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STATE, MONOPOLY AND BRIBERY. MARKET REFORMS AND CORRUPTION IN A SWEDISH STATE-OWNED ENTERPRISE

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ABSTRACT. Many studies of corruption have claimed that it is the size of the state and its bureaucratic apparatus that promote corruption. Other studies have suggested that it is the more recent New Public Management reforms that create opportunity for corrupt exchanges. Very few studies have investigated this issue systematically and empirically. The purpose of the present study is therefore to examine the relationship between market reforms and the conditions for corruption, using a qualitative case study of corrupt relations in the Swedish Alcohol Retailing Monopoly (SARM). The analysis shows that the market reforms increased the discretion of managers at SARM, established new informal relations between managers and private supplier companies and increased the demand for corrupt services among the suppliers. In contrast to earlier studies, the present study provides a better understanding of the complex interplay of the different organizational processes resulting from market reforms that may promote corruption.

JEL Classification: D73, H83, P11

Keywords: Corruption, Market reforms, New Public Management, Sweden

Introduction

The research on corruption has often focused on measuring whether the phenomenon is increasing or decreasing by investigating perceptions among the populations of different countries (Transparency International's Corruption Perception Index, 2013; see also Bauhr and Oscarsson, 2011). In these kinds of surveys, Sweden has long had a stable position at the top of the list of the least corrupt countries in the world.

This kind of research, however, tells us very little about actual corruption, because it only measures attitudes toward the phenomenon (Andersson *et al.*, 2010; p. 17; Papakostas, 2012). Thus, being at the top of a ranking index does not mean the country in question is free from corruption. During recent years in Sweden, several corruption scandals within government organizations have been exposed and received a great deal of mass media attention (Papakostas, 2012; cf. Erlingsson *et al.*, 2008, p. 596; Castillo, 2009). Often discernable in these scandals is the occurrence of relatively long-lasting, close and hidden relationships between politicians or civil servants and representatives of the business community.

This empirical bias means that, at present, we have very little knowledge about the mechanisms that create the conditions for corruption in democratic industrialized countries – previously thought to be low in corruption – because so few studies have looked at actual cases of corruption (Loxbo, 2011; Erlingsson *et al.*, 2008). Instead, the bulk of the studies have focused on making comparisons between countries (Goel and Nelson, 1998; Goel and Nelson, 2010; Graeff and Mehlkop, 2003). The main question has often concerned the size of the state and its importance to the degree of corruption; the findings from these studies have frequently been ambiguous (cf. Goel och Nelson, 2010). Other studies have been more definite, claiming that – to combat corruption – it is precisely the size of the state and bureaucratic control that must be dealt with through deregulation and liberalization of the economy (Shleifer and Vishny, 1998, p. 12; Shleifer and Vishny, 1993; Rose-Ackerman, 1999, p. 35).

One important contribution to the discussion on possible explanations for the occurrence of corruption, however, is the notion that the market-oriented public sector reforms of recent years may be a cause (Heywood, 1997, p. 430; Loxbo, 2011; Erlingsson *et al.*, 2008, p. 605; Jain, 2001, p. 78; Varese, 1997). These reforms are typically referred to using the concepts of entrepreneurial governance or New Public Management (NPM), which, during the 1980s and 90s, provided the general model for transforming the public sector (Hood, 1995; Du Gay, 2000).

One argument is that market reforms may create grey zones and confusion between the public sector and the environment, where the risk of hybrid solutions and quasi-markets is particularly strong – something that, in turn, may promote corrupt activities (Rose-Ackerman, 1999, p. 35; Kastberg, 2002; Andersson, 2002). However, studies presenting such ideas have typically been theoretical in nature (Erlingsson *et al.*, 2008; Loxbo, 2011).

What would seem to be missing here are empirical studies of actual corruption cases in countries that have a long history of being democratic and that have traditionally shown a low degree of corruption (Erlingsson *et al.*, 2008, p. 597; Loxbo, 2011, p. 39), thus implying that our knowledge about the mechanisms that create the conditions for corruption is inadequate.

The aim of the present study is to investigate the relation between market reforms and prerequisites for corruption. In contrast to previous theoretical literature and studies primarily analyzing attitudinal data, the present article will deal with a case of exposed corruption in Sweden. The case under study is a corruption affair that took place at ”Systembolaget” (The Swedish Alcohol Retailing Monopoly; henceforth SARM) in 2003, when a large number of store managers were indicted for having accepted bribes from private alcohol suppliers. The analysis will focus on the reforms that have been carried out at SARM during the past 20 years and relate these reforms to changes in store managers’ scope of action, changes in the interaction between store managers and alcohol supplier representatives, and processes affecting alcohol suppliers’ incentives and opportunities to offer bribes. Moreover, the case is an example of a hybrid solution, where the state has partly abolished its previous monopoly in order to increase competition on the alcohol distribution market, while at the same time allowing part of the market to remain under state monitoring and control. Given that hybrid solutions are relatively common in many European countries, the present study should be relevant on a more general level as well, as concerns the connection between market reforms and corruption.

1. Corruption and market reforms

1.1. Corruption as a social relation at the interface between organizations

Della Porta and Vannucci described a corrupt constellation as ”an agent who, against the interests or preferences of the principal, acts in favor of a third party, from which he receives

a reward" (della Porta and Vannucci, 1999, p. 17). Thus, a common academic definition of the concept of corruption is that it concerns abusing public power to promote the private interests of those in power or other external actors rather than to promote the public interest (Loxbo, 2011, p. 40; cf. Kawata, 2006, p. xii). In the present study, however, I will use a somewhat different definition of corruption. According to Papakostas, corruption is a phenomenon that emerges in an informal social relation, that is accomplished in secret and that is based on trust between the involved parties (Papakostas, 2012; della Porta and Vannucci, 1999, p. 9). The central means of communication in such constellations is the very exchange between the parties – an exchange that is reminiscent of the giving of gifts among friends (Castillo, 2009). This definition entails an analytical delimitation from activities characterized by double-dealing, where a single individual acquires personal benefits on his/her own. This point of departure is also appropriate in a study where market-inspired organizational reforms are in focus, as opposed to the actions of individuals. At the same time, it is a sophisticated form of corruption that is being studied, one that entails complex, corruption relations at the interface between organizations (Papakostas, 2012), in that the SARM case involves store managers and representatives of alcohol suppliers.

In the corruption literature, theories of rational choice are often used in attempts to understand what mechanisms are driving corruption (della Porta och Vannucci, 1999, p. 19; Rose-Ackerman, 1999). Within an institutional framework, in relation to which theories of rational choice are an important point of departure, corruption tends to occur when institutional conditions are favorable, that is, when there is a favorable structure of temptation – "incentives matter for human behaviour and they are largely shaped by formal political institutions" (Erlingsson *et al.*, 2008, p. 599). From this perspective, at least three factors influence the existence of corruption: 1) there are great opportunities to act in a corrupt manner, 2) the situation is such that corruption can be highly profitable, and 3) there is a low degree of monitoring of individuals who have great scope of action and access to public resources (Andersson and Erlingsson, 2010, p. 198; Erlingsson *et al.*, 2008, p. 600). Concerning the relation between market reforms and risk for corruption, this model can be used to analyze whether the reforms have affected these factors. Below, I will start from these assumptions when I develop the article's analytical framework. But first, I will discuss the market reforms introduced in Sweden during recent decades.

1.2. New Public Management reforms

During the past decades, a shift from a bureaucratic to a market logic has been seen in many western European countries (Hood, 1995; Du Gay, 2000; Brunsson and Sahlin-Anderson, 2000, cf. Castillo, 2009), and Sweden has hardly been late in following this trend (Andersson and Erlingsson, 2010, p. 193). The reforms carried out are often gathered under the term New Public Management, which implies that ideas from the private sector are implemented in government administration, some of the aims being to increase efficiency and productivity as well as to reduce bureaucratic difficulties for the citizenry and industry (Andersson and Erlingsson, 2010, p. 192).

For example, some reforms have promoted competition and deregulation of state monopolies and authorities (Du Gay, 2000, p. 5). The reforms made at SARM provide a clear example of deregulation creating hybrid solutions (Rose Ackeman, 1999; Loxbo, 2011). Other examples include decentralization and the strengthening of local leaders' discretion, as well as the increase in separate and autonomous organizations in the state administration (Brunsson and Sahlin-Andersson, 2000). Regarding discretion, it should be noted that one of the prerequisites for actors to act in a corrupt manner is that they have broad discretion and control over resources (Jain, 2001).

In this development, market mechanisms have prevailed over bureaucratic mechanisms (Du Gay, 2000, p. 5ff). One observed consequence of the reforms is that the relations have changed and the interfaces expanded between the state and private companies. Moreover, an increase in formal relations between the two spheres also tends to reinforce the importance of informal relations (Misztal, 1999; Sennett, 1977). Procurement and contract writing often entail negotiations, which tend to create tight, personal contacts between the government and businesses (Papakostas, 2012; Misztal, 1999). Under such circumstances, it is clear that opportunities may be created for establishing relations that can be used to achieve improper ends, even though it is important to stress that this need not be the case. If these observations are considered together, there are clear indications that the described NPM reforms and their possible consequences may create favorable structures of temptation in state organizations and, thereby, new opportunities for corruption (cf. Andersson and Erlingsson, 2010, p. 205).

1.3. Scope of action, informal relations and incentives to bribe

Opportunities to act in a corrupt manner and the size of government actors' scope of action are aspects typically considered in the institutional explanatory model (Erlingsson *et al.*, 2008, p. 600; della Porta and Vannucci, 1999, p. 19; Jain, 2001, p. 77; Shleifer and Vishny, 1998, p. 12). Scope of action is closely related to regulation in governmental organizations, in that rules localize power to civil servants (Jain, 2001, p. 78). Thus, rules define both restrictions on and freedom of action within organizations. For this reason, great scope of action among government officials within regulated economies is assumed to often lead to increased corruption. However, the risk of corruption is great even in liberalized economies, particularly in situations where deregulation and market reforms have been introduced, because such processes also tend to require state interventions that ultimately entail great scope of action for civil servants (Jain, 2001, p. 78).

The scope of action within an organization is also dependent on how well the regulations are controlled and the actors monitored. Although the government does issue regulations for actions, they naturally do not cover the entire spectrum of possible actions that may emerge in all situations (Castillo, 2009). All actions in an organization are not equally easy to specify and control using rules. Civil servants typically find themselves in between the formal demands of the organization and the practical expectations of real life. This means that civil servants need to translate rules into practical action to some degree (Leppänen, 2007, p. 2). Naturally, in some cases civil servants are able to ignore the rules entirely. Regarding the introduction of market reforms, several researchers believe that it has made previous rules unclear and simultaneously created a vague distribution of responsibilities in the government. In this way, they consider that the risk of civil servants abusing their position has increased (Loxbo, 2011, p. 41). Thus, the organizational and practical circumstances prevailing in an organization are of great importance to actors' actual scope of action, which is why this aspect will be analyzed in the present article.

1.4. Changing relations between the state and its environment

Opportunities to act in a corrupt manner cannot only be related to actors' intraorganizational scope of action. Even social relations the actors are involved in have to be considered. Based on the above definition of corruption as a hidden social relation that builds on trust (Papakostas, 2012), it is of central importance to study changes in the prerequisites for social relations between the state and the environment and how these relations may impact opportunities to act in a corrupt manner.

Relations between the state and the environment may be both formal and informal in nature. Ideal-typically, formal relations are based on actors assuming an organizationally defined role in their relations with the environment and, in that framework, performing officially sanctioned work tasks based on rules that are subject to organizational control (Leppänen, 2007, p. 1; Johansson, 1992, p. 35). This control is an attempt on the part of the organization to monitor relations and minimize the personal and informal features of these relations, because there is a risk that such features will counteract the organization's purposes. This applies particularly to staff who work at the interface to other organizations. Analytically speaking, informal relations can be related to networks and interactional approaches that stress exchange relations based on mutual, personal trust (Stenlås, 1998, p. 48). Thus, from an analytical perspective, scope for corrupt behavior is found in informal relations between organizations. In this connection, it is important to study whether implementation of market reforms can create changed conditions for interaction between the state and environment that promote corruption.

1.5. Corruption as supply and demand

The institutional framework offers explanations for how we can understand changes in the structure of temptation among politicians and civil servants in an administration (Andersson and Erlingsson, 2010, p. 198). But if we wish to know how market reforms can affect prerequisites for corruption in government, our research cannot focus solely on politicians' and civil servants' incentives to act in a corrupt manner. Given that I view corruption as a social relation, there is also a need to understand how market reforms can influence a third party's motivation to offer bribes and how this, in turn, can create favorable conditions for corrupt relations.

There are certainly situations in which civil servants demand bribes to perform an action for their own gains. But in other situations, an external third part may demand corrupt handling of a matter. Rose-Ackerman called the latter a "demand for corrupt services", or, "a supply of bribes" (Rose-Ackerman, 1997, p. 34). Given that much of the previous discussion has dealt with factors of importance to civil servants' opportunities to behave in a corrupt manner, it is also relevant to study how the supply of and incentive to offer bribes are related to the introduction of market reforms. We can reasonably assume that the increased competition for scarce state resources or access to information caused by market reforms – in relation to, for example, public procurement (Rose-Ackerman, 1997, p. 34ff) – also creates greater incentive among businesses to assert themselves in the competitive situation by offering bribes. It is also important to stress that the demand and supply of bribes must coincide if corruption is to ensue. Thus, corruption is a matter of timing between government officials' opportunities to ask for bribes and perform services desired by a third party, and the third party's ability and incentive to offer bribes.

As mentioned above, the present analysis is based on a case study of the corruption revealed within the state-owned company SARM during 2003. I will empirically consider three reforms or attempted reforms in the SARM organization, all of which can be related to more comprehensive market-inspired reforms implemented in the Swedish government. In sum, in the following analysis, I will empirically investigate what significance market-inspired reforms have for creating conditions for corruption by analyzing changes in the scope of action of SARM store managers, in the interaction between store managers and alcohol suppliers and in incentives and opportunities to act in a corrupt manner among the latter group.

2. Case and Methods

2.1. SARM – an organization at the interface of the state and the market

The case of SARM was chosen because it was one of only a few well-known corruption scandals uncovered in Sweden in which a large number of people were involved, and because SARM was a state-owned organization that had been subject to market reforms. The history of SARM began in 1955, but since the 19th century, Swedish alcohol policies have aimed at reducing the harm caused by alcohol. SARM's role in this was to limit access to alcohol and keep private profit-seekers out of the alcohol trade, which up until 1995 was primarily accomplished through price regulation and a state monopoly on alcohol. The purpose of the monopoly was to limit private profit on alcohol by controlling the marketing and sales of alcoholic beverages through the two state-owned monopolistic companies Vin & Sprit AB (distribution) and SARM (retail trade). This structure meant that much of the trade in alcohol never worked according to market principles and that citizens were shielded from alcohol products through organizational constructions. This emerged early on as a temporal and spatial shielding, accomplished by – among other methods – not displaying goods in the stores, limited opening hours and a long-standing system in which purchases were made over a counter, through direct contact with a SARM clerk. SARM was also supposed to act in a market-neutral manner in relation to the various goods the company made available.

SARM began undergoing some of its most tone-setting changes in the early 1990s, inspired by the private sector ideas. In many respects, these reforms were in sharp contrast to SARM's mission within the framework of traditional, market-restricting Swedish alcohol policies. First, in 1991, a self-service system – the supermarket model – was tested at a number of SARM stores, the aim being to increase freedom of choice and the organization's customer orientation. After these tests, all SARM stores were gradually renovated based on this model. Second, in 1994, the Swedish Parliament decided that Vin & Sprit's distribution monopoly would be abolished in connection with Sweden's entry into the EU (Government Bill 1994/95). This reform meant, among other things, that a market for alcohol distribution was created involving a couple hundred private supply companies (SARM 2005). A third reform that will be analyzed is the introduction, in 1999, of a new centralized assortment control system that ranked products based on consumer demand, profitability and efficiency.

2.2. Methods

I have used several methods to collect data for the study. I have primarily interviewed strategic informants, meaning that they had special knowledge of and insights into questions concerning the SARM case that were relevant to the study. Written material has also been used, primarily police preliminary investigations of the case, SARM's internal documents and policies, as well as various public authorities' inquiries. The material was collected during 2007-2008. I chose to primarily conduct interviews because this method may be a way of acquiring information that is normally not found in formal documents – a disparity that is even more pronounced in relation to criminal activities, such as corruption. However, the documents have been important in confirming and complementing statements, particularly regarding organizational reforms made at SARM. The interviewees included prosecutors working on the SARM case, police officers responsible for the preliminary investigation, and the general counsel at SARM who was responsible for the company's internal inquiry. Total interviewees in this group was seven. One shortcoming regarding use of authorities as sources, however, is that they reflect the legal system's picture of the corruption. For this reason, I chose to act, on

three occasions, as an observer during the trials of a group of former SARM store managers. This group of managers was called ”the real bad guys” by several of the interviewees, because they were suspected of accepting high amounts of bribes from all of the suppliers in the investigation.

The trial proceedings provided great opportunities to study the store managers’ stories about their experiences. During the pauses, I also participated in several conversations with both the accused and the prosecutors. In these conversations, I established contact with a number of the former store managers, who subsequently agreed to be interviewed separately. To ensure anonymity, I avoid indicating the number of interviewed former store managers. In the data, I refer to them as a single category – store manager (SM) – which means that the citations may be from different people. The interviewed former store managers should be seen as central figures who had an overview and insights, spanning longer periods and coming from different hierarchical perspectives. During these interviews, I experienced them to be surprisingly willing to share their experiences, in contrast to the touched up discussions that occurred during the trials.

3. Corruption within SARM

3.1. Changing scope of action

For SARM store managers, important parts of their ability to behave in a corrupt manner have been the reforms and regulation changes that affected their scope of action. Since 1974 store managers could choose their own store’s assortment, as long as their choice of products was based on a common price list issued by SARM (Ragnarsson, 1994). This circumstance is important to understanding how the managers’ opportunities to act in a corrupt manner developed.

Tests of a self-service system for the stores began in 1991. The old system was gradually abandoned as the self-service stores were introduced (SARM, 2008). One of the reasons for this was the desire to better adapt SARM stores to customers. The shift toward more self-service stores meant that the stores began offering a new service to alcohol producers: extraordinarily improved exposure of their products in the stores. There is no doubt that this service was of great value to the producers, but it is not certain SARM’s directors realized this in the context of this major change.

In connection with this shift, the store managers’ scope of action increased, and with this increase came even greater opportunities to behave in a corrupt manner, which in practice meant that store managers could control more aspects of store sales than previously. Among other things, they could influence product placement in the new stores, and product placement turned out to be important in guiding consumers’ purchasing behavior (Nordfält, 2007).

One store manager said the following about the importance of the self-service system for guiding sales and acting in a corrupt manner, that is, performing services in return for bribes:

> ”Well, this self-service thing [then] you could direct sales by, you know, the shelves, there are four levels… if you have a product on the lowest shelf, hardly visible, you don’t sell it, customers don't kneel down on the floor. If you place the product at eye level then obviously… and the top shelf that’s at about 1.5 meters, instead of having three products there you maybe fill the whole shelf with one” (Manager).

After the scandal had been exposed, a SARM inquiry described how the store managers could use their scope of action in the stores to promote certain products within the framework of the self-service system:

”During store visits, it has been found that products from the assortment of order-only goods have [illicitly] been given prominent placements in the store, either on a quarter pallet display or favorable placement on the shelf. The best shelf placement is the top shelf” (Police protocol, p. 155).

”The subject came up at a meeting on 12 November 2002, in which a representative of our purchasing department participated. […] and he even mentioned how suppliers ”think” it’s possible to buy shelves in our stores” (Police protocol, p. 164).

Implementation of the new assortment control or module system during the period 1999-2002 meant a reduction in individual store managers’ scope of action, in favor of more central control based on sales quotas and product rankings. In the new system, the managers had less to say about their own assortment, but they were still able to choose 20 percent of it. Thus, the module system entailed less formal scope of action for the store managers. Note, however, that other illegitimate methods of manipulating the assortment and customers’ purchasing behavior still existed. The preliminary investigation revealed that, in practice, the store managers could place products at their own discretion. According to SARM’s company lawyer, the store managers de facto broke the assortment rules, sometimes by producing their own store labels for products that were actually only available on order. The purpose could be, for example, to ”help” a supplier launch a new product and get it into the product category that allowed it to be sold at all SARM stores. Despite the formal reduction in scope of action caused by the module system, the store managers also facilitated so-called pegging purchases. A pegging purchase occurred when a supplier company ordered and bought large quantities of its own products from a SARM store in order to increase the sales statistics and improve the products’ ranking in the assortment system (Police protocol, p. 179).

To sum up, the scope of action among SARM’s store managers has changed in relation to several dimensions, which has been of importance to their opportunities to behave in a corrupt manner (cf. Jain, 2001, p. 78). Moreover, this change in scope of action can be tied to an overall movement toward more market-based mechanisms at SARM.

3.2. New opportunities for interaction

The corruption that was uncovered in 2003 was certainly not a new phenomenon within SARM. Even before the distribution monopoly was abolished in 1995, there was a market for alcohol products, but it was regulated in such a way that neither SARM nor consumers had access to it. Only the state-owned company Vin & Sprit AB, which had a monopoly on distribution of alcohol, was charged with importing and producing various alcoholic beverages to be sold by SARM. For this reason, many foreign alcohol producers had engaged Swedish companies, around 20 agents, to represent them in their dealings with Vin & Sprit.

In the inquiry, there are indications that these agents and brewery representatives created contacts with and tried to influence SARM store managers during a long period of time, their aim being to improve sales of the products they represented. Up until the 1990s, the bribes consisted primarily of store managers being invited to and participating in parties, dinners and product testing activities arranged by the agents, as well as receiving product samples. Because this corruption was never revealed explicitly, at least not outside the organization, there is little knowledge about and data on the situation before the 1990s.

When Vin & Sprit’s distribution monopoly was abolished in 1995, the relationships between the store managers and the agents (who then came to be called suppliers) changed (Government Bill, 1994/95). In addition to those who had previously acted on the market as Vin & Sprit agents, a large number of newly established supplier companies now emerged. The

number of suppliers increased from 1 to 115 during the first year, and later to 200 during subsequent years, stabilizing at 180 in 2004 (SARM, 2005). Deregulation meant that every SARM store established direct and formal contacts with a large number of new and old privately owned suppliers, and that the total number of relationships that were formally enabled increased considerably. (Although Vin & Sprit was state owned until 2008). More store managers were now involved in direct contacts with suppliers, and this was probably a clear increase compared with the number of managers who had previously had contacts with a few agents.

Note, however, that these formal contacts were surrounded by carefully elaborated rules, especially the policies for supplier contacts introduced in 1994 and 1998. These policies clarified the boundary between SARM and the surrounding world, stressing that legal measures must be taken against all manner of influence on SARM employees (Police protocol, p. 1). However, the policies did enable certain kinds of contact and visits between the stores and the suppliers, primarily concerning logistic matters (SARM, 1998). Suppliers could for example visit the stores to inspect stock-keeping, logistic and complaint issues. The regulations made it clear that no persuasion regarding certain products was allowed during such meetings.

Despite all the regulations, contacts between the store managers and the bulk of the suppliers, both new and old, expanded and intensified under the new circumstances that emerged after the monopoly was abolished. Beside the formal contacts, store manager associations (tied to the union) around the country served as facilitators of informal contacts between store managers and suppliers.

According to one of the prosecutors, for suppliers the authorized contacts meant a channel into the organization:

> ”[…] The suppliers took advantage of this, at least the ones we’ve prosecuted and convicted, by taking sales-promoting measures during the permitted visits” (Prosecutor).

In this way, the store managers now had the capacity to handle the contacts with supply company representatives themselves, which gave them greater scope of action compared to the situation before deregulation. It is clear from the legal investigation that this new scope of action was used to develop existing relationships between the store managers and the suppliers, and that forbidden sales-promoting measures were discussed in these meetings. One prosecutor stated the following:

> ”We know they discussed shelf placement, positioning in the store ’can’t you put a half pallet display on the floor,’ we have seized instructions, email and paper documents showing that all three of the convicted suppliers have engaged in these kinds of activities” (Prosecutor).

SARM’s company lawyer stressed how important this opening in the regulations was in creating contacts between the stores and the suppliers:

> ”I must say that the inquiries have shown, Åkesson, VinTrädgårdh, Philipsson & Söderberg and not least V & S, you know, that there’s been a dramatic increase in the contact frequency on the suppliers’ side with our stores that goes way beyond logistic issues” (Company lawyer).

Thus, an unintended consequence of the policy change was that the new formal relations between SARM and the alcohol suppliers gradually transformed into informal social relationships (cf. Leppänen 2007, p. 1). This opening in the regulations meant that suppliers were offered an arena in which they could try to influence the store managers and in which new networks could be established. One prosecutor related the following:

> ”This isn’t just a pretty big network. What we can see is that the wine suppliers started by becoming familiar with and trying to understand almost every store managers’ willingness to accept bribes. Then they introduced it in small chunks, then increased and increased. After that the managers are almost on the payroll” (Prosecutor).

One indicator of the presence of informal and interpersonal exchange relations is the list established during the preliminary investigation showing a large number of verified occasions on which store managers have been treated to lunch or dinner by a supplier, for example representatives of Åkesson Vin AB (Police protocol, part B, p. 584ff).

Opportunities for contact between the store managers and suppliers also increased because several suppliers had hired previous SARM employees. In this way, a network emerged in which former SARM employees were now working for a supplier and could, thanks to their old contact network, simplify the creation of social relationships between the supplier and SARM. This employment mobility was described by one of the prosecutors:

> ”Certain suppliers have hired former store managers, who then contact their old friends: ’Hey there, it’s Arne, I’m working for this and that company now. I thought I’d come out and visit you.’ These former managers have an established reputation when they arrive: That Arne, he’s a really nice guy! Then Arne says: Well, can’t I arrange an offer for you. You can travel somewhere or be part of our lottery or here take some product samples” (Prosecutor; Police protocol, interrogation report, p. 30).

Some stores had many employees who later started working for a supplier company. One store manager talked about the importance of informal contacts for the suppliers:

> ”Well, here we know that this guy is clever and enterprising. We could use him at our company. As I understand it, you have a discussion and your job it’s to drive around to visit your colleagues, and we know each other! For years! Instead of it taking other suppliers several years to build up contacts – here it’s for free! You’re already friends, you’ve socialized, you’ve attended loads of courses, you’ve been to store manager meetings, parties, other agents…” (Manager).

Although informal relationships between store managers and agents existed prior to deregulation, it is clear that the new market-oriented situation brought about a marked escalation of such relationships. Deregulation and the subsequent policy changes meant that new arenas for boundary-crossing interaction could be established, at the same time as the number of potential supplier employees to interact with increased greatly. The preliminary investigation showed clearly that it was in these informal constellations between store managers and suppliers that the corruption expanded and intensified. Thus, the corrupt transactions were beyond the organization’s – that is SARM’s – control (Johansson, 1992, p. 35). One of the detective inspectors who investigated the corruption stressed the difficulty of discovering bribery:

> ”These pure bribery situations where you butter up the store managers with money, items, trips… they’ve have a really hard time checking that physically… there aren’t any instruments to do it with. Then as far as these ”rebounds” (pegging purchases) are concerned and the sales statistics… how the suppliers have been able to trick SARM’s system of which products should be in which modules, and what sale volumes they’ve had. Well, of course they could have discovered this by making inspections. But the individual attempts to gain

influence are really hard to check. You can't see it. It happens at places other than SARM and in secret" (Detective).

SARM'S ability to monitor the situation and ensure that these regulations were followed was also rather limited. With only five regional managers, each responsible for 60-80 stores up until 2001, the distance between store managers and the regional managers was large (SARM, 2001).

In many ways, abolishing the state-owned distribution monopoly meant changes in the prerequisites for interaction between store managers and supplier company representatives. With a larger number of informal relations came increased opportunities to act in a corrupt manner. More store managers had contact with more suppliers, and at the same time new opportunities were created for them to meet within certain approved frameworks. The legal investigation showed, however, that these arenas were of central importance in creating corrupt relationships that have been difficult for an organization like SARM to monitor.

3.3. Increased supply of bribes – competition, the module system and direct bribes

It is fairly clear from the present study that there has been a demand for corrupt activities among the alcohol suppliers. Also obvious is that the demand has grown over time. The establishment of a competitive distribution market reinforced rather than weakened suppliers' propensity to try to influence and bribe SARM's store managers. However, as a single factor, increased competition is not sufficient to explain the increased supply of bribes.

Introduction of the new assortment control model in 1999 did not only have consequences for the store managers' scope of action. The assortment control model, and its modules, entailed SARM returning to a more centrally organized system to be able to control the increasing complexity of the organization. The module system involved dividing the assortment into five modules, the first of which was called the base module and the other four supplemental modules. In the spring of 2001, the base module consisted of 400 items, all of which were to be accessible at all SARM stores (SARM, 2001). The basis for assigning items to each module was created by ranking them within each segment based on consumer demand and the products' profitability and efficiency. The items with the highest rankings were placed in the base module, and the rest in the subsequent order in the four supplemental modules. There is no doubt that the ideal of the primacy of market mechanisms over bureaucratic mechanisms had influenced the architects of this system, because consumer demand came to guide the supply of goods to a much higher degree than previously (cf. Du Gay, 2005). Moreover, the system was transparent and clear, because each product's sales and position in the system could be tracked relatively well.

When the suppliers learned that SARM was planning to introduce the new assortment control system, they became more interested in their contacts with the store managers because they wanted to get their products into the new modules. Clear expressions of concern about the module system on the part of suppliers were seen in the preliminary investigation. One representative of Åkesson Vin AB wrote the following in an internal document:

"Concerning the new assortment control, we have to find new ways of achieving results" (Police protocol, Åkesson Vin AB, internal document, p. 197).

Similar reasoning was found in an e-mail message from 2002:

"I would find it valuable if you could develop a proposal, based on the principles we used before, where we try to help sales get on the right track in a suitable manner" (Police protocol, Åkesson Vin AB, internal document, p. 198).

The interviewed store managers indicated that introduction of the new assortment control system was what had caused suppliers to try even harder than previously to influence managers. They even claimed that the suppliers had started offering cash and checks when or just before the module system was introduced.

> ”But before the module system, cash was not part of the game. Then it became more interesting and some of the suppliers brought the money out” (Manager).

> ”This bit with the money… […]. It happened in connection with the module system, […] because then there were loads of products that were going to be removed from certain stores. The ones that were only going to have the base assortment, lots of products were going to just disappear. Maybe a supplier would have his products removed from 100 stores. […] And then in the end, in the stores where you have your products, if you don’t maintain the sales volume the main office has set. You have to sell some amount in order to remain. If you don’t you’re out in a second. As I understand it, that’s when it started to be about a little money” (Manager).

Another former store manager reported that the period after 1995 and later introduction of the module system were important events in the escalation of corruption:

> ”More were involved, it became more wide-spread. At first there were a few in Stockholm, you could say, store managers who’d been around a while and been all over the country, there were store manager associations… […] They’d been around a long time and knew some suppliers. But by the end of, I’d say, by 2000-2001, almost everyone was involved. It got out of control. It went too fast in the end. It was just a matter of time until it would all fall apart” (Manager).

For a supplier, it was best to establish one’s products in the base module, because that meant that all products would be available at all SARM stores throughout the country. Thus, there was an obvious incentive to try to influence the store managers. As a consequence of the module system, the suppliers tried to move their items to the modules with the greatest sales potential, or to maintain the items’ place in a certain module if sales were to drop. Moreover, the suppliers had incentive to work toward strong introduction of new products by finding opportunities to sell them in a large number of stores. One prosecutor at the Corruption Unit at the Swedish Prosecution Authority reported that it was clear from the preliminary investigation that the sales managers had been pressing very hard. Some employees of the indicted supplier company had even complained via e-mail to their supervisors that they felt too much pressure and that the store managers were beginning to get angry with them.

It was under these circumstances that the suppliers began using money to influence the store managers. The bribes offered to the managers consisted of money transfers to their private bank accounts and gift certificates for trips that could be exchanged for cash. The size of the bribes was often based on various bonus systems developed by the suppliers (Police protocol, Åkesson Vin AB, part A, pp. 248, 256). Another method was using product samples. Here, the store manager him-/herself bought a supplier’s products, sent the receipt to the supplier and then received a check for the same amount. Bribes could also consist of dinner or trip invitations, a method also used in the past (Police protocol, general section).

Although the module system meant that the demand for corrupt activities increased, one prerequisite for accomplishing these activities was that the store managers could, in fact, influence sales. The previously introduced self-service system had created the conditions for an increased product exposure service, in that store managers’ scope of action gave them greater

opportunities to guide sales through their control over product placement in the store (cf. Nordfält, 2007). Compared with the situation before the self-service stores, the managers could now offer their suppliers much more sophisticated services in return through, e.g., manipulation of product exposure, keeping products from the order-only assortment in stock or facilitating pegging purchases (Police protocol, Åkesson Vin AB, part A, p. 290). Opportunities to control these aspects were not limited by the new assortment system, because it was only aimed at determining the content of the assortment. At the same time, the new assortment system meant an increase in the importance of services in return that could give quick, concrete results in the suppliers' sales statistics. One crucial aspect of the module system was the increased possibility to calculate the value of the store managers' services in return, that is, to calculate how much they increased sales, and then to pay them based on these calculations. In other words, the suppliers could easily calculate the effects of the bribes. As mentioned earlier, one reason for these new opportunities was that the system was highly transparent and offered clear sales measurements. This is indicated, among other things, by the hidden bonus system that the suppliers had put in place. One police detective made the following statement:

> "[…] then it was the CEO at VinTrädgårdh, the money came from his personal checking account, […] he had a system where he made payments on a certain date based on the previous month's sales report" (Detective).

In sum, we can observe a clear relation between the new assortment control system that was gradually introduced at SARM staring in 1999 and the escalating corruption occurring between the store managers and suppliers. The increased importance of market mechanisms (cf. Du Gay, 2000, p. 5ff) as a means of control of the stores' assortment and, in turn, the increased competition would seem to have generated increased demand for corrupt activities among SARM suppliers (Rose-Ackerman, 1997, p. 34ff). The module system, isolated from other organizational changes, was not a sufficient condition for corruption to escalate (in both form and content), but combined with the self-service system that was in place in most stores, the necessary prerequisites were created to make suppliers' bribes pay off. Naturally, the reason for this was that, owing to the self-service reform, the store managers had greater opportunities to control sales in their stores. This relationship shows the importance of timing between the demand for corrupt activities and real possibilities to perform services in return, that is, to offer corrupt services.

Conclusions

The primary aim of the present article has been to investigate whether introduction of market-oriented reforms in governments can affect the prerequisites for corruption. Three central reforms of operations at SARM have been analyzed. The introduction of the self-service system in 1991, abolishment of the distribution monopoly in 1995 and launching of a new assortment control system in 1999 have all had an important influence on opportunities to behave in a corrupt manner within the organization as well as on the development of incentives to offer bribes. The reforms share several of the elements typically related to the New Public Management paradigm, including adaptation to customers, competition, decentralization and demand orientation.

First, the article has shown that the reforms gave the managers greater opportunities to control more aspects of store sales than they had previously as well as increased capacity to handle contacts with the surrounding world. This increased their ability to provide services in return to suppliers offering bribes. Second, the interaction between SARM and the surrounding world changed when the distribution monopoly was abolished in 1995. Seen from the outside,

the monopoly situation entailed few legitimate opportunities for SARM store managers to interact. But after 1995, new formal relationships were established with the companies that could now, with the open market, supply alcohol products. The analysis shows that these changes also promoted networks and informal relationships between the actors, which came to serve as a platform for hidden corrupt activities. Policy changes that accepted some cooperation as well as new opportunities for employment mobility between SARM and the suppliers also supported this development. Finally, the reforms meant stimulation of the demand for corrupt activities, particularly as a consequence of the new assortment system, which was based more on consumer demand. When demand clearly controlled the assortment structure – which established, among other things, the products' sales reach across the stores – strong incentive emerged among suppliers to try to influence sales. An additional consequence of the assortment system was that it increased suppliers' ability to more precisely determine the value of the store managers' services in return for sales.

All in all, the present results indicate that introduction of market-inspired reforms in the area of alcohol policy has promoted the conditions for corrupt activities. Naturally, I cannot draw any conclusions concerning whether corruption has generally increased or decreased in Sweden. On the other hand, the study does improve our understanding of the complex interplay of processes and organizational prerequisites that stem from market reforms and that may promote corruption. Because the content of the reforms under study, particularly hybrid solutions, has been applied in a number of other governmental areas, the present results do indicate that the risk of corruption should be discussed on a broader front in areas where market reforms have been carried out.

The theory proposed in previous research – that the introduction of market reforms has created unclear rules and grey zones (Jain, 2011; Loxbo, 2011, p. 38), and thereby increased risk for corruption – has found no support in the present study. On the contrary, the tendency has been toward more rules as well as clearer and more detailed rules, especially in connection with abolishment of the monopoly. Loxbo (2011, p. 55) observed this as well, but the important point here is that corruption can exist even when rules are clear. Discovering the improprieties at SARM would probably have required extensive, direct control measures and considerable knowledge about the stores' assortments, which indicates that organizational conditions are more decisive than merely having clear rules.

Regarding theory, the present study has partly been based on the institutional rationality model's assumptions concerning actors opportunities to behave in a corrupt manner, which were studied here in relation to intra- and interorganizational scope of action (Andersson and Erlingsson, 2010, p. 198; Erlingsson *et al.*, 2008, p. 600). But it is not only changes in scope of action that have affected corruption within SARM. The study has also revealed that market reforms generated increased demand for corrupt activities among several actors on the distribution market. In other words, market reforms created conditions that were particularly promotive of corrupt behavior on both the supply and the demand side.

The changed perspective on corruption offered by the present study – from structures of temptation within state-run organizations to factors that impact the very corruption relation as a whole – makes an important theoretical contribution. When corruption is defined as a phenomenon that solely concerns abuse of public power, changes that affect opportunities and incentives to bribe government functionaries at all are underestimated. Studying corruption as a social relation broadens the perspective, which contributes to a more sophisticated understanding of what mechanisms promote corrupt activities. Moreover, viewing corruption as a relation means that the timing of various reforms, which affects opportunities to perform services in return and the incentive to bribe, becomes an important analytical dimension in understanding the conditions under which there is a risk that corruption will emerge. However,

if we are to gain more knowledge about these conditions, there is a need for additional studies of actual corruption cases and the organizational constellations in which they have existed.

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