oversight is more than benefit from it, because corruption is hidden and difficult to measure (p. 74). Nevertheless, deterrent value of oversight is undeniable.

In our view, a so called "aggravation tax", charged by contractors because of slow payments is based on the absence of market rules rather than too much control. Advanced billing can not be regarded as good corruption. Abuse of the system by contractors is based on the concept of soft budget constraints, when initial construction cost doubles and triples before the

end of construction (see, for instance, Atkinson, 1994). Problem of soft budget constraints is common in public sector throughout the world.

### Prescription

Pathology suggests the remedy, says Segal (2004, p. 119). She sees roots of fraud, waste, and mismanagement in command-and-control systems and offers a solution in form of decentralized discretion and balance between compliance accountability and performance accountability. Analogies with certain surgical procedures strengthen the argument. We find it quite a radical solution, which may be described in medical terms as the following: “if your extremity gives your pain, cut it off.” The suggestion is not to treat the system but to replace it. Moreover, corrupt individuals are very difficult to change, as well as the culture of corruption overall, due to institutional inertia and consistency of self interest.

The author is moving away from structuralistic paradigm as an approach for resolving the problem of corruption. Corruption is often a product of the lack of clarity in structure of relations and coordination of activities. As Bolman and Deal (1997) state: “Structure provides clarity, predictability, and security. Formal roles prescribe duties and outline how work is to be performed. Policies and standard operating procedures synchronize diverse efforts into well-coordinated programs. Formal distribution of authority lets everyone know who is in charge, when, and over what. Change undermines existing arrangements, creating ambiguity, confusion, and distrust. People no longer know what is expected or what to expect from others. Everyone may think someone else is in charge when in fact no one is.” (p. 324)

Other suggestions brought by the author include transforming labor from union to incentives and performance, because unions stay for high fixed salaries and negatively influence quality, and delegation of authorities to informed units, where the unit is a school. In the author’s

view, the center should serve principals, not the other way around (p. 173). School principals should have independence in pursuing official goals. Roles of control should be delegated to independent inspectors general.

We consider most of the suggestions, including dismissals, reorganization, changes of rules and regulations as administrative measures. Independence of inspectors and school principals is also not unequivocal. First, independent school principals will have more freedom to run the schools but equally more freedom of abusing the system on the local level. No one can guarantee that school principals will have much better intentions than do custodians. Second, whenever prescription for anticorruption campaigns includes the word *independent*, two questions come up: independent from whom and independent from what? There is always a public official or a politician over the independent inspector, and if the official is corrupt, it will be difficult for the inspector to perform his duties. Moreover, inspectors are not free from their self interest. They are as vulnerable to corruption as anyone else. This goes to the concept of controlling controllers or supervision of supervisors. History shows, that in many countries the largest bribe goes to someone whose duty is to make sure that there is no bribery in the system. Independency is a very arguable term.

Even though the author tries to establish a link between poor academic performance of students in inner city schools and corruptness of the large school districts, we find it to be somewhat unconvincing. Moreover, there may be different types of links between the two, including moral decay as a result of corruption that might negatively impact academic performance. Even if such a link would be established, it would not be clear what causes what, i.e. whether corruption causes poor academic performance or poorly managed and funded



schools are a good ground for corruption. Absence of clear causality does not allow us to contest the presence of hard scientific evidence on such a link.

The author attempts to justify the ignorance of certain rules by the school principals and teachers for the common good. She refers to Klitgaard's statement that "if the prevailing system is bad, then corruption may be good." (p. 35). Favor is given to creative noncompliance through the development of informal power networks. The goal of such networks is to put children first (p. 101). Teachers and principals often use semilegal methods to get around the bad rules. This creates bottleneck corruption in an attempt to overcome red tape, set by the central office. The problem we encounter here is the large degree of uncertainty about who knows better, teachers and principals or bureaucrats in the central offices. While teachers and principals see the situation at every workplace, they may be missing the larger picture and misunderstand general reform policies. We also consider the approach of "building relationships" (p. 102) as being one step away from corruption. As the author notices, bottleneck corruption degenerates into occupational corruption (p. 109). Journey around the red tape may lead to personal benefit. Honesty and enthusiasm of the employees as a guarantor is not good enough and will not last forever. In our view, any fundraising from parents should be strictly prohibited.

Institutionalized corruption cannot be destroyed by scientific management only. Institutional corruption represents deeply rooted problem of trust or rather public distrust as well as culture of corruption. As mentioned in the book, participants of corrupt networks "perceived bribery as a normal" way of getting things done (Segal, 2004, p. 112) Presence of expeditors indicates mediatorship as an essential element of institutionalized corruption.

To summarize, the author sees roots of corruption in tight bureaucratic controls, detailed standards, rules, and regulations, and the overspecification of money (p. xxiii). Strong and free

principals along with Hayek's information-based decision making are the key to success. Central allocation of resources, tight budgeting, based on history, lack of vital information, and top-down control are not good for the system. An informational vacuum is often deliberately organized by the leaders and managers for the simple reason of self preservation and fear of replacement, based on technical experience over complex rules (p. 104).

However, establishment of the direct link between corruption and pupil performance as well as decentralization as a solution for the problem of corruption is not strong enough. This comes from the fact that rigorous theoretical frames were not fully applied in the research. As Gillette (2004) points out in review of the book "it has very little theory of substance and skips the difficult choices of applying theory in this context, especially for systems of this scale." (p. 303)

### **Conclusion**

The book is well written, easy to read, very interesting and provocative, and offers to the reader a wealth of detailed information of corrupt cases in the system of public schooling as well as an overview of corrupt practices overall. The major contribution of the book is in its description of corruption and unsuccessful actions to prevent it as well as prescriptions that in the author's opinion may help fight corruption. This makes the book groundbreaking research in the field of educational corruption, and corruption in public secondary education in particular.

However, the book can not be viewed as a revolutionary work. It is explained first of all by the absence of theoretical and methodological contributions to the interdisciplinary field of corruption, as well as by the lack of sophisticated theoretical lenses and frameworks applied in researching the topic. It is obvious that deeper theoretical developments are needed. The book

does not bear any methodological novelty, clear definitions and operational categories, or new methods. Of three theories, explicitly announced by the author (p. xxiv), including theories of public administration, microeconomics, and white-collar crime, only the first and the third are used in the analysis. Microeconomic theories or approaches are absent. Moreover, the principal-agent frame that might be of enormous use in analysis of complex organizations is used or mentioned only briefly. While most of the book focuses on explicit, well-documented cases of corruption, presented primarily by monetary transactions, the real economic analysis is missing. This leaves a space for further development of the issue with usage and elaborations of models of corrupt behavior.

A mass of facts and materials is often allotted to different parts and chapters and adjusted to reflect titles of these chapters. At the same time the reader may find that facts in Chapter 3 are not much different from those presented in Chapter 5. Essence of the cases is often the same, but the chapters are different.

While the book contains a good historical chronology of major changes in the sector of public secondary education, the genesis of the system, and more importantly, corrupt practices within the system, are presented weakly, without identifying stages and periods.

A better comparative analysis would also strengthen the argument of the author about the necessity of decentralization. While the author uses some comparisons between the three districts, she does not include any international experiences with regulating public education and opposing corrupt practices.

Most of the book is devoted to the consideration of corruption in school administration, supplies, maintenance, etc. and very little if anything at all is said about the core process, except for some influence of corruption on student performance. This link appears to be arguable.

Furthermore, the link between corruption and student performance is presented to make book more explicitly relevant to education as well as to add it soundness and a certain degree of political correctness. We find the link between description of the system and the problem and recommendations insufficient and not convincing enough. Issues of embezzlement, bribery in outside relations, politization, and informal influence leave aside possible corruption in the core of the system.

We would disagree with Gillette's (2004) observation that the research by Segal (2004) is based on anecdotal evidence. We think that the evidence of corruption per se is quite extraordinary for the field. Furthermore, we consider use of the numerous documented cases of corruption in the three school districts as an essential part of the method of induction, which often appears to be the most appropriate method in investigating corruption. However, the book often depicts a movie-type conspiracy and hunting for "small fish," while the real theft is not captured. More importantly, the author does not conform to the method of induction along the structure of the book and does not theorize presented and otherwise convincing generalizations.

The key theoretical problem that the author leaves unresolved may be formulated in the following question: Can the planned public sector coexist with the market without having a significant presence of corruption, abuse, and misconduct? While the work is about corruption, the theoretical frames used are those from K-12 and decentralized management, rather than theoretical frames on corruption. The author takes the evidence of corruption in education and suggests how to handle the problem. We would take evidence of corruption in education and try to build some theories of corruption, using this evidence as a good factual material. The book would be of high interest for both policymakers and theorists. While policymakers will appreciate a good description of corrupt activities and some of the prescriptions, given by the

author, theorists will find a wealth of material on which to build some concepts and theories of corruption.

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