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## Editorial: trust-building and corruption

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## 1 Introduction

In recent years, the problem of corruption continues to be present in European society. According to the report on the fight against corruption in the European Union in 2014 this phenomenon generates an approximate cost of 120 billion euros per year (European Commission, 2014). Therefore, it has become one of the great challenges for Europe, which year after year tries to implement efficient mechanisms to prevent and combat this problem.

Different patterns of corruption ultimately have a negative impact on citizens. At the European level, reference can be made to cases of corruption in procurement, such as the one investigated in 2012 in Slovakia regarding the tendering of electronic tolls, in which the cheapest bids were rejected without sufficient justification. Other notorious cases are those that have occurred in Italy in recent decades, shaken by corruption scandals such as bribes in the awarding of major works, such as the construction of dykes for the Moses project in Venice or the infrastructure for the 2015 Universal Exposition in Milan. Another example of this is the cost overruns that occurred in Spain in the construction of the AVE high-speed train through Barcelona between 2008 and 2011 due to corrupt conduct, and which inflated the budget by more than 30% over that initially expected.

The results obtained by the Eurobarometer in 2019, show that practically three-quarters of the respondents (71%) consider that corruption is very widespread in their country, reaching even more worrying data in countries such as Croatia (97%), Cyprus (95%) or Spain (94%) (European Commission, 2019).

However, although it is a real problem, the study of Laporta et al. (1997) evidences, from a survey of more than 1000 people in 40 countries, that for the question: “Generally

speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?" the percentage of people answering 'yes' is very high, even though main differences are observable among countries. In fact, the highest trust countries are Scandinavian while the lowest trust are Latin America ones, the rule of law being one of the main factors to support a trust environment (Laporta et al. 1997).<sup>1</sup>

We move in an environment of trust. And in every human relationship there must be trust. We try to create trust environments that in many cases start from a first family or friendship environment and try to expand in concentric circles to reach other types of relationship, such as economic relationships (Misztal, 1996). To broaden this environment, we seek to create levels of trust by valuing the people with whom we negotiate as equals and this happens mainly when a particular ideology or religion or philosophy provides us with a set of values that allow us to put the person at the centre of all human activity. The idea of charity and solidarity underlying, for instance, Christian, Muslim and many other religions, or the idea of universal fraternity arising from the French revolution and, in general, the defence of equal rights of so many social movements, are solid foundations for people who are part of these collectives to create broad areas of trust, beyond their exclusively private environments.

Thus, we can point out, under this framework, that every economic relationship is a human relationship, and therefore cannot take place only in terms of a cost-benefit. Because people, especially when they have solid human values, always give something of themselves and, in those cases, they can seek that the economic relationship transcends the merely contractual relationship to seek the common good. And this is generated when the economic relations is extended into an environment of trust where a certain air of familiarity and even friendship may arise between the people who negotiate. It is not understandable that in a family relationship between parents and children, or between siblings, interactions are according to a cost-benefit rationale because there is affection and the same in a relationship of courtship, friendship ... in such contexts the confidence is the greater good and somehow, the people look for ways to extend, like concentric circles, their confidence relations towards wider scopes that the merely familiar or friendship trying to reach the professional relations inside an organisation or the economic relations with other persons. In this way, economic relationships are embedded with a human touch that goes beyond the cost-benefit rationale.

It is true that extending trust has a risk and the possibility of deception, which is really critical when there is no good legal basis to prosecute deceit in transactions. But, nevertheless, one could well argue that we need to trust. In fact, we often meet people who really live in a trusting environment and who are willing to expand such trust to the fields of economic relations with other agents as well. Even, from a strictly statistical point of view, one could show that the cases in which we have been deceived have been relatively very few. Although it is true that these can leave us a deep wound, in spite of it, in our day-to-day life trust is at the evident base of our family and friendship relationships, and also work and economic relationships.

Why not transfer this model to the institutions? It is not a chimera but a reality that we live and that we need. In fact, if we look back in history, we are aware that the main economic institutions of each country were born in trust environments.

## 2 The trust on the origin and development of a financial system

If one goes back in history, the origins of financial institutions, banks, savings banks and insurance companies can be traced as mostly based on trust derived from high reputation individuals and groups.

### 2.1 *The origin of banks*

The financial institutions arose from the Mount of Piety born in Europe in the 15th century on the initiative of the Franciscan order. The purpose was to grant loans to the neediest classes of society at low interest rates. In return, the borrower had to deliver a pledge as collateral, which, in case of non-repayment of the loaned capital, the Mount of Piety would auction publicly. The financing of the loans came from amassing a mount of donations and alms as a result of Christian Piety. There was no profit motive, since the interest charged served only to defray the general expenses of the institution (Santamaría, 2001).

These institutions lasted from the 16th to the 18th century, but the Lutheran reform created an atmosphere of rejection of these institutions of Catholic origin in countries such as Germany, Denmark or Sweden, and on the other hand, they entered into crisis due to abuses by Catholic monarchies. However, they continued to exist until the present day, being in many cases the basis of many European banks and savings banks (Santamaría, 2001).

Later, the savings banks served as financial institutions that allowed working classes to access savings during industrialisation (De Andrés et al., 2022). They originated firstly in Germany (*Ersparniskasse Hamburg* was established in 1778) and later in Scotland (the *Ruthwell Parish Bank* in 1810) and France (the *Caisse d'Épargne de Paris* in 1818).

The Monte dei Paschi di Siena, the oldest surviving banking institution in the world, also traces back its history to a Mount of Piety founded in 1472 that later evolved to become a formal bank in 1624. A foundation with the same name, *Fondazione Monte dei Paschi di Siena*, was created to continue the charitable functions of the bank and was, until the bank's bailout in 2013, its largest single shareholder.

But the last current crisis of 2007–2008 was dramatic for these old institutions. The absence of controls on managers and big shareholders, in a period of excessive credit facilities, increased the overinvestment of the financial entities seeking private interests that have caused the collapse of even the whole financial system.

More than ten years after the financial crisis, 62 European banks have been bailouts (Varela, 2019). Alongside with Monte dei Paschi di Siena, this was also the case with Banca Carige and Banca Popolare di Bari, in which the Italian coalition government has decided to inject 900 million euros to prevent its bankruptcy through the public bank *MedioCredito Centrale* and the *Interbank Deposit Guarantee Fund*. The collapse of the Spanish *Banco Popular* can be explained by the lack of control over the actions taken by the CEO and Chairman at that time, Angel Roi. After the 2007–2008 big shock, Roi continued to highly expose the bank's stability to mortgage-backed securities and other real state's derivative assets, in a time when relying on these assets was a risky credit decision (Fernández Acín, 2018). Portugal's *Banco Espírito Santo* had to be bailed out by the State in 2014, providing 1.37 billion euros in non-performing loan provisions. Institutions decided to split *Banco Espírito Santo* into a 'bad' bank that would end over time and a 'good' bank, *Novo Banco*, with an increase in its legal provisions, which

would maintain the core operations. The high level of provisions in 2016, 1057.9 million euros, was influenced by losses related to assets transferred from Banco Espirito Santo. These interventions have had an estimated cost for national banks that exceeded 413,460 million euros (Varela, 2019). Therefore, the lack of disclosure and the inefficient control over managerial investment decisions increased the risk of losing the banking trust and ending up infecting the entire financial system.

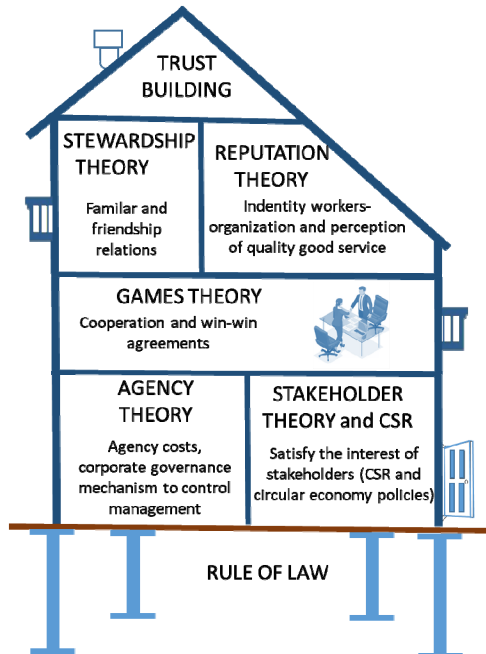
In the insurance business, collapses also occurred during this period, a relevant example being AIG (American International Group). This insurance group required a government bailout in the amount of 180 billion dollars as the US authorities feared that its collapse could have catastrophic spillover consequences in many of the largest trading partners of AIG, which included many of the largest banks in the USA and Europe.

In spite of this, Gennaioli et al. (2020) verifies that, although the centenary building of trust in the financial system has suffered an earthquake, the trust and honesty remain as critical factors that shape insurance contracts of each legal system. It is clear that corruption and fraud are a threat that can seriously wound the confidence in the financial system, as the financial crisis of 2007–2008 has shown. But such a wound can heal or at least not be fatal when confidence has a solid legal foundation.

## 2.2 The trust building over the management theories

The majority of the studies about trust in organisations, and even the solutions to fraud and corruption research on the other side, reveal that the trust building is based on a solid foundation of the legal system, a strong rule of law. Figure 1 depicts the impact of trust building on these legal foundations and its relation to the most relevant management theories.

**Figure 1** The trust building over the management theories



On the base floor, the agency theory proposes efficient corporate governance mechanisms to supervise and drive the managerial decisions to the interest of the owners, solving the problem of the separation of management and control, agency problem type 1, and the problem among different shareholders, agency problem type 2, that exist in many corporations all over the world (Jensen and Meckling, 1976; Jensen, 1993; LaPorta et al., 1997). At the same level, a new room is occupied by the stakeholder theory that opens the reach of the agency theory to the remainder stakeholders. The consideration of the workers, debtholders, customers and the whole society opens the institutions to seek not only the interest of the officers and directors but also the interest of each member of the organisation and even of the whole of society. It is necessary to include more stakeholders or independent officers into the board to drive the organisation beyond the single objective of shareholder value. Corporate social responsibility (CSR) and even the circular economy allows to drive the organisations to adopt social actions that improve the labour conditions, the environment and the use and reuse of critical natural resources that can increase the common good. CSR emphasises the benefit to the society at large whereas stakeholder theory works on building relationships and value between business and its various stakeholders (Freeman and Dmytriyev, 2017).

If, however, managers take decisions in the interest of each stakeholder they have to renounce to some of their private interests, at least in the short term. On the first floor, one may view a negotiation that, following the games theory, can allow cooperation to exist leading to a win-win decision that is the outcome of an agreement among all (Nash, 1950). For Laporta et al. (1997), economists have developed a view of trust as a tendency to cooperate and this is consistent with game theory putting the trust as a prior that an opponent is cooperative rather than fully rational (e.g., the prisoner's dilemma). Nevertheless, other view of cooperation is in one-shot encounters (Camerer and Thaler, 1995). The basis of this ultimate game is that people expect certain fair or cooperative behaviour of their opponents even when they do not expect to see them again. In both cases, higher trust among people should be associated with greater cooperation. The cooperation is possible when there is an adequate strategy and, even more, there is a leadership of one of the parts to promote the knowledge sharing to the other (Stensaker and Gooderham, 2016).

In the upper floor, one seeks to give continuity and permanence to a relationship. This requires commitment based on the reputation of the people with whom one has cooperated. It allows the strengthening of bonds and increases mutual trust. In this way, a sense of community is created among people even when there is no affinity between them, making social and economic relationships stronger and more predictable (Misztal, 1996). This environment facilitates the knowledge transfer and mutual expected benefits of the cooperation (Rotsios et al., 2021).

This upper floor can also be influenced by civil groups and associations where human relations are closer and the interest to drive the cooperation into a friendship or familiar environment is not a problem but rather an adequate solution to cooperate more because of the advantage of similar interest and a higher trust level, as the stewardship theory suggests. Putnam (1993) measures social capital by participation in civic groups and associations even though participation must itself be a consequence of some underlying beliefs about the behaviour of other people in the society. And more recently, Alesina and Giulano (2015) notice that societies based on strong ties among family members tend to promote codes of good conduct within small circles of related persons (family or kin). But these authors conclude that, in these societies, selfish behaviour is considered

acceptable outside the small network. Contrary to this argument is the need to enlarge the family ties or the family way to the labour relations where the professional background and personal experience can play an important role. The stewardship theory suggests governance mechanisms based on trust that cooperate and involve everyone so that a natural alignment of the manager and the stakeholders is achieved (Davis et al., 1997; Barroso et al., 2016). This is no detraction from the fact that, in a professional environment, companies should pay attention to the compensation package to provide adequate extrinsic motivation to encourage their employees to faithfully represent their company, and even more so in globalised environments where employees work away from home and family (Richter et al., 2020).

The study of Chaudhary et al. (2021) indicates that, in these cases, reputation has a role in trust-building that is crucial for developing relationships with stakeholders and achieving economic and non-economic goals. The reputation management theory, based on the professional work of employees, the quality of the service, and even the emotions of customers and society about the admiration or trust of the organisations, can align the perception of all parts of society (Weigelt and Camerer, 1988).

Therefore, trust is able to promote cooperation in organisations. But an efficient trust needs a strong rule of law basis and corporate governance mechanisms open to all stakeholders in order to seek win-win economic agreements when the human ties to cooperate can be stronger or when there is an effort to create a friendship or familiar environment with the other person who has similar targets and the same rights and needs.

This building of trust is stronger to withstand the schism caused by bad practices that lead to attitudes of fraud and corruption and is the right place to achieve the common good of the whole society.<sup>2</sup>

### **3 The structure of this special issue**

On 17th and 18th June 2020, the Porto Conference of the Prevention of Corruption and Fraud in Europe took place. The event was organised by the EUMODFRAUD group into a European project financed by the OLAF Agency belonging to the Hercules programme. The EUMODFRAUD group is made up of 30 researchers from 10 different European universities. Following a submission process and a double-blind revision, the main papers of the Conference that were more closely connected to the area of management are now published in this special issue of the *European Journal of International Management*.

It should be noted that the work has been carried out in a year of pandemic where the difficulties of working in groups have been solved with a more intense work of each person using new technologies that have been used especially for bilateral meetings and meetings of the whole group. In fact, the Porto Conference was held online, which has prevented a more direct contact but has allowed the possibility to record all the presentations, making them widely available. Following Alon et al. (2020), the papers analyse the problem of corruption and fraud in Europe from different perspectives.

The paper titled 'A neural network approach for predicting corruption in public procurement', by Pastor Sanz et al., analyses potential red flag and alert situations across public procurement in Europe. In their study, the authors have used data from Tenders Electronic Daily, the electronic tender journal portal in the European Union, between 2016 and 2018. The results indicate that countries show different tendencies to corruption

risks in the framework of public procurement, so a revision of MEAT, the most economically advantageous tender, criterion, may be necessary to individualise the criterion and reduce the risks of fraud.

The paper ‘An international analysis of fraud detection in European structural and investment funds’, by Baumgärtler et al., analyses the possible fraudulent irregularities on the expenditure side that are carried out with regard to European Structural and Investment Funds for different sectors and countries. The aim of its empirical analysis is to identify indicators at country level that could prove useful in improving the effectiveness of the ‘fraud detection rate’. In addition, the paper ‘The moderating role of economic uncertainty via corruption on investment: evidence from European firm level’, by Akron et al., examines the moderation effect of economic uncertainty, via corruption’s impact, on the firm level investment. The authors obtain a negative effect of economic uncertainty or corruption on firms’ capital expenditures, using a sample of firms from 30 countries in Europe for the period 2011–2020.

The special issue also includes studies on the human behaviour of European citizens in the face of fraud. The human touch is considered in the paper ‘The attitude towards corruption in the EU under a gender perspective’, by Cámara-Payno et al. The question is not whether women are more or less subject to corruption than men. The researchers document that, in a European setting, a higher percentage of women present in parliaments and on the boards of large companies, reduces the level of corruption in each country, but only when the rule of law is stronger and gender equality indexes are higher. The authors conclude that the problem is not a gender question, but a diversity question related to the opening of the top positions of institutions not only to women but also to other groups, to ethnic minorities and in general to the whole of society. The institutions where all their members are represented are less corrupted because people try to get the common good by thinking of the needs of each particular group in society.

Finally, the paper ‘Development of youth anti-corruption potential in the European Union’, by Toleikienė et al., analyses the role of youth as a vehicle to avoid corruption for a survey made for European countries. The authors found that young people are more resistant to corruption, highlighting the need to trust in the participation of youth in the leading table of institutions in each European economy.

#### **4 Discussion**

In a nutshell, the five papers in this special issue reinforce the crucial point that building trust by reinforcing the legal and institutional foundations of each country is an essential path in the fight against corruption. This includes the existence of clear and objective criteria and selection methodologies for public procurement (Pastor Sanz et al.), the existence and monitoring of adequate fraud indicators in the usage of European Funds (Baumgärtler et al.), a greater openness of institutions to gender, ethnic and age diversity (Cámara-Payno et al. and Toleikienė et al.), alongside a strengthened rule of law (Pastor Sanz et al.). But, as argued in this Editorial, all these mechanisms for curbing corruption are part of a wider process of building trust within national societies at large, encompassing both economic and non-economic relationships among citizens, public institutions and private organisations.



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## Notes

- 1 In our paper we will consider in next section that the rule of law plays an important role as the basis to support the trust of the people in each economic system.
- 2 As future research, the interest of the guest editors of this special issue is an empirical design to test the arguments described in this editorial note for a significant sample of European citizens and institutions in each country.