

Firms' Non-Compliant Behavior: Do Networks Matter? The Case of Bulgaria

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Non-compliant behavior of firms and the evolution and use of informal networks in transition countries have attracted significant interest among economists in recent years. Most existing studies use corruption as a proxy for non-compliant behavior and look for causes and consequences of corrupt behavior. Dynamic and static game-theoretic approaches conclude that bribery is inefficient yet when dishonest bureaucrats exist so does corruption. We take a different approach toward the study of this issue and look at corruption as means to engage in non-compliant behavior. We argue that corruption (bribery) is a substitute to being connected and statistically test various forms of this proposition in the context of Bulgaria. Our findings show that bribery is used primarily when companies are engaged in hidden economic activities and circumvention of the law, while networks show to be the only significant variable when firms attempt to influence new legislation or acquire public procurement contracts.

Keywords : non-compliance, corruption, bribes, informal networks, business associations, survey data.

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