

Corruption – A Grease on Wheels or an Obstruction for SMEs in Developing Economies

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Abstract

Corruption acts as a national adversary which affects the economic apparatus of countries. It has a persistent effect on market economies, which abruptly cause mistrust between the citizens of the nation, erodes law and order, destroys the legal framework of the government, and compromises the reliability of business sector. It has been found that corruption is fundamentally an ideological, social, and economic vested concept thus stresses a need of developing a comprehensive theory to fully conceptualize the underlying forms and causes of corruption in different economic and geographic context. Given the tremendous social and economic benefits of corruption free market to SMEs in the 21st century, the drive to eliminate corruption in all its forms has significantly increased especially among developing countries. However, the past research studies on corruption have primarily focused on the forms of corruption, its causes and remedies in isolation and unintegrated ways. This paper presents an extensive literature review on different forms and causes of corruption prevalent in developing economies and stresses on the impact of corruption on SMEs in particular. The review of literature suggests that there is lack of research, particularly analyzing corruption in the context of developing economies which hinders the generalizability of applications proposed by earlier research studies focused only on developed economies. As developing countries have unique social and cultural values and traits, it is recommended that the corruption phenomenon should be holistically theorized and its types, causes and solutions should be explained as a theoretical chain under compressive theoretical framework for each of developing countries. This will help policy makers to develop effective and coordinated strategies to root out the corruption from these economies.

Keywords: Corruption; Developing Economies; Small and Medium Enterprises (SMEs); Pakistan.

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Introduction

For developing and emerging economies, the sustenance of small and medium enterprises (SMEs) is considered as a vital development tool. The private small business sector is said to have a higher efficiency ratio as compared to large sized businesses (Beck, Demircuc-Kunt, & Levine, 2005; McIntyre, 2001). However, Carlin, Fries, Schaffer, & Seabright (2001), assert that SMEs face more challenges than large enterprises in terms of accessing finance, unfavorable policies and regulations, manufacturing costs, institutional corruption, street crimes and other delinquencies. Their study was based on worldwide survey data and postulated that corruption and related depravities severely hinder the business growth of SMEs, thus differentiated policies should be formulated to resolute issues pertaining to foster businesses in general, and SMEs in particular.

The term corruption is the specified as a misuse and misapplication of public office (Rose-Ackerman, 2008), public authority, and public property for private gain. This definition ascertains that often the public office, or authority provides private benefits to the individuals, bureaucrats, politicians, and the possessors of public institutions. Corruption is, in essence, creates an agency problem, where an individual agent or the possessor of authority manipulates and favours certain adherents to acquire personal benefits. The agent thus violates the trust for self-enrichment or illegally ratifying an institution. Corruption in institutions has many forms and types. It could be in the form of bribe in return of a favourable decision, fraud, illegally taking personal incentives, self-dealing, taking secret gifts or could be stealing public funds or resources.

Corruption and SMEs

The phenomenon of corruption strongly affects the burgeoning intensity of entrepreneurship in an economy. According to Williams (2017), the corruption adversity originates from weak institutions, complicated documentation, and other procedures, and strongly impairs the entrepreneurial activity. Budak and Rajh (2014), studied the SMEs in the Western Balkan and found that persistent corruption was one of the main obstacles in doing business in the region. Furthermore, El Alaoui, Shopovski, Kvirkvaia, Alam, and Ofili (2016), articulated that the major hinderances toward the growth of SMEs in five countries including Pakistan, Albania, Nigeria, Morocco, and Georgia entail corruption, political uncertainty, and taxation policies imposed by the governments of the respective countries.

In any country, the opportunities for SME's increase if the government supports its entrepreneurs, as the government acts as the mainstay to provide security, formulate favorable policies, and create progressive business opportunities in the economy (Schumpeter, 1934; Gibson & Van der Vaart, 2008). Strong entrepreneurial actions help a country grow its economy and resolve societal issues (Kamarudin, Aslan, & Rajiani, 2018), and robust policy structure and strong regulatory framework address various economic as well as social irregularities.

It has been proven that that entrepreneurship, particularly SMEs can have massive impact on a nation's economy, as it supports and as well as promotes new industries, and tends to improve productivity which assist to large scale job creation. It is noticed that those countries which possibly require high-impact entrepreneurship are the one who most probably get involve in corruption (Insight, 2019), thus the growth of business activity severely gets obstructed. Furthermore, it is also believed that the corruption is a way of authorized officials to enforce costs for private benefits, but for entrepreneur this might result in paying bribes or might their activities be blocked by officials, who just get paid by their opponents or competitors.

Corruption in South Asia

Corruption in the world and particularly in developing economies is a grave issue. A recent report on Corruption Perception Index (CPI) by the Transparency International contrast data from eight south Asian countries including Afghanistan, Bangladesh, Pakistan, India, Tajikistan, Kyrgyzstan, Myanmar, and Nepal, and proclaim that within the past recent years there have been slight or no changes in improvement in corruption indicators in these countries, subjecting to serious repercussions to the population (Transparency International, 2016). Corruption in South Asia substantially affect different sectors and institutions in the region. It has been noted that countries in South Asia do not indorse accountability and transparency in public and private institutional levels. Transparency and accountability are the key to combat corruption in the world as they foster sense of openness and liability in civilizations. The report by transparency International further claim that majority of the businesses in these countries believe corruption as a major barrier for business survival and continuity (Transparency International, 2016). Figure 1. Shows corruption perception index, ranking selective eight South Asian countries from the year 2012 to 2018. The Index illustrate trivial and minimal changes in the level of corruption indicators in these countries, reflecting persistent prevalence of depravity, fraudulence, and corruption.

<i>Corruption Perceptions Index scores</i>							
Country	2018	2017	2016	2015	2014	2013	2012
Afghanistan	16	15	15	11	12	8	8
Bangladesh	26	28	26	25	25	27	26
India	41	40	40	38	38	36	36
Kyrgyzstan	29	29	28	28	27	24	24
Myanmar	29	30	28	22	21	21	15
Nepal	31	31	29	27	29	31	27
Pakistan	33	32	32	30	29	28	27
Tajikistan	25	21	25	26	23	22	22

Source: Transparency International 2019

Figure 1. Corruption Perceptions Index (2018) on Eight South Asian Countries.

On analyzing various indicators to gauge corruption and state governance, weak legal structure in majority of these countries has been reported. Due to the fragile law and order framework, money laundering and bribery incidences have become a significant issue of concern for these countries (World Bank, 2014). Moreover, lack of transparency and ambiguousness in public account maintenance, creates further issues to stimulate the corruption phenomenon in this region.

Research Methodology

This paper attempts to study review thoroughly the research studies on corruption in developed as well as developing countries in order to find out the missing element which hinders the holistic understanding of corruption phenomenon and subsequent development of effective anti-corruption policies to curb the corruption in SME sector of Pakistan. The study has used qualitative approach to collect the data and provides an Issue review. The data was collected from research papers, journal articles, and academic dissertations retrieved from reputable publishing sources including Google Scholar, Wiley Online Library, Emerald Insight, Taylor & Francis, and Elsevier; and reports from international data sources including the World Bank, Transparency International, Doing Business, and IMF. The selection of material was made on systematic review for inclusion and exclusion of the data, and critical appraisal was adopted to judge the validity and quality of the papers.

Literature Review

Corruption Defined

Considering corruption as a complex phenomenon is not an overstatement. Throughout literature, various definitions of corruption have been furnished. Even though, not a single definition can be viewed comprehensive and adequate, the prevalence of corruption is clearly identifiable in public and private institutions through mere observation. In the mainstream literature, corruption is perceived to be an activity of individuals related to public institutions who exploit public resources in the pursuit of personal gains. An early definition by Huntington (1968), defines corruption as behavioral departure of acceptable standards from a public official, in an attempt to achieve personal benefits. Transparency and accountability are two terms related with the concept of corruption elimination. Klitgaard (1988), posits corruption as an activity to control resources for personal pleasure without dreading accountability.

With the rise of globalization and worldwide trade, the concept of corruption has received more attention, as several business organizations have expanded their businesses internationally and face multifaced issues pertaining to business activities in different countries. In this stance, some international institutions such as Transparency International, World Bank, Corruption Practices Investigation Bureau (CPIB), and International Monetary Fund, emerged to appraise the prevalence, intensity, effects, and reasons of the corruption in distinct parts of the world and to setup compatible standards, attuned with the global scenario. In order to know the whys and wherefores of corruption, these international bodies identified corruption from different angles. Transparency International declare corruption as the misuse of delegated authority for private interests (Transparency International, 2015), whereas CPIB (2019), describes it as an act of taking, demanding, or giving any inducement to entice a person to favor, with a corrupt intent. IMF classifies corruption into different categories including bureaucratic or political; cost minimizing or benefit seeking; forced or collaborated; bribe or briber provoked; predictable or random; cash or non-cash corruption (IMF,2000).

In general, if a person or a group with an authority, clearly or discreetly importunes for an undue benefit or a gain, apart from their prerogative, they are said to be involved the act of corruption. Alternatively said, it is paying a gratuitous money or benefit to a dominant authority, for personal advantage. Similarly, influencing others through authority to gain favor or benefits of special treatment which others do not enjoy is also considered as corruption (Iwasaki, & Suzuki, 2012). According to the

European Union, any individual or collective acts of bribery, theft, embezzlement, exploitation of powers, illegal benefits, favoritism, blackmailing, fraud, nepotism, and extortion link to corruption (European Parliament, 2013).

Types of Corruption and its incidence in the Public Sphere

Bribery: In public offices, bribe is a widespread practice to attain government contracts, tenders, and bids. It is considered as a systematic corruption. Even public officials favor the suppliers of different organizations to provide them with indentures and contracts to supply goods and services in exchange of bribe. In the same way, bribes are offered to seize government contracts and resource provisions in the form of subsidizations, funding, and grants to business enterprises; procure stocks and ownership of privatizing enterprises; or acquiring access to different institutions. Enterprises also involve in bribery to lessen the burden of taxes, application costs, or legal and other documentation fees. Enterprises in developing economies are enticed to pay bribes to acquire licenses, concessions, or rights to exploit state owned resources. One of the most common reason of bribery by SMEs is to 'grease the wheels' and get the work done in a faster pace. It has been viewed by different researchers that bribe sometimes accelerate the work process thus, is significantly and positively related to the firms' (Buchana, 1980), and economic (Huntington, 1968) growth.

Theft and Embezzlement: Historically, enormous benefits are ascertained by corruption through theft and stealing. Public assets are stolen and embezzled at various levels and extents. Theft in a smaller magnitude could be misusing office supplies or stealing any materials. Stealing financial resources in public offices is one of the common acts of theft which also directly or indirectly impacts enterprises (Shleifer & Vishny, 1993). The funds secured for subsidization of small and medium enterprises or not for profit organizations are exploited and used by public officials for personal benefits. Even by taxation and revenue collection departments, taxes or revenue fees are pilfered by manipulating the records and additionally burdening the SME owners.

Nepotism and Political Corruption: In political or bureaucratic decision making, policies are made to favor the large-scale enterprises by either taking bribes, favors, preferring LE's due to personal relations or to take future advantages from the large-scale industrialists. Policies related to tax exemption, subsidizing specific industries, provision of concessions or land rights, and alteration of laws and regulations, all lead

to suppress the small-scale enterprises to survive in the competent business environment.

Corruption in Private Sector Enterprises

Corruption jeopardy is not only limited to government or public offices but is a widespread phenomenon which also effects other economic spheres including private institutions. In privately owned firms, concealment of assets to avoid taxes and duties, lobbying against small enterprises, creation of illegal alliances and cartels, bribing public or other private stakeholders to seize benefits, permits or advantages, all account to private sector corruption. However, according to the World Bank, corruption in private sector is extremely harmful for the economic state of affairs but the consequences of corruption in public institutions are far more damaging and adversarial for economies than its incidence in the private sector.

Enterprise Survey in South Asia

Data reports on enterprise surveys on business environment and prevalence of corruption in South Asia illustrate a robust evidence of high perception and experience of corruption in eight South Asian countries (Afghanistan, Bangladesh, Pakistan, India, Tajikistan, Kyrgyzstan, Myanmar, and Nepal) (World Bank Group, 2015). The report formulated by the World Bank Group (2015) to analyze enterprise perceptions on business environment feasibility, government dealings for business processes, corruption, bribes, and other illicit payments, upholds that enterprises in South Asia highly consider corruption as one of the biggest obstacles which infuses hurdles towards business success.

In Pakistan, according to an enterprise survey in 2015, the private sector enterprise experience of corruption and business environment reveals a bleak depiction. Many firms (30.8%), affirmed to pay bribes to manage public dealings, and majority of the firms (88.2%) complained rent-seeking and payment of informal incentives to procure government contracts (World Bank Group, 2015). Figure 2. shows the cross-country data on enterprise survey of eight South Asian countries, highlighting that the firms in Pakistan have highest (68.3%) perception and experience of corruption amongst the selected countries in the region, followed by Afghanistan (62.6%), and Kyrgyzstan (60.2%) respectively. Whereas, business enterprises in Myanmar show least (9.3%) concern over corruption as a major constraint for business growth. Similarly, as far as the percentage of firms expected to give gifts and incentives to secure public contracts is concerned, the enterprises in Pakistan show

highest (88.2%) concern over the issue than other countries in the region. Moreover, the survey reveals that to procure a government contract, 8.2% of the contract value is expected as gifts or informal payments in Pakistan, which is relatively, and extremely high as compared to 2.9% in the other South Asian countries. All these data and findings demonstrate a distressing picture of Pakistan business environment and accentuates a dire need to formulate robust policies to contend with the corruption issue.

<i>Enterprise Surveys</i>			
	% of firms reporting bribery incidence	% of firms expected to give gifts to secure public contracts	% of firms identifying corruption as a major constraint
Afghanistan (2014)	46.8	46.9	62.6
Bangladesh (2013)	47.7	48.9	46.9
Kyrgyzstan (2013)	59.8	55.1	60.2
Myanmar (2014)	42.9	32.5	9.3
Nepal (2013)	14.4	64.5	44.7
Pakistan (2013)	30.8	88.2	68.3
Tajikistan (2013)	36.8	33.6	23.7

Source: World Bank Group, Enterprise Surveys 2019

Figure 2. Enterprise Survey data on Corruption perception variables on Eight South Asian Countries

One form of corruption or exploitation from the government part is discrimination towards the small and medium businesses in form of inequitable regulatory framework, biased costly and time-consuming regulatory requirements, unfair barriers to entry, and taxation policies to distort the market incentives against SMEs (Ur Rehman, Çela, Morina, & Sulçaj Gura, 2019; Kalita, 2017; Hashi & Krasniqi, 2011).

Corruption as Beneficial Grease on Wheels or an Obstacle for SMEs

Corruption is a worldwide issue, prevalent, especially in the developing countries. Many researchers and social science experts have presented various theoretical arguments on the relationship between corruption and firm performance. Along these lines, the resource-based perspective on social science argues that corruption can affect economic activities and economic output, social institutions, and the long-term economic as well as firm level development. In particular, corruption can destroy the vital organizational sources, such as the firm's reputation, which in turn hamper the effective provision of resources and disintegrate the corporate culture (Huntington, 1968). Subsequently, due to this affliction firms' profitability, resources, and technological efficiency cannot be materialized, thus, resulting in non-attainment of the economic and enterprise' production possibilities frontier. Firms are discouraged and demotivated to invest in business, to improve their production and take further progress initiatives (Kalyuzhnova, & Belitski, 2019).

Apart from this, corruption can disrupt entry of new firms in the form of existing players trying to take advantage of their corrupt relationships and making the process lengthy and complex. For instance, the officials in banks or in public private offices try to prolong and delay the processes for example, documentation, application, processing, approvals, initiation of the work process to get more bribes (Rose-Ackerman, 2008). As it is studied that entrepreneur are those human representatives who promote intuitional changes for better outcome of economic environment. Their outstanding efforts contribute most significantly which helps to strike corruption. But the researchers also figure out that in some situation, entrepreneurship get together with corrupt officials, and which create more mishaps of SMEs. Consequently, the financial or other public resources are isolated retracting the best aspirant who can offer the best value for money the society through economic gains, instead misallocating the resources to the part who offer the highest bribes (Duong & Janssen, 2015).

On the other hand, literature often finds a contrary theory demonstrating a positive relationship between corruption and firms' growth, which denies the common perception and the analogous evidence. For example, previous research studies suggest that corruption and bribes can help enterprises save time and allow them to get things done and aid them to deal with the complicated administrative procedures and ambiguous rules (Méon & Weill, 2010). Firms thus give bribes to expedite their work which later promotes firm performance and growth.

Contrarily, the institutional theory approach emphasized by Hoskisson, Eden, Lau, Wright, 2000), demonstrates that corruption does not affect firms' efficiency. They assert that delving into corruption is a token money given by the new enterprises to join and sustain in the business community (North, 1991). Firms remain in pressure to work in the comparable way, when any other firm from the same industry involves itself in corruption, thus, corruption becomes a norm for business functioning. Corruption, bribes, and unethical transactions have become common business practices these days and have insignificant effect on enterprise productivity.

However, a theoretical background on negative impact of corruption on firm level productivity is clear; empirically the argument has not been validated. There is a lack of consensus between the findings of researchers on the subject matter. Many previous studies performed cross country data analysis to investigate the impact of corruption on economic efficiency (Mauro, 1995), but recently studies have diverted their focus and emphasized to find the impact of corruption on enterprise productivity (Ashyrov, & Masso, 2019). Within this context, mixed evidence is found, for example, studies by Paunov (2016); Fisman & Svensson (2007), observed a negative relationship between the two variables in their studies, whereas, research conducted by Kalyuzhnova, & Belitski (2019); Jiang, & Nie, (2014); found a positive relationship between corruption and firm level productivity in different countries. Paunov (2016), emphasize that corruption obstructs firms' innovativeness which provide a rationale to the policy makers to combat corruption. The effects of corruption harm small enterprises more than the larger firms, especially in terms of their acquaintance of quality certificates of international repute (Paunov, 2016).

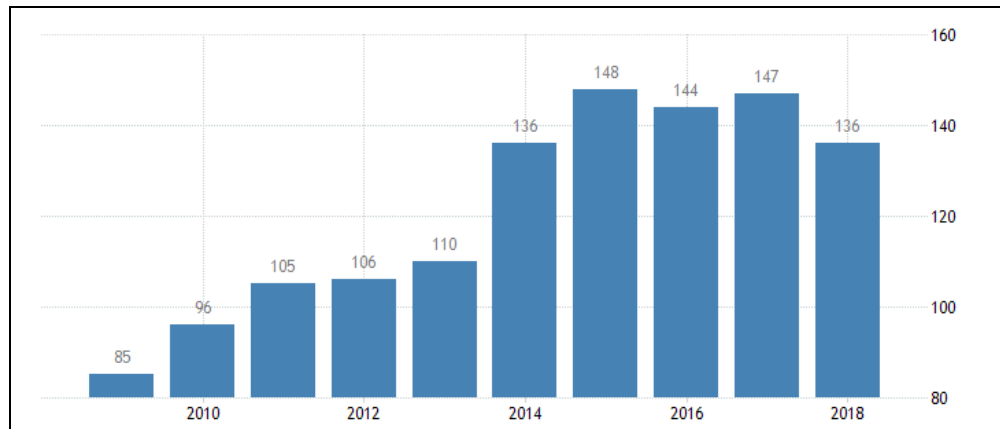
Haque (2007) posits that the governmental and judicial regulatory operations in Pakistan have been unstable and have faced consistent volatilities throughout the history. Loop holes and ineffective law and order implementation, deficient intellectual and property rights, and inadequate security measures have led to poor governance and corruption. Apart from corruption which strongly hinders SME business entry and growth, the country also confronts a blend of issues like power shortages, oscillating macroeconomic conditions, high cost of energy, access to capital and finance, weak institutions, unavailability of skilled labor, and inadequate infrastructure, like many other developing countries, which impedes SME sustenance in the country (Afraz et al., 2014).

SMEs in Pakistan

In Pakistan, small and medium enterprises constitute of more than 90% of country's private enterprise industrial sector and employ more than 78% of non-agricultural labor force (GOP, 2005). These small-scale enterprises are the informal sector of the economy and are a considerable part of the economic activity which substantially contributes to the GDP, whereas about 65% of these enterprises are owned by rural population of Pakistan.

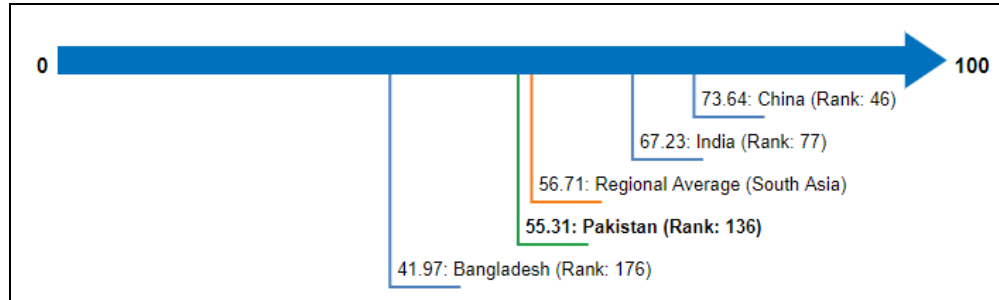
Despite of its large share as economic instrument and contribution to real GDP in large volume, the producers of this industry remain deprived of access to adequate finance and other essential resources to sustain their business longevity. There are certain inadequacies in the small enterprise business systems especially in the developing economies, which need to be addressed.

Figure. 3 present the historical data of Pakistan on the 'Ease of Doing Business Index'. According to the Index, economies are ranked from 1 to 190 (1 as high and 190 as lowest ease of doing business) determined on the bases of scores on ten (10) topics including starting a business; dealing with construction permits; getting electricity; registering property; getting credit; protecting minority investors; paying taxes; trading across borders; enforcing contracts; and resolving insolvency.



Source: *Doing Business, The World Bank* (<http://www.doingbusiness.org>)

Figure 3. Pakistan data on Ease of Doing Business Index, 2010-108



Source: *Doing Business, The World Bank* (<http://www.doingbusiness.org>)

Figure 4. *Ease of Doing Business. Pakistan Score in the Region.*

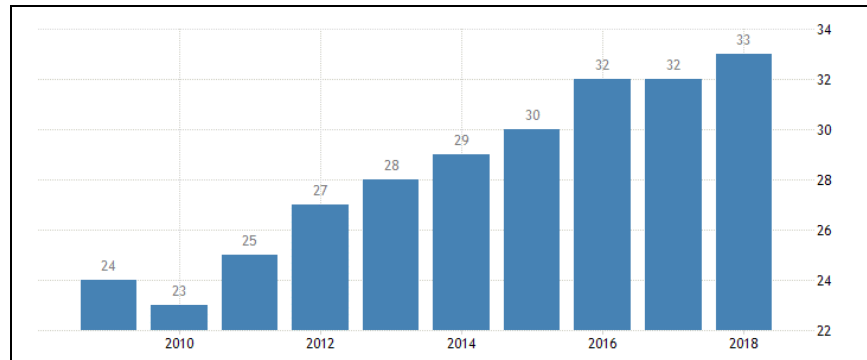
Pakistan, on the ease of doing business index is ranked 136 among 190 countries according to the World Bank annual ratings. This rank has improved from 147 of previous year (2017) to 136 of current year ranking (2018) which shows a positive progress. However, despairingly, according to the data reports, out of nine (9) parameters, majority businesses, including 68.3 percent of enterprises in Pakistan identify corruption as a biggest obstacle to their business (Enterprise Surveys, 2019).

Market Distortions and Corruption in Pakistan

Usually, corruption is taken as behavior of an individual searching for wealth, or someone who represents the position and public supremacy and involve in misuse of public goods for their own sake and their own benefits (Insight, 2019). The act of corruption is when the responsible and official person accepts amount of money or some other kind of incentive or reward and then they misuses their official powers in the form of returning the excessive unacceptable favors, if we see the other side of the act of corrupt is the corrupters they are those who offer bribes. And these suppliers are no one but businesspeople, entrepreneurs or maybe the general public. Which directly give negative impact to SMEs who works to contribute to enhance the level of the economy.

Corruption gives the deformation to market and enhance expenditure of companies, and eventually for consumers. This is rapid crime which remains a considerable crisis for tens of thousands of companies globally, above all small business which often has little option, but they even tend to use corrupt practices for market survival. Nevertheless, the private sector can play an influential responsibility by disallowing corruption practices and embrace fair and clear practices which most prominently create a level-playing view for all. Figure.5 shows the historical data of

Corruption ranking on Pakistan from the year 2010 to 2018 and illustrates a bleak picture of the rising corruption trend in Pakistan throughout the past years.



Source: Transparency International.

Figure. 5 Historical Trend of Pakistan ranking on Corruption Perceptions Index.

The prominent negative effects of continues corruption does not only affect economic activities and growth, but since where government corruption is high it ultimately hinders the efforts of new startups, these conditions only gives favor to larger firms with strong developed social networks and deep pockets, due to this the new ventures who lack critical funds find expected obstacle to startup more insurmountable (Bagby, Umble, & Palich, 2019)

Issues Pertaining to SMEs

Banking Inadequacies and Government Policies Hampering Access to Finance

Describing the finance related issues, empirical studies illustrate that the SMEs in developing economies, unexceptionally, have to rely upon the informal financing option or capital investments (retained earnings) to reinvest and sustain their business operations. However due to a lesser volume of the informal loans or lack of hold of the informal finance, majority of the SMEs do not survive for long, do not have sufficient working capital and eventually liquidate.

Borrowing from the formal sources is rare and exceptional for majority of the SMEs in developing countries. It is considered that obtaining formal finance is another acute issue for SMEs, as the banks and other lending institutions, relatively favor the established and large-scale businesses over small lenders due to their higher risk propensity. Banks thus favor lending large scale business which have proven repayment history. It has also been suggested that the banks reluctance to lend the

SMEs deliberately occur due to imposition of interest rate ceilings by the governments. Singham & Rangan, (2018), suggest that ceiling on interest rate distorts the loan market discouraging the SMEs to borrow loans. In contrast, higher interest rates generate increased flow of credit in the market creating opportunities for SMEs to compete and acquire loans from the formal sector.

Previous literature provides a sizeable evidence that corruption has adverse impact on business growth (Ugur & Dasgupta, 2011; Méndez & Sepúlveda, 2006; Méon & Sekkat, 2005; Anoruo & Braha, 2005), enterprise competitiveness and efficiency (Fisman & Svenson, 2007), and trade (Ali & Mdhillat, 2015). Many researchers including Méndez and Sepúlveda, (2006); Anoruo and Braha, (2005); Méon and Sekkat, (2005), appraise a positive relationship between corruption and receding macro-economic variables like GDP, FDI, and economic productivity. Above and beyond, corruption is considered as the most influential impediment in GDP growth, business development, and trade (Batra, Kaufmann, & Stone, 2003).

Many researchers advocate some external critical factors which cause the failure of SMEs. Hyder & Lussier (2016), and Dar, Ahmed, and Raziq (2017), indicated one of the critical factors to this failure as insufficient financial support or lack of credit. Access to formal financial institution loan facilities to SMEs is about only 14% (Haider and Lussier, 2016). This inability to access finance is due to the formal sectors reluctance to give loans to SMEs, due to higher risks and costs related to SME loaning, lower collateral prospects, SMEs inability to repay loans (Afraz et al 2014), and most importantly prevalence of corruption in loaning institutions which prefer large enterprises over small scale businesses, because they in turn receive bribes and illicit favors.

Beck, Demirguc-Kunt, & Levine (2005), investigated the impact of financial, legal and corruption issues on firm's growth. The study was conducted to ascertain if the size of the firm matters in this concern and if the larger firms are more obstructed or the smaller ones are relatively influenced due to these institutional issues. A cross-sectional survey data base, the World Business Environment Survey (WBES), was taken into account. The data base was formed by the World Bank in 1999 conducting survey of firms from 54 developed and developing countries. The results of the research demonstrate that the financial, legal and corruption issues strongly and adversely affect the small size firms as compared to the larger firms. The financial constraints include access to finance through banks, collateral requirements, higher interest rates, and banking sector corruption and bureaucracies. Whereas the legal

issues comprise of the factors including the quality of the mechanism of the court system, exorbitant costs, inconsistency of the court system, and lack of execution of court decisions. Concerning the corruption issues, the bank officials' corruption and money paid as bribes create an agency problem which constrains the smaller firms to acquire efficient share of the investments as the bank intermediaries create hinderances in this aspect. Thus, the agency problem due to corruption create institutional failures and was found to have a robust and negative impact on small and medium size firms and hamper their growth prospects.

Seminal contribution has been made by Soini and Veseli (2011), in their research to investigate the internal and external factors which affect the growth of SMEs in Kosovo. The research was a qualitative study and consolidated a case study of three SMEs in Kosovo, assimilating the previously available literature. Primary data was gathered through qualitative interviews from the managers of the researched SMEs. The study findings signify several internal and external factors which constrain SMEs' growth. Managerial in competencies, unavailability of skilled labor, deviated innovative measures, lack of investments in technology, and inadequate marketing strategies were the major internal hinderances towards growth, whereas, poor governance and corruption was found to be one of the most influential external factors deterring growth prospects.

Conclusion

Given the tremendous social and economic benefits of corruption free market to SMEs in the 21st century, the drive to eliminate corruption in all its forms has significantly increased especially among political leadership of developing countries. Consequently, anti-corruption policies have been given a top priority. Though government of Pakistan has initiated measures through National Accountability Bureau-NAB, a federal agency and other provincial agencies to tackle corruption but unfortunately these organizations have not so far achieved their intended objectives. The past research studies on corruption have primarily focused on the forms of corruption, its causes and remedies in isolation and unintegrated ways. This is one of chief reasons that anti-corruption policies have remained largely ineffective in the corporate sectors of developing countries like Pakistan.

During the review of this paper it is emerged that the corruption is fundamentally an ideological, social and economic vested concept and that necessitates a serious need of developing a comprehensive theory to fully

conceptualize the underlying forms and causes of corruption. Secondly, past corruption studies have heavily relied on normative descriptions in analysis of its causes & solutions. The subsequent inferences drawn on such descriptions lack the generalizability of applications to the developing countries which have a unique social and cultural values and traits. Therefore, it is recommended that the corruption needs to be holistically theorized and its types, causes and solutions should be explained as a theoretical chain under compressive theoretical framework for each of developing countries which fundamentally differ to one another in social, cultural and institutional contexts. It is believed that in the absence of such theoretical framework, the corruption phenomenon may not be understood in its entirety and its menace may not be effectively tackled in the business environment of SMEs in Pakistan. The development of theoretical based coherent approach to conceptualize corruption will greatly help policy makers to develop the relevant, effective, and coordinated strategies to root out the corruption.

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