Towards a theory of corruption, nepotism, and new venture creation in developing countries

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Abstract: The dominant view among social scientists and policy makers has been that corruption has a mostly negative effect on economic growth – especially in developing countries. However, some scholars have shown support for the efficient grease hypothesis (EGH), which is that corruption can increase the efficiency of some economic transactions. Based on the EGH and Hofstede's (1983) work on national culture, we theorise that nepotism and corruption in developing countries facilitates the new venture creation process, and thereby reinforces the persistent nature of corruption. Implications for policy makers are also discussed.

Keywords: entrepreneurship; corruption; new venture; developing countries; culture.

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1 Introduction

Many emerging markets and developing countries share similar obstructions to long-term growth and prosperity, and as a result are deprived of associated benefits such as increased levels and quality of education, longevity, and opportunities for long term economic security. One potential obstruction, corruption, has received a great deal of attention over the years from scholars and concerned citizens (Mauro, 1995; Transparency International, 2011) and it seems reasonable to expect that corruption has become less prevalent in developing countries. However, this is the case; even as developing economies adopt more market-based and formal institutional processes, either organically or through acquiescence to donor countries and agencies, corruption remains stubbornly persistent (Mauro, 2004; Transparency International, 2010). In this paper, we theorise that in certain cultural contexts corruption becomes a vicious cycle due to the positive benefits it brings to entrepreneurs during the new venture creation process.

Normative arguments (e.g., Dunfee and Warren, 2001) and empirical studies demonstrating a connection between corruption and stunted macroeconomic growth (Mauro, 1995; Mo, 2001) are not likely to be the most pressing concern for entrepreneurs in the developing world. That their nation may suffer in the long-term if they engage in corrupt practices may not be as salient if their kin, friends, and neighbours suffer in the short-term if they do not engage in corruption. Thus, there may be value to scholars and policy makers if we have a better understanding of the benefits accrued to entrepreneurs from engaging in corrupt practices – despite those benefits possibly being transient, local, and illegally obtained.

Since our focus is on those developing economies where corruption is the most problematic (Gyimah-Brempong, 2002; Transparency International, 2010), there risks being a culturally relative notion of what corruption is and is not. Certain activities that may qualify as corrupt or unethical in some societies, such as the hiring of an unqualified family member instead of a more qualified individual from a rival ethnic group, may be considered a norm and even ethical in others (Nye, 1967). Given the difficulty with identifying a universal definition of corruption, one used frequently by social scientists is Nye's (1967), which involves public officials using their formal positions to extract benefits for their own personal gain through such behaviour as bribery, nepotism, and misappropriation of public resources. Heywood (1997) similarly characterised corruption as seeking 'private gain by abusing trust', and Transparency International (2011) describes it as "the abuse of entrusted power for private gain." Since the majority of studies on corruption in developing countries have focused on corruption from the perspective of individuals in public office who receive bribes, this paper focuses on corruption among individuals within the private sector. Thus, our working conceptualisation of corruption is a synthesis of the commonalities noted above: corruption is the abuse of power or trust by public or private officials for private gain, and includes bribery, nepotism, and misappropriation of resources.

Despite research showing that high rates of corruption seem to negatively affect economic development (Méon and Sekkat, 2005; Mo, 2001), we know that entrepreneurship still occurs in societies with high levels of corruption (Dragunova, 2006). Although the types of entrepreneurship and sophistication of newly created ventures varies such that innovative and capital intensive ventures are more likely to be started in economies with healthy legal and political institutions and where entrepreneurs have comparatively better access to critical resources, smaller scale, less capital and technology-intensive ventures certainly sprout up across many different types of societies (Dana, 2011; Kelley et al., 2011). The number, rate, and types of start-ups may not be as robust, but to be sure, new venture creation does occur in developing economies. In light of these observations, we propose a theory that explains the role of corruption and nepotism facilitating the new venture creation process in societies with low levels of institutional trust and high levels of collectivism.

The insights from our theory are important to scholars because the effect of corruption has been assumed to have mostly negative consequences for entrepreneurs (Bardhan, 1997). Since entrepreneurship enhances a society's level of economic security and prosperity (Schumpeter, 1934; Wennekers and Thurik, 1999) it has thus been assumed that corruption should be 'stamped out'. However, if corruption has beneficial effects in the new venture creation process in certain cultural contexts, then our insight can assist policy makers in assessing appropriate measures to decrease corruption by reducing its useful role in stimulating entrepreneurship.

2 Corruption and economic effects

Much of the interest in corruption has focused on the relationships between corruption, economic growth, and the development of macro-level institutions and nations. This of course is not new as for thousands of years widespread corruption has frequently been argued to be an important cause of the demise of great civilisations by eroding institutions, squandering resources, and ultimately compromising the ethical and moral fabric of society (Heidenheimer et al., 1989). Nevertheless, corruption has remained pervasive across generations and cultures despite efforts to eradicate or at least minimise some of its effects.

One of the most highly cited papers within the last half-century on the relationship between corruption and economic welfare is Mauro's (1995) empirical analysis, which found evidence that corruption has a negative effect on investment and growth. However, even Mauro points out that this could be due to the stability of the political institutions, as opposed to the degree of corruption. within those institutions. Nevertheless, he essentially advances the same argument in his 2004 paper (Mauro, 2004), but explains that an important reason for the persistence of corruption is that individuals embedded in a culture of corruption have little incentive to change the status quo. We make a similar argument but focus on the facilitative role that corruption has on the new venture creation process such that entrepreneurs will follow unwritten norms and customs in order to ensure that the start-up of their ventures is successful.

Other empirical studies show that corruption may affect economic development by mildly suppressing foreign direct investment (FDI) from multinational corporations (Papaioannou, 2009; Wei and Wu, 2002). However, this effect is partially compensated or offset by increased lending from international banks to domestic banks, which then make loans to enterprises operating domestically. Therefore, economic growth may be affected by corruption, but alternative mechanisms for directing capital are employed.

What these studies show is that while a consensus has been asserted (Mauro, 2004) that corruption negatively affects economic growth, the magnitude and impression of that effect may be overestimated. Therefore, if the effects of corruption are noticeable but not disastrous on a nation's economic development, and if it is contrary to one's financial interest to challenge corruption at the organisational level, then it seems reasonable to presume that corruption and nepotism may even have a supportive role for some economic actors in some institutional contexts.

An overt argument that corruption can actually have beneficial effects within a society is the 'efficient grease hypothesis' (EGH) or 'grease the wheel's hypothesis' (Carden and Verdon, 2010; Wei, 2001; Kaufmann and Wei, 1999), which states that bribery and other corruption related activities can serve as an efficient way to facilitate transactions in an institutional context ridden with excessive bureaucracy and long delays in decision-making. Thus, corruption can serve as a boost to a country's economic and development by reducing inefficiency and prolonged judgments (Leff, 1964; Huntington, 1968). In other words, corruption can serve as the 'grease' in mechanical gears to facilitate economic activity whereas without such grease the gears would slow down or even seize.

Among empirical studies supporting the EGH include Méon and Weill (2010) and Egger and Winner (2005). Méon and Weill (2010) analysed 69 countries over three years and found that in countries characterised by lower quality of governance measures corruption raised a nation's level of efficiency, with efficiency being measured as a ratio between a country's optimal production and its actual production. Additionally, in a study of 73 developed and developing countries over four years, Egger and Winner (2005) found evidence directly contradicting Papaioannou (2009) and Wei and Wu (2002). The latter two studies suggest that corruption may negatively interfere with FDI flows; however, Egger and Winner (2005) find that corruption stimulates FDI. They explain the results in the same language as Leff (1964), which is that corruption is used to circumvent regulatory and administrative controls – thereby, increasing 'efficiency' from the firms' point of view.

More closely related to our theory, Dreher and Gassebner (2011) found strong support in a study involving 43 countries that corruption increases levels of entrepreneurship in nations that have high levels of administrative barriers. This finding is similar to the studies mentioned above, which is that corruption often acts as a 'grease' rather than as 'sand' in mechanical gears, thus facilitating economic transactions when institutionally imposed requirements are perceived as impediments to economic activity. However, the aforementioned studies focus on corruption as a way for economic actors to circumvent regulations and more quickly achieve short-term economic goals, but they say little about whether the rest of society has trust in the legitimacy of such regulations.

Similarly, Tonoyan et al. (2010) found support among small and medium-sized business owners in former Soviet Republic for the EGH, and that these owners are also more likely to practise corrupt activities when engaged in business transactions with people similar to them. However, in this paper we focus on the effects of corruption and nepotism during the process of new venture creation for nascent entrepreneurs, and suggest how low levels of institutional trust contribute to this process.

Not surprisingly, empirical studies have shown that the greater levels of perceived corruption among government officials, the less trust citizens have in their political institutions (e.g., Anderson and Tverdova 2003; Seligson, 2002). Therefore, properly functioning institutions generate trust amongst citizens, and ill-functioning or corrupt ones generate distrust. For example, Chang and Chu (2006) show that political corruption in Asia causes citizens to decrease their level of trust in political and economic institutions and Lavallée et al. (2008) show that large percentages of populations throughout Africa express very little trust in their political institutions, thus likely aggravating corruption-related activities.

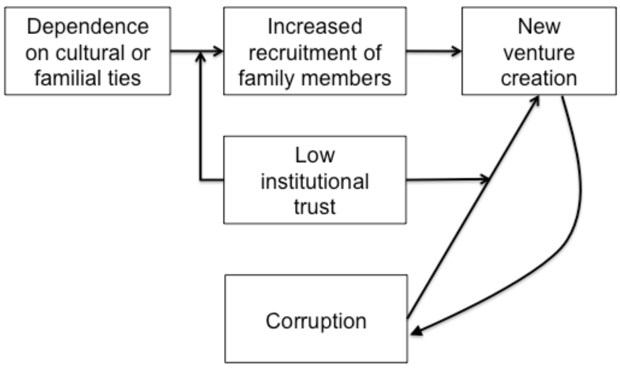
In many developing countries and other emerging markets, whether in Africa, Asia, or South America, cultural and/or familial relationships are valued to a much greater extent than in more developed regions such as in Europe or North America where levels of individualism in societies tends to be higher (Hofstede, 1983). Notwithstanding the interdependent relationship between corruption and institutional trust, we will argue that a strong dependence on cultural or familial ties, when coupled with a low level of trust in institutions, plays an important role in the formation of new entrepreneurial ventures in developing countries.

Both empirical and theoretical analyses stress the importance of a country's economic, social/cultural, and political institutions, as well as the personal characteristics of potential entrepreneurs (Dreher and Gassebner, 2011) in the new venture creation process. Considering that developing countries are often affected by corruption, it is important to focus on the effects of this phenomenon in these areas. The theory we propose places emphasis primarily on corruption-related activities, including nepotism, and how these affect the level of new venture creation in developing countries.

3 Culture, corruption, and new venture creation

In many developing countries the low trust displayed by citizens in their institutions, as well as the inherent dependence on cultural or familial ties, plays a vital role in the development of pervasive corruption. Figure 1 shows the process by which we theorise how new venture creation is affected by dependence on cultural and familial ties, low institutional trust, and how they create a reliance on corruption-related activities that ultimately becomes embedded in a new venture's practices.

Figure 1 Culture, corruption, and new venture creation



Institutional trust is an important factor that moderates the relationship between dependence on cultural or familial ties and nepotism, which is the hiring of family members or close associates who otherwise may be less qualified than an outsider (Khera, 2001). In societies that have a great deal of trust in their political institutions, entrepreneurs could be expected to mostly adhere to laws and regulations regarding recruitment, hiring, training, and termination practices. However, in societies where people have little trust in their political and social institutions, entrepreneurs may be more likely to ignore such regulations to the extent that they even exist.

'Trust' itself is not devoid in these societies, but rather trust is more firmly rooted in families, cultures, and/or tribes. The individualism vs. collectivism dimension of national culture described by Hofstede (1983) provides some insight into this notion. For example, many African societies are mostly collectivist in that individuals are integrated into strong and cohesive in-groups from birth, and these in-groups often include extended family members, tribesmen, and even friends (Katwalo and Madichie, 2008; Morris et al., 1994). This collectivist nature permeates all facets of life to include commerce, and it plays a role in the process of new venture creation where a common perception is that an individual in a position to start a new venture must surely be enjoying a significant level of wealth and success. Therefore, it becomes the entrepreneur's implied responsibility to take care of his or her family and friends, and this becomes reflected during the new venture creation phase through recruitment and hiring.

This process is accentuated in developing countries throughout sub-Saharan Africa where up to 70% of respondents have little to no trust in their political institutions (Lavallée et al., 2008). The severe lack of institutional trust plays a significant role at the firm level as it affects the degree of nepotism in new ventures. Hence, entrepreneurs find themselves not only faced with the logistical and administrative problems of attempting to start up ventures in an system in which they have little trust, but they are also faced with the cultural pressure of being expected to extend their 'good fortune' to family or friends by including them in the business. An entrepreneur in this situation is more likely to recruit a familiar family member or friend in place of a stranger who may be more qualified. In many developing countries, this, and other forms of nepotism, are paramount throughout all types of business transactions (Khera, 2001).

To an outsider from more individualistic societies, it may seem more 'rational' for an entrepreneur to recruit the most competent available people, regardless of whether or not they are members of the entrepreneur's family, tribe, or culture. However, when recruiting and hiring employees for new ventures in societies characterised by,

a a high level of dependence on familial or cultural ties

b low trust in political institutions, such as in sub-Saharan Africa, Vietnam, and Venezuela.

An entrepreneur can be expected to select employees who are in their familial or cultural network vs. more qualified outsiders. This leads to the first proposition:

Proposition 1 Heavy dependence on cultural or familial ties, coupled with low trust in political institutions, results in the recruitment of family members during the new venture creation process.

Despite the expected actions taken by an entrepreneur in Proposition 1, economic development and growth-oriented entrepreneurship is promoted by well-thought out laws, well-defined property rights, availability of credit and venture capital, as well as good political and economic institutions (Havrylyshyn, 2001; Sarason et al., 2006; Shane, 2003). However, there is a dearth of quality in these institutions throughout many developing countries (Bosma et al., 2012). As argued above, the low level of trust displayed by citizens in these societies affects the level of new venture creation in those markets such that the negative correlation between institutional trust and the number of new ventures can be largely attributed to the pervasive corruption that arises from the lack of trust in the political system. Individuals who desire to start up new ventures may be deterred due to the high level of bureaucratic or administrative impediments, which is worsened by the ill-functioning nature of institutions. These impediments may be common throughout all types of economies, yet levels of successful new venture creation in emerging markets are still quite high (Bosma et al., 2012). This suggests that the differences in the quality of institutions and the trust placed in these systems are relevant, but not deterministic, in understanding the process of successful new venture creation.

Considering that levels of trust in institutions are significantly lower in many emerging markets than in more developed countries (Transparency International, 2011), entrepreneurs seeking to set up new ventures in more developed countries may have less regulatory uncertainty concerning the chances of success for their new venture. This may be attributed in part to the lower risk-avoidance culture within many developing economies (Hofstede, 1983, 2001). Entrepreneurs in some developing countries who seek to set up new ventures, notwithstanding the competitive challenges encountered across all types of markets, may be more likely to rely on corruption-related activities to increase the likelihood of venture success for two main reasons. The first is that nepotism and other forms of corruption may be expected, or at least condoned, within the entrepreneur's familial and cultural network.

Second, as described earlier, the EGH provides a path around administrative hurdles that may be seen as illegitimate, burdensome, or inefficient. In some developing countries, such as Pakistan and Nigeria (Transparency International, 2011), corruption is so pervasive that an acknowledged path to increase the likelihood of new venture success is to indulge in the same corruption that ultimately impedes the growth of the economy as a whole. The requirements to start a venture, such as licenses, permits, and government contracts, are often surrounded by numerous bureaucratic procedures that are embedded in the same political institutions suffering from low levels of trust by members of society.

The ill-functioning nature of institutions coupled with persistent corruption exacerbates the circumvention of these requirements. In such institutions, an entrepreneur will engage in bribery or some other sort of corruption-related activity in order to fulfil or bypass some of the requirements necessary for new venture creation. The pervasive nature of corruption then creates situations where public officials have grown accustomed to receiving some sort of 'reward' for performing the very duties for which they are paid, which makes it extremely difficult to successfully create new ventures without engaging in the same practices. At the firm level in these countries, indulgence in corruption-related activities produces positive results such as the efficiency of carrying out entrepreneurial activities. Corruption in this case tends to 'grease the wheels' and expedite the process of new venture creation. This may be of a much lesser perceived 'necessity' for entrepreneurs in more developed countries; for these entrepreneurs have the benefit of operating in institutional environments where laws and political institutions are seen as more efficient, fair, and legitimate.

Thus, new venture creators in many developing countries are faced with the complex problem of establishing their enterprises in ill-functioning institutions in which they have little trust. Engaging in nepotism, paying bribes, and indulging in other related activities helps to make the reliance on corruption to facilitate new venture creation more of a norm. Public officials continue to receive the bribes or 'rewards' they have come to expect for performing their duties, and entrepreneurs perpetuate a structure where the most efficient method to set up a new venture is to rely on corruption-related activities. Aspiring entrepreneurs in societies characterised by low levels of institutional trust and low levels of corruption will become ensnarled in administrative quagmires, whereas entrepreneurs in societies with low levels of institutional trust and high levels of corruption will better negotiate regulatory processes, and be more likely to successfully create their new ventures: therefore:

Proposition 2 In developing countries characterised by low trust in political institutions, the greater the corruption-related activities the more new ventures will be created.

Since the social structures in many developing countries create the propensity to resort in practices such as nepotism (Proposition 1) and bribery (Proposition 2) in order to achieve desired goals, the level of indulgence in corruption, which ultimately affects the number of successful new ventures, is dependent on the amount of nepotism practised in the venture. If the entrepreneur, in his or her attempt to start up a new venture, recruits family members or close friends, then the likelihood of reliance on corruption is significantly increased. This can once more be traced back to the collectivist nature that is inherent in many emerging markets. The family members or friends recruited in the new venture are likely to be of a similar mind-set as the entrepreneur and may not object to using corruption to escape bureaucratic processes nor would they logically be opposed to continuing to recruit from the in-group family, tribe, or culture. Ultimately, the success of the new venture benefits them more than it would if the entrepreneur had recruited outsiders. Even in the event that an employee is in disagreement with the methods being employed to help promote the success of the new venture, it is unlikely that he or she would object openly having initially benefited from the founder's nepotism. This serves to reinforce the reliance on corruption-related practices, and the increased reliance on corruption-related practices helps promote venture success based on the tenets of the EGH.

The power-distance dimension of national culture (Hofstede, 1983) also provides some insight into the relationship between recruitment of family members, subsequent indulgence in corruption and new venture creation. Power distance refers to extent to which the less powerful members of families and organisations accept and expect unequal distribution of power, and this cultural trait is highly correlated with highly collectivist cultures (Hofstede, 2001). In a high power distance culture, a recruited family member or friend acknowledges the unequal distribution of power within their venture. Considering that many of the employees may have been recruited primarily based on their relationship to the entrepreneur, the hierarchical and power structure is clear. Members of the venture are likely to comply with the opinions and methods of the entrepreneur, thus decreasing objections to corruption-related practices. When an entrepreneur in such a society appears to condone corruption as a means to increase the venture's success, he or she increases the likelihood of other members of the venture acting in a similar manner.

This reinforcement is accelerated when there is a high level of nepotism in the new venture. Since the recruited members of the entrepreneur's family and friends owe their good fortune to nepotism they are less likely to challenge the entrepreneur's methods, and therefore are less likely to object to the subsequent recruitment and retention of less-qualified members from the in-group. Given the low level of trust in political institutions, the venture composed almost exclusively of insiders are inured to the various practices, corrupt or not, used by the entrepreneur to ensure the success of the venture. Therefore, in societies characterised by low levels of institutional trust, aspiring entrepreneurs are more likely to place their trust in family, friends, and fellow tribe members, who then help, or at least do not obstruct, the entrepreneur in doing whatever it takes to create the new venture. In such societies, recruitment of outsiders, although they may be highly skilled and qualified, may be seen as less 'trustworthy' and therefore less willing to support the entrepreneur during his or her exploration of all possible options to ensure the successful creation of the new venture. Thus, the third proposition is as follows:

Proposition 3 In developing countries characterised by low trust in political institutions, increased recruitment of family members results in increased levels of new venture creation.

With the creation of additional new ventures against the backdrop of the tactics engaged in by successful ventures, the reliance on and practice of nepotism and corruption becomes a self-reinforcing cycle. Economists and political scientists have long known that corruption within a society is persistent and extremely difficult to root out (Mauro, 2004); however, here we theorise an additional component of the persistence of corruption, which is that of the new venture creation process itself.

According to Khera (2001), the variance in cultural attitudes regarding corruption may be attributed to different experiences and histories in the development of economies and industries across countries. For this reason, certain corruption-related activities are likely to remain acceptable to cultures that have recently tried to adopt market-based economic and political institutions, as is the case with many developing countries. Therefore, entrepreneurs in a less developed country or an emerging market may have quite different attitudes towards corruption and nepotism than entrepreneurs in more developed countries. When combined with low trust in political institutions, and highly collectivist cultures, entrepreneurs in such societies are likely to rely on cultural or familial ties during the new venture creation process.

Since entrepreneurs in these societies are more likely to indulge in corruption-related activities in order to overcome bureaucratic hurdles and other requirements that stand in the way of the creation of the new venture, once put in motion, it is difficult to limit the indulgence in corruption to merely the start up phase. Entrepreneurs who paid bribes when setting up their ventures may come to rely on corruption to promote efficiency long after the venture has been created. Public officials who were bribed or 'rewarded' for their help in fast tracking the creation of the new venture may find themselves being involved in recurring transactions with the newly created venture. Bribery initially intended during the new venture creation process will generate a precedent for future business transactions with such officials since they may expect a similar understanding in the future.

This dependence on corruption further permeates throughout the venture when reliance on such activities becomes necessary to maintain any form of sustainable competitive advantage in the marketplace. The persistent nature of corruption in many developing countries further reduces individual resistance to subsequent acts of corruption (Mauro, 2004), and in such societies entrepreneurs will naturally do what is perceived to promote venture success and survival. Prowess in enhancing efficiency through corruption-related activities may eventually become seen as an essential skill indispensable for the survival of the venture.

The more often that corruption is practised, the more it becomes engrained in social habits (Mauro, 2004), which would include entrepreneurial activity. As Sardan (1999) describes, the expansion of corruption produces a kind of 'corruption culture' and like all forms of culture it is shared and spread across an organisation's members. This culture eventually becomes embedded in the venture's standing operating procedures such that in order to accomplish an important objective the venture's employees will exemplify the venture's culture and engage in corruption as deemed necessary. Similarly, public officials and others who have been acclimatised to a certain mutually beneficial manner of conducting business would come to expect bribes whenever certain situations arise. This seemingly endless loop becomes ingrained throughout both the venture and the economic system. As such:

Proposition 4 As the number of new ventures increases that were based on corruption and nepotism, the embedded nature of corruption-related activities within the ventures also increases.

4 Discussion

The relationships we propose regarding nepotism, corruption, low institutional trust, and new venture creation are most applicable to developing countries and emerging markets. This is primarily due to the unfortunate reality that the levels of institutional trust are generally much lower in these societies than in developed countries (Newton, 2001), and intertwined and co-morbid with low institutional trust are high levels of corruption (Chang and Chu, 2006). However, rates of new venture creation are just as high in emerging markets as in more developed ones (Kelley et al., 2011), and we theorise that nepotism and corruption play a facilitative role in the new venture creation process in these societies.

Although our theorising primarily focuses on the new venture creation process, we argue, as do others (Aidt, 2003), that corruption becomes a vicious cycle and is self-reinforcing. However, we are relatively silent about the long-term consequences of new ventures in developing countries engaging in corruption, but as noted, others have argued that widespread corruption negatively affects economic growth (e.g., Mauro, 1995; Wei and Wu, 2002). Yet, if corruption and nepotism are useful in the new venture creation process, and if entrepreneurship is an important way to promote economic growth (Wennekers and Thurik, 1999), and if new venture creation is just as robust in developing economies as in developed ones (Kelley et al., 2011), then it seems reasonable to ask why societies with large amounts of corruption still have stifled economic growth.

The most compelling explanation to this question is that the new ventures created under such circumstances are more likely to fall into the category of 'necessity-based entrepreneurship' rather than 'opportunity-oriented entrepreneurship' (Berner et al., 2012; Rivera, 2007; Valliere and Peterson, 2009; Wong et al., 2005). The former is characterised by entrepreneurs who start ventures because better paying, or even mediocre paying, jobs are scarce while the later refers to ventures that are capable of developing innovative products or services that when aggressively marketed can appeal to large numbers of customers, which then increases the geographical range of the firm and thus stimulates its growth in terms of revenues and employees. Unfortunately, ventures founded upon, and that continually engage in, nepotism have by their very nature looked past the most talented employees. If human capital is a key to a firm's competitive advantage (Barney, 1991), and if a firm has adopted a strategy of recruiting employees where marketing, managerial, or financial skills are secondary to family association, then they could be expected to remain uncompetitive in global markets. For example, a North African venture that has successfully made it through the new venture creation process through engaging in nepotism and corruption may find it difficult to compete with a Western European firm if the basis for the firms' success is quality and innovation.

This reality may be of concern to responsible policy makers who desire to see entrepreneurial ventures grow within their nations, but research has shown that the majority of entrepreneurs who start new ventures are not primarily motivated by growth and maximising profits but rather by 'making a good living' and being independent (King, 2002; Stinchfield et al., 2012). When these psychological motivations exist in societies where a responsibility to 'take care of' one's family and friends takes precedence over individual concerns, it becomes clearer why entrepreneurial ventures in developing economies remain smaller and grow more slowly.

This creates somewhat of a Catch-22 for responsible policy makers. On the one hand, they may see the advantages of fostering entrepreneurial activity in developed economies, yet on the other they may realise that it is likely to reinforce a culture of corruption. Thus, what effective policies can be developed or promoted that encourage new venture creation but can break away from nepotism, bribery, and other corruption-related activities? The Assurance Framework for Corporate Anti-Bribery Programmes proposed by Transparency International (2012) assumes that ventures will desire to expand their networks to include global stakeholders, who then demand that their business partners do not engage in corruption. However, as described earlier, growth is in reality not a shared assumption among most entrepreneurs. So appealing to entrepreneurs' and managers' interests in enlarging their legitimacy claims may only be effective for medium to large enterprises, and for those small enterprises that seek growth. However, there still remain large segments within formal and informal economies within developing nations that have less concern for such legitimacy claims (Dana, 2011).

This may reinforce Mauro's (2004) call that when corruption is in an economic actor's short-term interests, the most effective approach may be external government pressure and greater transparency. Then again, and similar to Transparency International, this approach may be most effective on larger and more publically observable enterprises. Smaller ventures for which growth and international legitimacy are less relevant still could not be expected to adopt voluntary or externally imposed reforms. Thus, it seems that a possible strategy to reduce corruption engaged by owners of small ventures may be to prioritise targeting government officials over entrepreneurs. One focus should be to create and enforce more effective procedures that increase the detection and identification of bribery among government officials, but also to create and enforce penalties that are greater than the expected rewards obtained from the entrepreneur by engaging in corruption. However, this is of course more easily said than done, but it seems clear that measures designed to appeal to obtain external legitimacy will have little effect on most new ventures.

Detailing specific proposals for novel solutions to root out corruption in developing countries is beyond the scope of this paper. However, the theory we develop may help shed additional insight into the nature and causes of corruption in these societies – specifically the facilitative role that nepotism and corruption play in the new venture creation process and its subsequent effect on more firmly embedding corruption within organisational cultures.

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