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Organizational policy and corruption: the case of the government agencies

Política organizacional y corrupción: el caso de las agencias de gobierno

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ABSTRACT

Using the principal-agent approach, a theoretical model is developed, in which dishonest government officers lobby authorities (in the form of a corrupted political contribution) for getting some advantage over honest officers. The government agency authority should maximize the welfare of the civil service officers by distributing an economic compensation granted by a central government through the use of an institutional policy. The contribution scheme promotes a relevant truthful equilibrium. A larger institutional level favors honest people; a smaller institutional level favors dishonest people and the bribe they offer. This result has two opposite implications. If government is only an efficient authority, the optimal institutional policy will grant the same amount of economic compensation to all officers. On the other hand, if authority is assuming a moral role against corruption, then the government will be inclined to set the strictest institutional policy.

RESUMEN

Usando la Teoría de Agencia-Principal desarrollamos un modelo teórico en el cual burócratas deshonestos cabildean a la autoridad gubernamental (mediante una contribución política) para obtener una ventaja sobre burócratas honestos. La agencia de gobierno debe maximizar el bienestar de los burócratas mediante la distribución de una compensación económica otorgada por el gobierno central mediante el uso de una política institucional. El esquema de contribución ofrecido promueve un equilibrio confiable relevante en política pública. Un nivel institucional alto va beneficiar a los burócratas honestos; un nivel institucional bajo va a beneficiar a los burócratas deshonestos y el soborno ofrecido por ellos. Este resultado tiene dos implicaciones opuestas. Si la autoridad gubernamental es solamente eficiente, entonces la política óptima otorgará la misma compensación económica a todos los burócratas. Alternativamente, si la autoridad gubernamental asume un rol moral contra la corrupción, entonces estará dispuesta a implementar una política institucional más estricta.

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INTRODUCTION

Corruption is a complex phenomenon reaching many areas and levels inside an organization and involving different types of frauds and crimes. Corruption is part of any organized society with power structures (Muller, 2012), and it is the result of the interaction between economy, politics and society. Even when there is not interest to discuss the origin and nature of corruption here, this paper considers corruption as a cultural and values problem (Puig, 1995; Rodriguez, 2007; Rokeach, 1979; Schwartz, 1992).

In organization theory, individuals are part of an organization and they are key pieces in the performance of the rest of the productive/organizational

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factors. Therefore, the attitude and values of the individuals, with or without corruption, affect considerably the results of the organization (Reyes, 1977).

Corruption will be modeled using the principal-agent approach, in which the agent's objectives differ from the principal's. This approach will be set in the context of a certain institutional environment in which some agents play a game in order to get some advantage over other agents. This game involves corrupt practices in which agents are lobbying authority for getting some benefits. In this sense, institutions and organizations are related to corruption. While institutions have to deal with rules, agreements and transaction costs, organizations have to deal with power relationship, hierarchy and organizational culture. The organizational dimension is the background of the problem, but the institutional dimension is for explaining the strategic behavior problem.

In the last two decades, the literature on Institutional Economics (IE) has grown significantly[1]. Ronald Coase (1937), Olivier Williamson, Elinor Ostrom and Douglas North are the best-known representatives of this branch of economics. IE is an interdisciplinary area in economics that covers a wide range of issues, including economics, psychology, sociology, law, political science, organization theory, etc. IE tries to explain what institutions are, how they arise, what purposes they serve, how they change and how –if at all possible– they should be reformed (Klein, 2000).

This impressive development has produced many refined opinions by several scholars on the need to set and to implement institutional reforms as a way to get a more substantial and solid result in the organizational context. Numerous papers have been written on this topic[2]. However, the literature explaining why these reforms on institutional policies have just failed, in some organizations, or have been simply canceled out, has not been well investigated, to our knowledge[3]. At first, there is a motivation to offer an explanation to this fact.

It is believed that institutional reforms are promoted because "something" is not working properly inside an organization. In this paper it is assumed that the presence of corruption in an organization is the main reason to carry out an institutional reform in order to avoid some economic inefficiency.

In this paper, a partial equilibrium theoretical model is developed, in which two kinds of civil service officers receive an economic compensation from the government agency authority. This economic compensation does not depend on the performance of the civil service officers, but on the budget assigned by the central government. The existence of corruption in the government agency authority is assumed and it is materialized in the person of some civil service officers (called 'dishonest' people) practicing some corrupt activities, like lobbying the government agency authority. In other words, corruption exists in the relationship between the government agency authority and the dishonest civil service officers. On the other hand, there is a group of non-corrupted civil service officers (called 'honest' people). There is a budget granted from the central government to the government agency in order to be distributed among all the civil service officers in the form of an economic compensation. This economic compensation is independent of officers' wage and its distribution depends entirely on the criteria settled by the government agency authority[4]. Dishonest people lobby the government agency authority in order to receive a larger amount of economic compensation[5]. However, the budget addressed to offer the economic compensation is limited and this lobby negatively affects honest people.

The way dishonest people lobby the government is through a political contribution or bribe. Bribing in this model implies that the government agency authority has a certain level of corruption and is willing to receive the contribution made by the dishonest. The impact of this contribution depends on the level of corruption attached to the authority.

The objective of the government agency authority is to maximize its welfare and the welfare of the civil service officers by distributing the economic compensation. The government agency authority determines an institutional level, which is affecting the distribution of the economic compensation. This is the policy instrument of the government agency. A larger institutional level means less corruption allowed, a small institutional level means more corruption allowed. So a larger institutional level favors honest people and a smaller institutional level favors dishonest people and the contribution they offered. Later in the paper an enforcement policy is set by the central government in order to fight against corruption into the government agency, pursuing for a strong commitment against corruption.

[1] A good survey can be found in Klein (2000).

[2] Some examples are the accurate articles written by Bardhan (1989), Rodrik (2000) and Williamson (1996), among others.

[3] It is well known that bribe is widely used in developing countries in order to simplify or avoid any legal and administrative procedure that can be significantly more costly by the legal way.

[4] This is a common practice in some government structures and this compensation may be seen as part of a stimulus program in order to compensate low wages in the public sector.

[5] One reason to lobby the government is given by the perception of the dishonest about their income, considered unfair (Mauro, 1998; Rose-Acckerman, 1978).

The aim of this theoretical model is to offer an institutional explanation, in an organizational context, about how corruption determines a stylized institutional policy. The contribution is to construct a theoretical and mathematical model in which the reasons for the setting of an institutional policy are founded not only on moral considerations, but also on the interaction of individuals inside an organization. The literature analyzing corruption and strategic behavior of the members inside an organization is rather limited. The majority of the literature in psychology, organizations and corruption is addressed to explain the origin and nature of corruption in the organizations. However, this paper shall focus on the determination of the optimal institutional policy and consequently in the behavior of individuals and authority inside these organizations.

The model and some comparative statistics are spelled out in detail in the following section. After that, in the next section, the optimal policy will be set without enforcement policy, and later the optimal policy will be set once the enforcement policy has been applied. Finally, conclusion closes this research work.

The model

We focused on a public organization or government agency that depends politically and economically on the central government authority. Inside this office there are two kinds of civil service officers. The first ones are the dishonest individuals (labelled δ), who benefit from and support the illegal structure inside the government agency office. On the other hand, there are honest people (labelled σ), who receive a normal wage for working in the government agency. They are homogeneous within their own type.

The government agency is receiving a transfer from the central government in order to be distributed between the civil service officers. This transfer is totally independent of the wage received by the officers (this is fixed and set by the central government as a part of the total budget); it consists on an economic compensation, which is going to depend on the budget policy implemented by the government agency authority.

The transfer should be distributed taking into account the productivity of the employees or, at least, as an equal compensation for all of them. Both are budget strategies that could be implemented by the government agency authority. However, dishonest people may affect the budget distribution by offering a bribe to the agency authority. In other words, dishonest people lobby the agency authority in order to obtain an extra amount of income through a bribe. Honest people do not lobby the government and they are expecting a fair policy.

On the other hand, the government agency authority presumes the existence of corruption inside the office, and the distribution policy is going to depend on the level of institutional clearness. The amount of transfer to the honest and dishonest people would depend on the efficiency of the government agency institutional framework. The institutional framework is understood as the legal environment set by the government agency in order to properly regulate the political and economic activities. In this sense, an efficient institutional framework strengthens the control against illegal activities. An inefficient institutional framework means a weak control over illegal activities[6].

The institutional framework is set by the government agency through a credible political reform of the legal system. For simplicity, this reform is the result of a legal and political process with no direct ex ante economic cost attached. This process will produce a parameter, which measures the efficiency of the institutional framework, and consequently the distribution policy. This parameter will be set between 0 and 1 and will be called institutional level. When the institutional level α, the policy instrument of the government, is close to one the institutional framework is more efficient, when α is closer to zero the institutional framework is inefficient.

Taking into account the considerations mentioned above, some utility functions are defined for the honest people, dishonest people and the government: these functions will be used to determine the optimal institutional level. Assuming quasi-linear preferences, the utility of the honest people can be defined as[7]

$$I^{\sigma} = w_h + \alpha T \tag{1}$$

In (1), the first term is the legal wage paid by the central government to honest people. This wage is constant and it does not depend on the policy implemented by the government agency. The second term is the economic compensation made by the government agency multiplied by the institutional level. This

[6] Institution is understood as to stablish the rules of the game, which all the economic agents agree to play according to Klein (2000).

[7] The utility can be approximated from $U = u\,(w,T) + m$, where (w,T) are the goods/income under consideration and m is the expenditure on the numeraire good. The use of this approximation removes a number of theoretical difficulties, including income effects.

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economic compensation, which will be part of the income given to honest people, is transferred in a lump-sum fashion from the government agency.

The income conferred to dishonest people is given by

$$I^{\delta} = w_d + (1 - \alpha)\, T \tag{2}$$

In (2), the first term is the legal wage paid by the central government to dishonest people. Once again, this wage is fixed and does not depend on the policy implemented by the government agency[8]. The second term is the economic compensation made by the government agency multiplied by the opposite of the institutional level.

Clearly it is assumed that the wage is the same for both types of employees ($w_d = w_h = w$). An equal distribution policy will be given when the institutional level is 0.5. Under this policy, and from (1) and (2), it is clear that the income for honest and dishonest people will be the same. Another policy rewarding the employees honest behavior would imply the institutional level to be larger than 0.5. In this case the income received by honest people will be larger than the income received by dishonest people.

At the end, the optimal policy is the institutional level. According to the New Institutional Economics (NIE), an institution is reflects the set of rules of the game that the society agrees to play in order to reduce transaction costs. These rules reduce the cost of negotiation between the agents involved in an organization (Klein, 2000). Of course, these rules reflect a behavioral component from each agent in the organization, and they are the result of the interactions of these agents with a variety of interests (Rokeach, 1979).

Under the argument mentioned above, the institutional parameter is more than a policy instrument, is the expression of an interaction between all the agents involved in an organization. The institutional level reflects the power of corrupted people, the weakness of honest people and the particular interest of the government agency authority. The institutional parameter is the organizational policy implemented by the government agency authority and it is determined by an organizational political equilibrium. It has been closely followed by Dixit, Grossman & Helpman (1997) and Grossman & Helpman (1994) so as to specify this equilibrium. Honest people do not lobby the government agency, but dishonest people make political contributions to influence the government agency's decisions. The political contribution scheme settled for the dishonest is denoted by $C(\alpha)$. So the government agency's objective function is given by

$$G = \rho C + ((I^{\delta} - C) + I^{\sigma}) \tag{3}$$

where $\rho > 1$ is a constant parameter called corruption level[9]. Reorganizing the equation, it is deduced that $G = (\rho - 1)C + I^{\delta} + I^{\sigma}$. Hence, the government attaches a positive weight to contributions provided that $\rho > 1$. Equation (3) states that the government agency considers the total welfare of its employees (the terms in parentheses), as well as the total amount of political contribution that it receives (the first term on the right-hand side of Eq. 3).

The organizational political equilibrium is the outcome of a two-stage game. In stage one, dishonest people choose their contribution schedule. The government agency then sets its institutional policy behavior in the second stage. An organizational political equilibrium is given by (*i*) a contribution function $C(\alpha)$, in order to maximize the welfare of all the dishonest people given the political behavior anticipated by the government, and (*ii*) a policy behavior variable, α, that maximizes the government agency's objective function given by (3), taking the contribution scheme as given.

According to Dixit *et al.* (1997), there is a refinement equilibrium known as truthful organizational mechanism. This equilibrium implements Pareto-efficient outcomes to be taken into account in this analysis. However, as said before, the framework is focused on the specific aspect of the organizational political equilibrium; in such a case it will also follow closely the original Grossman & Helpman (1994) approach in modeling this equilibrium. Stated formally, let $(C^{\circ}(\alpha^{\circ}, I^{\delta\circ}), \alpha^{\circ})$ be a truthful equilibrium in which $I^{\delta\circ}$ is the per-capita utility level of dishonest people at equilibrium. Then $(C^{\circ}(\alpha^{\circ}, I^{\delta\circ}), \alpha^{\circ}, I^{\delta\circ})$ is characterized by

$$C(\alpha, I^{\delta\circ}) = Max\,(0, \varphi) \tag{4}$$

$$\alpha^{\circ} = Argmax_{\alpha}\{\rho C(\alpha, I^{\delta\circ}) + (I^{\delta}(\alpha) + I^{\delta\circ})\} \tag{5}$$

[8] The government is generally unable to dismiss the corrupted employees because their illegal behavior is difficult to detect and prove. Furthermore, the trade unions are tough and they do not allow any action against workers.

[9] Even when corruption is a multidimensional parameter, it is just simplified by considering the impact of the government agency on the income of the authority. This is the parameter for high level corruption or authority corruption which is different from low level corruption or the corruption of dishonest employees.

$$I^{\sigma}(\alpha_1) + I^{\delta\circ} = \rho C(\alpha^{\circ}, I^{\delta\circ}) + (I^{\sigma}(\alpha^{\circ}) + I^{\delta\circ}) \quad (6)$$

where φ is defined by

$$I^{\delta\circ} = I^{\delta} - \varphi \quad (7)$$

and

$$\alpha_1 = Argmax_{\alpha}\,(I^{\sigma}(\alpha^{\circ}) + I^{\delta\circ}) \quad (8)$$

Equations (4) and (7) state the truthful contribution scheme. It is set to the level of compensating variation relative to the equilibrium utility level of the dishonest. The definition of φ is the basic concept of the compensating variations. Under a truthful equilibrium organizational function, for any change in α, the change in the contribution received by the government agency will exactly equal the change in the dishonest income, provided that the payment, both before and after the change, is strictly positive. Equation (5) is self-explanatory: the government takes the utility level of the dishonest as a given value and chooses the institutional level so as to maximize its objective function. Equation (6) (together with [8]) complete the characterization of the truthful equilibrium and tie down the equilibrium utility level of dishonest people, which is derived from the premise that the dishonest would pay the lowest possible contribution to induce the government to pursue the organizational equilibrium policy given in (5). For this to be the case, the government agency must be indifferent between (*i*) implementing the organizational equilibrium policy and receiving contributions from the dishonest, and (*ii*) implementing a policy by accepting no contribution at all. Equation (5) states precisely that[10].

According to Grossman & Helpman (1994), in the case of one lobby group there is no opposition from competing interests, and the lobby group captures all of the surplus from its political relationship with the government. In this specific case, at organizational political equilibrium, the government agency derives exactly the same utility as it would have achieved by allowing no contribution. An interesting example with one lobby group can be found in Rama & Tabellini (1998). Now, the backbone of the analysis is established.

Some analytical comparative static

It is quite straightforward to see, from (1) and (2), that an increase in the institutional level will benefit honest people and will harm dishonest people in the same proportion. From (1) and (2) it is deduced that

$$dI^{\sigma} / d\alpha = T > 0 \quad (9)$$

$$dI^{\delta} / d\alpha = -T < 0 \quad (10)$$

a linear relationship exists between the transfers. Of course, when money is going towards one type of employees, it is leaving the other one. This flow of transfers is made by the government agency authority.

An interesting parameter to be considered is the corruption parameter, which is the level of sensibility of the government agency authority with respect to the contribution made by the dishonest people. In other words, when the corruption parameter is larger, the weight attached to the political contribution is larger too. From (3) it results

$$dG / d\rho = C > 0 \quad (11)$$

An increase in the corruption parameter will increase the government agency objective function in the same proportion than the amount of bribe or political contribution.

On the other hand, when $\rho = 1$ there is no political relationship between the government and the dishonest people. The weight that the government attaches to social welfare is normalized to one and the government agency objective function is defined as:

$$G = I^{\delta} + I^{\sigma} = 2w + T \quad (12)$$

In here, there is not government agency authority corruption and, independently of the bribe or contribution, the government will apply the fairest policy addressed to benefit honest and dishonest people. It is not an institutional policy because there is not corruption. The corruption of dishonest people does not have any impact on the government agency preference.

Optimal institutional level

Having described the properties of the organizational political equilibrium, in this section we will be analyze the optimal institutional level and its effect on welfare. The first step to determine the optimal α is to obtain the first order condition for the optimization problem given in (5) and (7). The following result is implicitly obtained from (1) to (10):

$$G_{\alpha} = T[1 - \rho] < 0 \quad (13)$$

[10] See Dixit *et al.* (1997, pp. 756-759).

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This is unequivocally negative. It means that the optimal policy will be to set the softest institutional level ($\alpha = 0$), since when the government agency tries to set a strict institutional level, the loss given by the reduction in the contribution policy plus the reduction in the income of dishonest people is larger than the income received by honest people.

None of the institutional policies seem to be the best organizational policy option and corruption becomes relevant for the government agency. Probably the institutional policy addressed by the government agency does not intend to reduce the flow of income to the honest people, but the consequence of income deviation is grounded by a previous corruption structure. Independently of the government intention, corruption becomes a meaningful variable in the implementation of an organizational policy.

Central government enforcement policy and institutional level

Corruption is not only a kind of social cancer but also an immoral economic practice. It is a complex phenomenon with deep psychological and cultural roots. Corruption is neither an occasional matter, nor exclusive to some countries or political systems. Corruption is supported by social crises affecting all kind of governmental and private organizations.

In this sense, most of the institutional environments inside organizations include, implicitly or explicitly, a moral position against illegal activities. These illegal activities are strictly prohibited because either there is a social pressure faced by one (or all) of the members of the government, or there is recognition that corruption may affect considerably the objective of the government organizations. Independently of the origin and nature of corruption, this phenomenon implies a set of penalties or anti-corruption measures to take place against the corrupted government entity.

Independently of the anti-corruption measure faced by the corrupted government agency, it is assumed that the central government will set an anti-corruption strategy due to social and political commitments.

Even when the government agency benefits from political contributions given by a corrupted civil service body, there are social commitments to hold on, and the central government is forced to set an anti-corruption policy or enforcement policy. This plan is addressed to fight against the government agency corruption trough a credible strategy implemented by the central government.

It will be assumed that the transfer of income in the budget granted from the central government to the government agency is going to depend on the commitment of the government agency authority to increase the institutional level, in order to reduce the impact of corruption. This transfer is the economic compensation given to honest and dishonest people. This distribution may change with the enforcement policy. The transfer from the central government to the government agency is a function of the institutional level, so

$$T = T(\alpha);\ T(1) = \overline{T} \text{ and } T(0) = 0 \text{ and} \qquad (14)$$

and

$$T'(\alpha) > 0 \text{ and } T''(\alpha) = 0 \qquad (15)$$

In other words, when the government agency increases the institutional level, the amount of transfer from the central government to the government agency increases. With the highest institutional level, the government agency is receiving the largest possible transfer; with the lowest institutional level, the government agency is receiving no transfer at all. The central government is rewarding the honest behavior of the government agency authority. However, this is the enforcement policy set by the central government. What would be the optimal organizational policy set by the government agency authority?

There is a conflict faced by the government agency authority. On the one hand, a strict institutional policy will reduce the income of dishonest people and, consequently, the amount of the contribution. On the other hand, a strict institutional policy will increase the amount of transfer and the benefit of honest people. The government agency will transfer the economic compensation from dishonest to honest people.

However, there is a moral dilemma: a strict institutional policy may produce an unfair result, as the economic compensation of honest people may be larger than the economic compensation of dishonest people. The strictest institutional policy ($\alpha = 1$) may be seen as a punishment to the dishonest. If we intend to set a fair compensation we need to restrict the institutional policy. In other words, the government agency authority may not be interested in changing dishonest people into honest people; the authority may be committing to have a fair compensation policy.

First of all, it is important to determine the optimal organizational policy including now the enforcement policy set by the central government in (14) and (15). For this to be the case, the optimal will be obtained by the first order condition for the optimization problem given in (5) and (7). From (1) to (10), (14) and (15), the following result is implicitly obtained:

$$G_\alpha = -\rho T(\alpha) + \rho T'(\alpha) - \alpha T'(\alpha)(\rho - 1) + T(\alpha)$$

Solving implicitly, the result is

$$\alpha^* = \frac{T(\alpha)(1-\rho) + \rho T'(\alpha)}{T'(\alpha)(\rho - 1)} \tag{16}$$

It is possible to see that (16) is an ambiguous expression and its value depends on the function $T(\alpha)$. Proposing an expression holding the conditions in (14) and (15) it can be assessed that

$$T = \alpha k \tag{17}$$

such that $k = \overline{T}$. In this case, the transfer made by the central government will be linearly increasing in α. Taking (17) in (16) the result is:

$$\alpha^* = \frac{\alpha + \rho(1-\alpha)}{(\rho - 1)} > 0 \tag{18}$$

From (18) the optimal institutional level will be unequivocally positive ($\alpha > 0$), independently of the level of corruption in the government agency authority. It means that the bribe or contribution offered by dishonest civil service officers in order to be benefited from the economic compensation is negligible. The bribe offered to the government is negligible because the amount of transfer is reduced with a lower institutional level and the bribe is small, independently of the sensibility to the contribution. The government agency authority is not given an important weight to the bribe and it makes a more fairly distribution in the economic compensation. With a strict institutional policy, the benefit obtained by honest civil service officers is larger than the reduction in the benefit of the dishonest, taking account of the smallness of the bribe received by the government agency authority.

However, the question mentioned before is: how large should the institutional level be? The strictest organizational policy ($\alpha = 1$) means that dishonest people will have a punishment for being corrupted and they are going to receive only their current wage but no compensation at all. On the other hand, honest people will have a large economic compensation not only because the distribution policy of the government agency authority favors them with full assignation, but also because the amount of the transfer made by the central government is the largest possible.

It seems this organizational policy could be an incentive to change the behavior of dishonest people. The rewarding behavior of the government agency authority in favor of the honest may change the attitude of the dishonest in order to turn into honest individuals. The rewarding behavior of the authority is a powerful conductive resource through which the authority of the organization may conduct some changes in the operational rules, eliminating corruption in the organization. However, it is an unfair organizational policy since dishonest people do not receive any economic compensation and disturb the role of the government agency authority as equalizer, which is the main role of the authority according to the model set before.

Alternatively, the optimal organizational policy may be set at the level in which there is not discrimination at all about the type of civil service officers ($\alpha = 0.5$). Both are receiving the same amount of economic compensation independently of their behavior. In this case, the government agency authority is not discriminating between corrupted and honest civil service officers. This is an efficient behavior because the role of the government agency authority is to make an efficient compensation distribution, leaving the presumption that it plays a moral role about the civil service officers' behavior. Basically, it is a fair policy because it assumes the role of equalizer and moral considerations (inducing a possible change in the behavior of dishonest people) are not part of the government agency's duties. However, this organizational policy allows the existence of some corruption in the organization.

CONCLUSIONS

Misunderstanding the action of the corrupted civil service body, political corruption of the government agencies and the roles of the authority may lead to disturb the operation of an organization and the rules of their agents. The objectives of a government agency depend on the relationship with their members and the central government. It is impossible to ignore the fact that corruption, as well as behavior and cultural facts, may disturb the dynamic and operation of the organization in general, and the government agencies in particular.

Understanding corruption is more complicated than expected. Historically, in many developing countries corruption inside government organizations is the institutional way in which the society looks for compensation to the inefficiency of the formal institutions. On the other hand, corruption is also inherent to culture, idiosyncrasies and even religion (bribery for example has not only been a way to compensate the low wage rates, but also has part of a tradition involving social

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values). Nowadays corruption is a survival strategy, which represents a source of income for people and government in these countries. For the government, it may seem easier to help people through the maintenance of these illegal structures.

On the other hand, the same government may have a political interest in supporting the illegal structures since these structures provide monetary resources. These contributions come from corrupted lobbies and dishonest people who try to influence the government agency decision.

This paper attempted to explain why some institutional reforms may affect the objective of some organizations and how corruption implies a change in the roles of the organizations and their members. Corruption in the government and the benefit obtained by dishonest people can inhibit any action led by some honest governors to set a clear and healthy institutional environment. Bribes are the origin and the result of corruption; dishonest civil service officers make payments to the government agency authority to guarantee the institutional level according to their needs. Likewise, the government agency authority has to consider the benefits of its civil service body and a part of the benefits come from the transfers made by the central government. Dishonest people lobby the government agency for taking into account their interests, and the government takes into account both the interest of the honest and dishonest civil service officers.

This paper models lobbying by following the common agency problem as developed by Grossman & Helpman (1994). In this framework the government agency accepts contributions from the lobbyists and the level of contribution depends on the policy that the government agency pursues.

It analyzes two cases: in the first case, the government agency authority set the optimal institutional level taking into account that there is a contribution or bribe made by dishonest civil service officers. There is a transfer of money sent by the central government in order to be distributed by the agency authority among its civil service officers as an economic compensation. Dishonest officers try to get a larger economic compensation through a bribe affecting the income of the honest officers. In this case, the optimal institutional level will be set the softest organizational policy, since the benefit obtained by the dishonest and, consequently, the bribe offered to the government agency authority is larger than the loss of honest officers.

In the second case, there exists political pressure from the central government to the government agency in order to fight against corruption. In a simple way, the strongest pressure is a specific policy on the transfer. In this case, the amount of transfer addressed to the government agency officers is going to depend on the institutional level: a large institutional level means a larger transfer, a small institutional level means a smaller transfer. The external pressure changes the behavior of the government agency authority and encourages a clearer distribution policy. The result is that the optimal organizational policy promotes a positive institutional level. A positive institutional level will increase the amount of transfer and the benefit of honest officers in a larger proportion than the loss of dishonest officers and, consequently, in the bribe offered to the government.

This result is, however, not clear as the positive institutional level has two opposite implications. The role of the government agency authority is being efficient as a distributor but it could be a moral authority rewarding or punishing the behavior of the officers. If the government authority is only an efficient authority, the optimal institutional policy will grant the same amount of economic compensation to all officers independently of their behavior. However, it is not encouraging any change in the behavior of dishonest officers. On the other hand, if the authority is assuming a role as a moral authority against corruption among civil service officers (even when the government is corrupted), then the government authority is willing to set the strictest institutional policy to punish dishonest officers and reward honest officers, this policy may discourage corrupted behavior among dishonest officers. This strict policy is obviously unfair in terms of distribution.

Further research is oriented to consider the corruption parameter as an endogenous variable. It is clear that the dynamic of corruption is a key variable in the understanding of the relationship between agent and principal. Corruption is not a static variable; in fact, the study of the dynamic of corruption gives an answer to many questions about the agents' behavior.

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