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## How to Break the Bandwagon Effect of Corruption

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### **Abstract**

Corruption is considered as the most challenging issues of present economies of the world due to its impact on institutions, values and the sustainable development. It restricts almost all form of economic activities through redirecting the finance into unpredictable directions and weakens the economics system which locked many countries continued to fail in controlling the corruption significantly. According to the World Corruption Perception Index (2018) India stands 78<sup>th</sup> rank out of 180 countries surveyed even after numerous policies adopted from the independence by the government of India to rectify it. Corruption is a behavioral aspect and the available literature connecting various theories and their application of controlling corruption by interlinking of corruption behavior and the Economics behind it, are not well documented which triggers a call for integrated attempt to enquire into the behavioral Economics of corruption and to identify the relevant solution to rectify it. This paper is attempted to fill this gap in research by exploring the behavior of corruption in the light of the micro economic theory of consumer behavior called Bandwagon effect in the society. The paper identify the interlink age among corruption behavior, bandwagon effect and the Economics of information and explore that how information can be fine tuned towards mitigating the bandwagon effect and corruption.

**Key Words:** Bandwagon Effect and Corruption, Controlling Corruption, Behavioral Economic approach to corruption, Network Externality of Corruption, Asymmetric information for the Corruption Market Failure, Breaking the bandwagon effect, Micro economic theory and corruption, making the corruption market failure.

## **Prelude**

Corruption is conceptualized as severe issues that adversely affect India's economy. According to the study conducted by Transparency International in 2005 reveals that 92% of Indians had corruption in any form either by paid a bribe or by accepting a bribe from public official. In 2017 Corruption Perception Index highlights that India is in 81st place and as per the same World Corruption Perception Index (2018) India stands 78<sup>st</sup> rank out of 180 countries surveyed which reveals considerable increase in the corruption. The biggest supporters of this index are considered as the tax evaders and the block money holders. In most of the literature the corruption is conceptualized as a psychological aspect which determined by various factor.

The reasons for various forms of corruption in India incorporates unreasonable directions, confounded assessment and authorizing frameworks, various government offices with non transparent administration and optional forces such as culture and the collapsed economic and financial morality, imposing business model of government controlled foundations on specific merchandise and enterprises conveyance, and the absence of strict laws and procedures in terms of implementations etc.. There are notable varieties in the farms of corruption in the public administration's contribute to decrease the welfare through various front and thus it become important issues among the policy makers across the countries. The reviews presented here under will helps to understand various dimensions of corruption and locate the issues and research gap of the study.

## **Reviews of literature and Research Gap**

Fein, E., & Weibler, J. (2014). Has reviewed the contributions from history, sociology, anthropology and psychology, articles on corruption in organizations from fields like organizational behavior (OB), behavioral ethics (BE) and management studies (MS) and highlighted the various patterns of corruption that caused for the corruptions through the emergence and the changes of value systems which was considered to be a legitimate and/or, in contrast, corrupt action across long periods of time (Engels, Fahrmeir & Nützenadel 2009).

In psychological perspective the concept of corruption is based on the opinion conceptualized by individual, political and the culture factors also exist and about its dominants over the public (Senturia, 1930). But (Johnston, 2005, p. 71-72) has argued in his paper that corruption is a normal phenomenon and not categorized to be an action of unacceptable one.

Some researchers have argued and interpreted the corruption as a typical product of modernization. Like Jens Ivo Engels, on historical corruption, claims that the classic definition of corruption as a misuse of public office for private gain “only makes sense within modern societies” (Engels, 2010), while in pre-modern societies, where public and private spheres had not yet been differentiated, it was common and thus normal to hold and treat offices as a means of personal enrichment where as Werner Plumpe (2009) and Rabl (2011), referred their work classic Comparative Political Corruption (1972) claims that “corruption and modernity are co-evolving” phenomena and inevitable.

A few sociologist like Fleck & Kuzmics, 1985 made an in depth enquiry into the dynamics and culture of corruptions and identified that whether or to what extent corrupt behavior comes to be critically reflected depends to a large extent on variables of education and social development. The research attempts made by Kohlberg (1969); Rest, (1986); Chilton, (1988); Fein, (2012) and others reveals that the most important reason for corruptions as morality which is the basis of all our definitions of ethical and unethical/corrupt behavior, and second, the levels of complexity of possible ways to think about and act out morality.

Some Economist also studied the material incentives undermining state bureaucracies role in the corruption. The political economists like Susan Rose-Ackerman (2005) have observed a growing readiness of business itself to accept broader ethical responsibilities. Also has ethics become an important issue in academic economic literature such as White, (2009); Ulrich, (2008); Young, (1997); Sen, (1987), as well as in business ethics Fisher/Lovell (2009), Waples et al. (2009) and management studies Kuhn/Weibler (2012); Treviño et al. (2006) and Rose-Ackerman (1999 and 2005) have given clear accounts of the negative impacts of corruption from a common welfare perspective.

S.Y. Chun and M. Hahn, (2007) studied the This study examined the bandwagon effect on participation in and use of one particular SNS and revealed that the social networking has the influence on the decision about the ethics and morality in maintaining the anti corruptions habits whereas R.L. Daft and R.H. Lengel, (1986) studied about the information requirements of the organization and tier relation to corruption, researchers M.L. Katz and C and Shapiro, (1994) have studies and concluded that the information system and its competitions which determines the network effect of corruption.

Rüdiger Schmitt-Beck (2016) studied about the interconnections of bandwagon effect and concluded that even though it lacked conceptual precision and proved empirically elusive, a number of carefully designed studies have succeeded in demonstrating that bandwagon effects and its existence. The theoretical background of bandwagon effects has only recently explained that how they emerge and how large and strongly contingent on personal and situational circumstances as well as attributes of the triggering the economic consequences. Bandwagon effects have been most intensely explored in politics. Some studies have also investigated their functioning in other areas of life, such as consumer behavior and economics. The bandwagon effect is one of several hypothesized manifestations of “impersonal influence”—effects on individuals’ attitudes, beliefs, or behaviors that derive from these persons’ impressions about the attitudes, beliefs, or behaviors of collectives of anonymous others outside their personal contact sphere.

Hess, Manuel (2018) researched about the bandwagon effects in networks and interpreted that the bandwagon effect is an adoption diffusion process among networks that results from pressure exerted by prior adopters in the extant environment. The absence of a review within this context is surprising given the relevance of networks and information contained within networks for individual and organizational decision-making, particularly in an entrepreneurial context. He used and identified 561 articles addressing the topic of the bandwagon effect among organizational and behavioral scholars and reviewed the current literature to identify relevant research streams, to synthesize definitions and constructs, and to look into antecedents that trigger such effects as well as their outcome variables. Relevance and opportunities for future research directions are outlined and highlighted with a particular focus on new venture value creation.

Summing up the available reviews of literature on corruption and interconnecting of corruption with various branch of sciences reveals that behavior and the Economics behind the corruption is not documented so far connecting various Economics theories and their application of controlling corruption, which motivated to enquire into the behavioral economics of corruption and to identify the solution to rectify it. This paper is attempted to fill this gap in research.

## **Corruption: A Behavioral Economics Framework**

Everything is a product in Economics: every one is a consumer: and every activity can be defined as consumer behavior attempting to maximize any form of his or her utility. The subject matter of behavioral finance explains how the individual takes financial decision under various economics circumstances. The attitude or behaviors towards a particular financial decision are determined by various factors including their peers and neighbors and others decision called herd behavior. In addition to the behavioral finance attributes stated above there are some other attribute also can be found and documented in the economics theories with specific assumptions.

The decision towards to paying the tax or contrarily to corrupt and evade the tax is determined by several factors including the knowledge and the culture in the society and many more attributes are documented in the literature. In this connection this papers try to trace out the micro economics factors and their contribution to the corruption highlighted in the theory of consumer behavior. The assumptions for such attempts are as follows.

1. Every individual is a utilitarian. If the utilitarian option is not available they tend to choose the social benefit.
2. Individual behavior is determined by behavioral finance like mental accounting, herd behavior, anchoring and the self rating.
3. The decision towards paying the tax, getting bribe and other forms of corruptions are determined by these four behavioral economics variable.
4. The information for and about the corruption determine the culture to entertains it
5. The punishment imposed by the legal and economics enforcement on the corrupted is considered as the cost or the price of corruption which is always associated by the probability of detecting and proving it the court with evidences.
6. The propensity, tendency and the attitude to entertain corruption is considered as the demand for corruption which has inverse relationship with the cost/price of it.
7. Everyone is rational and aware to judge the cost benefit of various financial decisions available to them. A decision can be executable only upon ensuring the benefit over the cost of it.

With these realistic assumptions the behavioral economics behind all forms of corruptions can be traced out by integrating the price and bandwagon effect of consumer behavior.

### **Connecting Bandwagon Effect and Corruption**

Bandwagon effect is a modern micro economics theory of consumer behavior which explains how one individual behavior to consume a product is determined by the consumption of the same products by others. It states that some individual consume a product in a maximum quantity only due to the habit and the behavior of mimicking the others.

Similar to this view the behavior of tax evasion and getting bribe are determined not only by their own decision but the same decision taken by the others and the information availability about how the same can be mimicked in advanced manner and the probability of getting punished, and amount of value for that particular activity in the society. In addition to this they value the decision in terms of cost benefit of such corruption. People often tend to corrupt up to the point where the marginal benefit is higher to the marginal cost of corruption. If the MC exceeds the MR than it would become unworthy to behave in such a corrupt way so they won't think to repeat it.

In the same way the probability of getting caught by the anti corruption agents and getting long years of imprisonment or any other forms of punishment which radically reduce individual values in the society. This factor has a highest role in the determination of corruption. People often tend to attempt to corrupt in all the possible ways even if it offers very small benefit (some time they will create the loopholes to entertain the corruption) when the probability of getting punishment is too less and vice versa. Second the corruption behavior will certainly increase it provides incremental values in the society. This is the reason why most of the action taken by the banking authorities (including the name by game) against the bankruptcy failed to create intended effect in the banking industry in India in the recent decades.

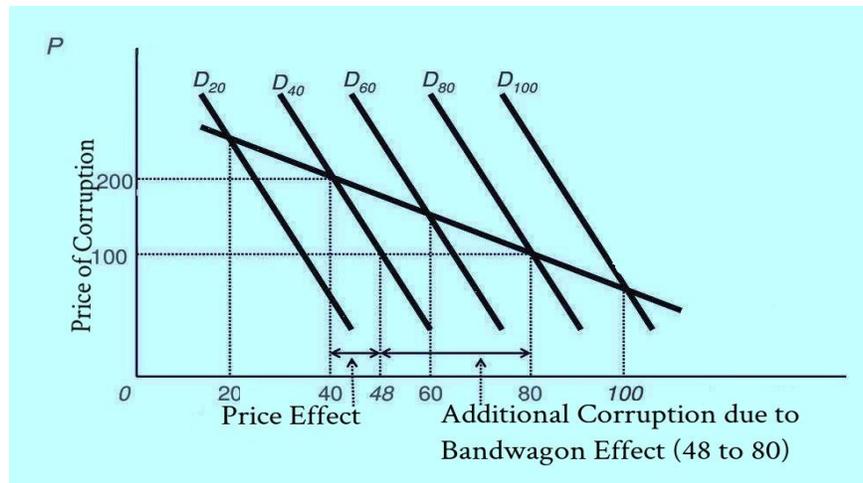
Furthermore it is well known to everyone that the trend of behaving in particular way towards the financial decision caused to the financial crises which not only affect a single country and also it hart the rest of the world which witnessed through the recent financial crises. Such cases of interdependence of demands of different individual's or group of people are called network externalities which are determined by anchoring effect , availability bias , bias blind spot, clustering illusion , confirmation bias , framing effect, group behavior, negativity bias ,

regency bias, sunk cost effect and survivorship bias which are assumed as the sources of bandwagon effect. These network externalities may be positive when it reduce the trend and the behavior of corruption in the economy and can be negative when it increases the trend to corrupt.

### Bandwagon Effect

The existence of both the positive network and negative externalities gives rise to Bandwagon effect to corruption. Bandwagon effect refers to the demand or desire for particular behavior by a person who wants to be in style because of the possession of the same behavior is in fashion and therefore many others also have it. It may be noted that this bandwagon effect is the important objective of many producers who appeal to go in for a good as people of style are buying it. This can be explained through the diagramme which explains how to derive a demand curve for a corruption incorporating the bandwagon effect. In this figure X-axis we measure the number of units of the good called the desire to corrupt by the people and the Y axis represent the cost of the corruption explaining the inverse relationship with the various social demand curves to corrupt at various price levels.

**Figure: 1. Bandwagon Effect of Corruption**



Suppose people think that think that only 40 people in the country corrupt with the willingness to pay the price at the Rs.200 Thousands fine or penalty or the value of the punishment if he get arrested. Now if the punishment or the imprisonment or any other cost of such corruption reduces from 200 thousand to 100 thousand, as result of the price effect more number of individuals now will come forward to do any form of corruption which is the usual case with the

presence of symmetric information about the corruption in the market. This symmetry of information and the bandwagon effect push the demand for the corruption from the demand curve with D40 to D48 which is indicated by the additional corruption. Due to bandwagon effect the demand curve will increase from (48-80) line.

### **Breaking the Bandwagon Effect on Corruption**

When the people not follow interdependency of the financial decision with one another the reduction in the price of corruption due to not having the strict law and order, even collapsed law of a country with the low probability of getting punished will increase only the small amount to corrupt 48 at a next little higher demand curve of D40. In the presence of symmetric information in the market more individual get to know about the chances to corrupt and the probability of getting punishment and about the cost benefit of doing corruption and about what is the behavior of others. This bounded rationality and the rational expectation about the social behavior towards corruption and its least attention in the society will push the others individuals to involve in corruption because of the bandwagon effect.

As it is well known to all asymmetric information leads to market failure. Using this mantra our prime challenge is to make it failure of the corruption market by redirecting the Bandwagon effect in the opposite direction. This can be done by redirecting the real information about the corruption into an asymmetric information through superimposing the corruption and the its punishment as a greatest matter of attention and successively create a data on fast declining corruption rate in the country with the highest probability of punishment even for the small amount and value of corruption. This is why in Islamic countries like Oman, Soudi Arabia, Qatar are achieved a status of corrupt free economy.

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