How Entrepreneurs Combat Corruption and its Effects on Markets

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Corruption is a pervasive global issue that deeply distorts markets and entrepreneurial behavior. Entrepreneurs may engage in bribery to secure government contracts and harm competition so as to capture value without having to create it, and to benefit personal relations rather than product quality and/or business efficiency. This behavior undermines innovation, economic development and peace, and powers social inequality, especially in fragile countries like Venezuela, Libya, and Niger where there is little rule of law (~1 in 4 in the world according to The World Bank).

Despite the critical effects of corruption for markets, business research has predominantly explored how firms navigate corruption rather than combat it. Much of the focus has been on multinational corporations and whether and how they choose to deal with corruption. But can firms and entrepreneurs actively fight corruption instead, by changing the local corrupt business practices?

Given the popularity of entrepreneurship as a tool for market development and economic progress, especially in corruption-rife contexts, this question is crucial.

To answer it, I conducted field research in Iraq. I studied a group of entrepreneurs who adhered to a stringent code of conduct that starkly contrasted with the prevailing corrupt business practices. In Baghdad, I met these remarkable entrepreneurs—“missionaries” according to their mentees, rather than the typical “mercenaries”—who spearheaded an “entrepreneurship movement” in 2011 aimed at reforming Iraq’s private sector by creating new, non-corrupt markets like ride-hailing and ecommerce. Through over one hundred interviews, I discovered two key strategies employed by these entrepreneurs to sustain their collective entrepreneurial action and its impact despite hardly any access to capital and threats from corrupt actors. They (1) shielded their startups and employees from corrupt actors (and taught novice entrepreneurs to do the same), while (2) converting their mentees (employees and novice entrepreneurs) to their ethical market practices so that they would stick to this uncertain and perilous collective project.

The shielding strategies included:

- **Avoiding Corrupt Interactions:** Favoring the creation of new markets, prioritizing B2C over B2B or B2G markets; they targeted markets less susceptible to regulatory overreach and focused on digital products because they were difficult for corrupt forces to seize.

- **Building Resilience:** They diversified their customer bases creatively to ensure financial stability, concentrated on markets requiring minimal initial investment, and leveraged word-of-mouth growth. Also, resource-sharing minimized costs and debt burdens.

- ** Suppressing Internal Corruption:** Entrepreneurs prohibited discussions on religion and politics to prevent in-group/out-group dynamics, fostered egalitarian work environments with open spaces and flat hierarchies to limit abuses of power, minimized competition by merging teams, and encouraged win-win exchanges.

- **Aligning Strategies:** Entrepreneurs cohabitated in the same compounds or worked in the same buildings, held regular startup visits and informal gatherings to share ideas and challenges, strengthening their bonds and unifying their approaches.

The converting strategies involved:

- **Selecting Members:** Entrepreneurs (the missionaries) looked for young, kind, and coachable individuals with fresh mindsets to convert, prioritizing character over skills to facilitate mindset change.

- **Creating Safe Spaces:** Entrepreneurs fostered a warm, friendly setting by exposing their vulnerabilities, working in homelike environments, and spending quality time with their employees and novice entrepreneurs.
• **Entrusting Ownership:** Entrepreneurs gradually handed over ownership of the conversion process, teaching their employees and novice entrepreneurs to research independently, take risks, accept failures, and consider the consequences of their actions.

• **Sense-Giving:** They engaged in timely conversations to alleviate worries, encouraged self-reflection exercises, held monthly one-to-one meetings, and provided context for the challenges faced by each young missionary-in-the-making.

These strategies effectively shielded the collective effort from corruption and enabled the movement and its impact to grow while changing corrupt market practices. So, my research in Iraq revealed that entrepreneurs can actively contribute to combating corruption, rather than necessarily engaging in it, and provided insights into how they might do so.

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