Chapter 3

Institutional Change in Indonesia and the Dyadic Structure of Local Corruption Cases

ABSTRACT
This study investigates how networks of corruption at local governments changed as a result of Indonesia’s transition from a representative to a direct democracy. Government reform altered the power structure between the four types of key players in two important ways: it strengthened the position of the local executive vis-à-vis the local council, local civil servants and private firms; and it increased the discretion of local civil servants, potentially making them an attractive partner for firms seeking to extract illicit benefits from the local administration. A prediction building on social capital theory suggests that from the first phase to the second phase of decentralization: (1) corrupt transactions embedded in organizational relation between the local council and local executive decrease, (2) corrupt transactions embedded in a formal authority relationship are increasingly taking place between the local executive and local civil servants, and that (3) corrupt transactions embedded in informal relationships are increasingly taking place between private parties on the one hand, and both the local executive and local civil servants on the other. Hypotheses are tested with a unique data set containing sociometric information from 190 corruption cases (2001–2013), drawn from 904 articles in Indonesian newspapers. Content coding yielded detailed information on corrupt exchanges and relational embeddedness in 28,725 dyads engaging in a total of 11,830 corrupt transactions. Results of bi-variate significance tests are in line with the hypotheses on the increased involvement of local executives in corrupt exchanges with civil servants and private organizations, and their decreased involvement in corrupt exchanges with local council members. Contrary to the prediction, involvement of civil servants in corrupt transactions with private parties decreased. Policy implications are discussed.

24This chapter was co-authored with Rafael Wittek, Tom A. B. Snijders, and Liesbet Heyse and is currently resubmitted after revision at an international peer-reviewed journal.
3.1. Introduction

Corruption – illicit actions by public officers using their discretionary power for private gain (Rose-Ackerman, 1999) – has been troubling the Indonesian public sector ever since the centralistic autocratic regime of the Suharto Presidency (1966–1998). This did not change with the major efforts toward political, administrative and fiscal decentralization that followed the country’s transition to representative democracy in 2001 (Green, 2005; Rinaldi, Purnomo, & Damayanti, 2007) and the subsequent move to direct democracy in 2005.

In Indonesia, as in many other countries, such institutional changes are part of a move toward ‘good governance’, including an attempt to reduce corruption. The idea is that in democratic decentralized regimes, shifting formal power to the local level and the diminished influence of the central government that comes with it are followed by local governments facing higher demands for accountability and transparency (Fisman & Gatti, 2002). This local liability, so the assumption goes, creates very strong incentives for local leaders to refrain from illicit practices, for example because they may fear not being re-elected. But so far, at least for Indonesia, this ‘good governance’ perspective has not seemed to work as hoped, since corruption is still endemic at both the national and sub-national level (Ganie-Rochman & Achwan, 2016; Jemadu, 2017; Kristiansen et al., 2009).

In the present study, we contrast the good governance approach with a social capital approach to corruption. We argue that the transition from representative to direct democracy\(^ {25} \) did not have the desired effect on reducing corruption because local officials and private actors efficiently adapted their personal social networks to the changed institutional environment by identifying those actors most resourceful in the new power structure (Silitonga et al., 2016). We hypothesize that Indonesia’s double institutional transformation – the transition from representative to a direct democracy, accompanied by a far-reaching decentralization – has not eradicated corruption, but simply changed the structure of corruption networks.

Specifically, our argument builds on two assumptions. First, following good governance reasoning, we assume that the transition to direct democracy strengthens the power position of the local executive (head of region & deputy) vis-à-vis the local parliament (local council), and that of bureaucrats (local civil servants) vis-à-vis the local executive. Second, we assume that in order to mitigate the trust problem inherent in illicit and risky economic transactions, exchange partners tend to embed these in a power position or an informal tie (Banerjee, 2016; Coleman, 1990; Flap & Völker, 2013). Combining both assumptions, we predict that corrupt transactions embedded in a formal authority relationship increasingly take place between the local executive and local civil servants (rather than between the local council and local executive); and corrupt

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\(^ {25}\) Decentralization reforms in Indonesia have not only reorganized the political system, but also the whole system of bureaucracy (Kristiansen et al., 2009). The terms representative and direct democracy are widely used in the Indonesian context to emphasize the difference in local election mechanisms in the first phase and the second phase of decentralization, which will be discussed further in this chapter.
transactions embedded in informal relationships increasingly take place between private parties on the one hand, and both local executive and local civil servants on the other.

In order to test these claims, we use a dataset of all detected corruption cases reported in The Jakarta Post in the 13-year period from 2001 to 2013. The resulting selection of 904 articles, covering 190 corruption cases, was systematically coded for the type of actor involved (local council, local executive, local civil servant, and private actors), and the kind of ties these actors have in addition to their corrupt exchanges (informal personal vs. formal organizational). The resulting dataset contains relational information on 1,960 actors and 11,830 corrupt transactions.

Our study makes three contributions to the literature on corruption in the public sector. First, with regard to theory, we contrast the institutional good governance perspective on corruption with a social capital perspective that takes into account the actors’ considerations of the costs and benefits of engaging in corruption. We argue that actors try to reduce the risk of detection by embedding corruption in different types of relationships with resourceful actors.

Second, by analyzing changes in power structures after the decentralization in Indonesia, and the resulting adaptations in the resourcefulness of actors, we show how institutional change has altered the structure of corruption in Indonesia. To our knowledge, this analysis is a first in empirical studies of corruption.

Third, we contribute to the challenging attempts to build valid and reliable empirical evidence on corrupt transactions, which by their very nature are illicit and covert. Our study is among the first to draw on newspaper accounts to reconstruct systematically the kind of power and personal relationships involved in revealed corrupt transactions. While not claiming to have a representative sample, our data nevertheless allow a detailed exploration of the social structure of corruption in the case of Indonesia.

The remainder of this paper is organized as follows. Section 3.2 presents an overview of the change of institutional context with the two phases of decentralization in Indonesia. In Section 3.3, we outline the key elements of a cost-benefit approach to corruption and tailor this approach to the specifics of the two institutional contexts. This is reflected in a set of hypotheses on how the institutional transformation is expected to affect the structure of corruption in Indonesia. Section 3.4 describes the data and research design. The results are presented in Section 3.5 and the conclusions in Section 3.6.

### 3.2. Decentralization and Democratization in Indonesia

Decentralized democratic regimes reflect the ideal type of inclusive political and economic institutions (Acemoglu & Robinson, 2012). Decentralization means that some power and resources are shifted from central to lower-level authorities with the aim of bringing the government closer to the people and increasing transparency and the accessibility of public services. Local governments, so the reasoning goes, have a better understanding of the needs and expectations of their people compared to central government (Green, 2005; Matsui, 2005).
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From 1999 onwards, Indonesia embarked on a robust government reform with the implementation of democratization and decentralization policies. The introduction of decentralization policy has devolved power and authority from central government to lower levels of government, particularly the district/municipality level as the second tier of local government after the province level. With the distribution of functions among central and local governments, lower-level authorities have more autonomy to make decisions in particular policy areas, including the budgetary aspect, and do not always need to seek approval from the central government.

Due to the dynamic reform process in Indonesia, local governments experienced two phases of decentralization with distinctive characteristics. The first phase was representative democracy (2001–2004) and the second phase was direct democracy (2005–to date).

The main feature of the first decentralization phase was the implementation of a local representative election system. In this phase, as representatives of the people, the local council held significant power to elect heads of regions (i.e., the local executive) and their deputies through representative local elections. Furthermore, according to Law No. 22/1999, the local Indonesian council has a wide scope of legislative and control functions over the local executive body. These functions give the local council extensive authority to intervene in local government policies, for instance in budget allocation. Given that the local council has more influence, the head of region is accountable to the local council.

The second phase of decentralization was characterized by direct elections of the regional head and local parliament members. Based on Law No. 32/2004, the direct democracy model assures the election of both local council and local executive through a one-man-one-vote mechanism, aimed at representing the true interests of the communities and at strengthening accountability to citizens (Labolo & Hamka, 2012). In the second phase, the new law reshaped the formal power positions. The local council was no longer ‘superior’ to the local executive since the relation between local councilors and the head of region was characterized by a mechanism of checks and balances. In terms of formal power, according to the law, the executive body has more power and autonomy in the second phase to manage local resources, allocate local budget, implement local government policies and get involved in the provision of infrastructure and services.

The implementation of decentralization policies also had an impact on the duties of civil servants in the regions (Tjiptoherijanto, 2008). They became supporting actors for decentralization in local government operations and service delivery. According to government regulations, the general duties of local civil servants remained the same during the move from the first to the second phase of decentralization. However, compared to the first phase, the second phase was expected to be the period with more autonomy at the local level, and especially more power for the local executive, who led the civil servants. Along with increasing local government empowerment, local civil servants were thus more involved in interpreting and implementing government activities. Hence, to outsiders, they became more interesting actors to interact with, also as a channel to gain access to the local executive.
In summary, the pronounced differences between the two phases of decentralization in Indonesia pertain, first, to the loss of formal authority of the local council over the local executive and the resulting collegial work relationship between the two. The second was the increased power position of local civil servants that resulted from the local executive’s gain in authority and autonomy in the second phase. Thus in the theoretical framework and resulting hypotheses we focus on the altered positions of these three actors and their likely effects on corruption, also in relation to private actors.

3.3. The Benefits of Embedding Corrupt Exchanges with Resourceful Partners

Building on social capital theory, we use a straightforward cost-benefit framework to describe how actors decide on exchange partners in corruption. First, since corrupt transactions are illegal, engaging in them comes at some risk. This risk extends beyond the uncertainties inherent in any exchange relationship in which the success of the exchange depends on the cooperation of both partners. For example, if the authorities get to know about the transaction, the involved parties may face additional sanctioning costs. Similarly, the actors involved cannot rely on the legal system if one of the partners in a corrupt exchange does not deliver what he or she had promised. Therefore, the successful completion of a corrupt transaction requires mutual trust in the ability and willingness of the involved parties to keep their promises (Granovetter, 2004).

Consequently, individuals prefer to enact risky transactions as part of an embedded exchange relation rather than as a mere give-and-take exchanges (Cartier-Bresson, 1997). The reason is that mutual expectations in an existing relationship reduce the perceived risk (and thus the cost) of being cheated by the other party, because the other party could retaliate. Mutual expectations can be based on reciprocity obligations (Hiller, 2010) as they result from a strong personal bond (e.g., kinship, friendship) (Lipset & Lenz, 2000), or on the relative availability of exchange opportunities (Schilke, Riemann, & Cook, 2015) as they follow from power-dependence relations (e.g., formal authority). In the sections below, we elaborate on the particular characteristics of these two types of embeddedness for the manifestation of corruption.

Second, in choosing exchange partners, we assume that individuals prefer to invest in social relations with resourceful others rather than with less resourceful others (Flap & Völker, 2013). Resourcefulness can be based on the control of a range of valuable materials or immaterial goods (Ashforth & Anand, 2003; De Graaf & Huberts, 2008), such as decision rights, information, or money.

Third, changes in any institutional context that impact on the relative resourcefulness of different types of (potential) exchange partners (Lambsdorff & Teksoz, 2005) will lead individuals to adapt their investment in social relations to those that yield the highest expected relative payoff at the lowest expected risk. In addition, changes in the institutional context may make some categories of relations more efficient and attractive
than others in helping the individual to produce the desired outcome via embedded relations, and individuals will prefer to engage with the more efficient ones.

In the remainder of this section, we discuss two generic types of relations in which corrupt exchanges can be embedded (in organizational relations and informal relations) and apply the above theoretical assumptions to the specific context of institutional change in Indonesia.

3.3.1. Embeddedness in Organizational Relations: Formal Authority
In organizations, a major source of dependence is the formal authority relation. Since higher-level officials have access to and potential control over lower-level officials and relevant resources (Park & Rethemeyer, 2014), subordinates depend on their superior’s sanctioning power in many ways. To the degree that superiors have the discretion to allocate punishment or withhold rewards, they can severely affect the life of their subordinates, ranging from the kind of assignments given, to obstruction of pay raises or career opportunities. Individuals high in the hierarchy can use their formal authority relationships to elicit compliance in subordinates by promising to distribute sanctions or withhold rewards (Wittek, 2014; Walker et al., 2000), making the formal authority relationship an asymmetric relationship *par excellence*. Previous research shows that many corrupt transactions do indeed involve a hierarchical relationship and top-level leaders can put pressure on subordinates or clients to engage in corruptive practices, or may design new rules to coerce staff to participate in illicit transactions (Ashforth & Anand, 2003; Palmer, 2008).

High-ranking officials’ capacity to control the decision-making process and the flow of information makes them attractive partners in a corruption network (Granovetter, 2004). Due to their position, they may exercise status-based influence in at least three ways. First, they can ensure that other actors are willing to cooperate and reciprocate in an illicit transaction. Second, they can enforce deals and monitor the transaction process. Third, they can protect the corruption network from being detected and sanctioned by law-enforcement agencies (Walker et al., 2000; Warburton, 2013).

Given that high-ranked government actors have the means to initiate and successfully complete corrupt transactions due to their formal authority, relying on a power relation to their subordinate is more efficient in generating illicit profit than relying on a trust relation with individuals over whom they do not have formal authority. Hence, to the degree that their position has the potential for rent extraction, subordinates are a superior’s natural ally for corrupt transactions, because their dependence leaves them little alternative than to comply.

3.3.2. Effect of Institutional Change on Corruption through Organizational Relations
In the first phase of decentralization in Indonesia, i.e., the decentralized setting with a representative election system, the local council had the ultimate right to impeach and remove the head of region. Hence, it was important for the local executive to establish good relations with the members of the local council. Candidates for heads of regions
frequently bought votes from local council members to secure their appointment, thereby creating classic patron-client relations (McLeod, 2005; Mietzner, 2010). In addition, the winning candidates felt heavily indebted after being elected and so felt obliged to reciprocate with the local council. In many cases, the elected head of region paid off their debts by approving the local council’s interests, such as increasing the amount of local council allowances and facilities and allocating the budget for local council members through a fictitious foundation or falsifying travel expenses. Hence, in the first phase, as the local council had significant formal authority in the executive decision-making process, corrupt exchanges between the local council and executive can be expected to be omnipresent and embedded in formal authority relations.

In the second phase, the direct local democracy system was introduced as part of Indonesia’s democratic reform programs to minimize political corruption, particularly at the regional level. Law No. 32/2004 changed the power relation between the local council and local executive, since checks and balances increased and the local council lost its right to elect the head of region. Moreover, the local executive gained considerable autonomous power and financial discretion over the regional economy, strategic government activities, and decision-making process, leaving little room for the local council to intervene (Rinaldi, Purnomo, & Damayanti, 2007). This reduced the local council’s opportunities to extract rent through the local executive. Put differently, the nature of the relationship between local council and local executive changed from a formal authority relationship (with the local council exerting authority over the local executive) to what could be called a more collegial and less interdependent work relationship.

According to our theoretical assumptions outlined above, this development should be reflected in a decreasing proportion of corrupt exchanges embedded in organizational relations (be they formal authority or other types of organizational relations, such as work relations) involving members of the local council, given that the relative resourcefulness of local council members has decreased, as a result of which they became less attractive exchange partners for the local executive. Based on the above-mentioned arguments, we expect:

Hypothesis 1a: Of the corrupt exchanges embedded in organizational relations, the proportion of exchanges between local council and local executive is likely to decrease from the first phase to the second phase of decentralization.

Even though their general duties remained the same, with the transition from representative to direct democracy also changed the involvement of local civil servants in corruption (Ganie-Rochman & Achwan, 2016). In the second phase, local executives became more powerful, which enhanced their opportunities for rent extraction. Similar to the local council in phase one, the local executive became a resourceful and therefore attractive potential exchange partner for external actors.

However, these exchanges cannot always be executed without the help of lower-level but resourceful civil servants, who had for example the authority to draft formal
documents or access certain information. Hence, we assume that the increased attractiveness and resourcefulness of the local executive in the second phase of decentralization might go together with the increased use of the local executive’s formal authority to enforce his subordinates to cooperate in corruption. For instance, higher-level officials are particularly likely to force into corruption the local civil servants who routinely deal with local budgetary legislation and public procurement units. Hence, with civil servants’ relative resourcefulness increasing because of the changing role of the local executive in the institutional transition, we hypothesize that the local executive will capitalize on its power advantage accordingly. Therefore:

Hypothesis 1b: Of the corrupt exchanges embedded in formal authority relations, the proportion from local executive to local civil servants is higher in the second phase than in the first phase of decentralization.

3.3.3. Embeddedness in Informal Relations: Kinship and Friendship
Informal relations (i.e., kinship, friendship) are usually considered the building block of any social network, either inside or outside organizational contexts. Informal relations represent strong personal ties between actors, which usually come with frequent interaction and a high degree of mutual trust or affect. They are governed by strong solidarity norms (Cook, 2005), involving obligations of reciprocity and mutual helping, which fosters trust, reduce the inclination to cheat, and thereby considerably facilitate all kinds of transactions in the network (Kingston, 2007; Malm, Bichler, & van de Walle, 2010). Informal relations are characterized by their mutuality, where no one actor is more powerful than another.

Previous studies have documented the important role that informal relationships play in facilitating corruption. Lipset & Lenz (2000), for example, conclude that bonding social capital of family members contributes to high numbers of corruption cases in most Asian countries. Individuals with strong informal friendship or kinship relations to public officials are likely to have better opportunities to build networks with public officials and benefit from corruption networks compared to those who do not have close personal relations (Hiller, 2010). Strong informal relations can contribute to solving the trust problem (Bruinsma & Bernasco, 2004), also in corruption, because solidarity norms foster the expectation that the exchange party will not defect and betray the other. Hence, when exchange partners have close relations to public officials, uncertainty and trust problems are less likely. Moreover, since expected costs are a function of being detected and sanctioned, embedding corrupt exchanges into strong informal ties reduces the expected likelihood of being caught (and therefore decreases the estimated costs) as well as the transaction costs related to finding external partners (Cartier-Bresson, 1997). The individuals involved believe that partners in the network will provide support, protection, information, and back one another in a crisis due to solidarity.

Although doing business with an informal relation may come with the obligation of having to reciprocate a favor in the future, and might therefore be costlier than a deal
with an unrelated partner, the expected reduced exposure risk is likely to outweigh these costs. Embedding corrupt transactions in strong informal ties will therefore be perceived as less costly than engaging in a purely ‘market-based’ exchange. Here, profits might be higher, but so is the risk of exposure. Hence, when private actors, such as corporations, aim to extract profit through illicit transactions with government officials, building upon or using existing informal ties may be an attractive option. However, from the perspective of a powerful government actor, the benefits of engaging in corruption with external parties on the basis of personal relations might be perceived as less attractive than extorting profits from less powerful actors within government by means of formal authority. This is because informal ties involve more costs than enforcing one’s authority.

3.3.4. Effect of Institutional Change on Corruption through Informal Relations

With the development of decentralization policies in Indonesia and the rise in regional autonomy, we argue that private actors became more interested in influencing local public actors’ regional development decisions, given that regional economic and business sector-government relationships became increasingly important (Matsui, 2005). Especially in the second phase of decentralization, the local executive became a very attractive exchange partner for two reasons.

First, with the shift toward direct elections and a corresponding need to finance their campaigns, the local executive had an interest in building good relations with resourceful players in the market. This is related to the high administrative costs of elections, especially during the electoral campaign period. Campaign funding can cost a great deal of money to pay for the support team, publicity, and political advertising in the media. Candidates are therefore inclined to develop social networks for securing financial support from local businesses and political parties (Buehler, 2007). Funding support is given in return for future economic favors from the elected head of region to the exchange parties (e.g., in the form of government authorization for certain projects or access to resources controlled by local government). Thus, this type of relationship facilitates the emergence of corruption-related practices, mostly because the head of region may manipulate the regulations to favor their inner circle, and compel others to reclaim the money illegally, such as by corrupting public funds.

Second, due to their increased access to local resources and expanded decision space with regard to allocating government funds to local projects, the local executive becomes an interesting exchange partner for individual citizens and business firms. Thus, during the second phase, the local executive is likely to become increasingly vulnerable to corruption involving actors from the private sector.

The connection between private actors and the local executive is more likely to occur if private actors have cohesive informal relations with the local executive. Hence, corruption based on personal relations with private actors is likely to rise with the increased authority of the local executive in the second phase of decentralization. Hence, we predict:
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Hypothesis 2a: Of the corrupt exchanges embedded in informal relations, the proportion from private actors to local executive is higher in the second phase than in the first phase of decentralization.

The increased autonomy of the local executive in the second phase was accompanied by a more important and influential role for local civil servants in delivering services, as previously described (Nordholt, 2003; Tjiptoherijanto, 2008). Due to their access to the local executive, who had gained in resourcefulness in the second phase, local civil servants became a more attractive target for corruption by private players. Previous research has confirmed that the number of local civil servants involved in corruption significantly increased from the first phase to the second phase, with managers especially the main actor in corrupt acts with private businesses (Silitonga et al., 2016). Local civil servants in charge of providing direct services to the people have the opportunity to extort payment from private individuals in exchange for special services from local officials. In addition, lower-level officials may also become a valuable asset for corrupt exchange because they can be employed by either their superiors or private actors to act as an intermediary between government and private actors (Della Porta & Vannucci, 2012; Jansics & Javor, 2013). This connection is more likely to occur if local civil servants have cohesive informal relations with private actors. Hence, corruption based on personal relations is likely to rise with the increase of interaction of local civil servants with private actors. We therefore expect:

Hypothesis 2b: Of the corrupt exchanges embedded in an informal relation, the proportion from private actors to local civil servants is higher in the second phase than in the first phase of decentralization.

3.4. Research Design and Data

3.4.1. Data Sources: Newspaper Reports Crosschecked with Official Government Documentation

We use newspaper reports on corruption cases in Indonesia as the primary data source for this study because newspaper reports can provide information when alternatives (e.g., statistical data) are unavailable or difficult to obtain (Franzosi, 1987; Kukutschka & Kelso, 2016; McCarthy, McPhail, & Smith, 1996), which is very much the case in corruption research. Moreover, journalists’ records are often based on court files that represent information that has become available to the public.

According to Brunetti & Weder (2003: 1801) “independent journalists have a strong incentive to investigate and uncover stories of wrongdoing.” Hence, our sample includes newspaper articles about what one could call ‘failed’ corruption cases, since they were detected. Furthermore, given that the media is known to be attracted more to some issues than to others – for example, major social problems attract higher public and media
interest (Downs, 1972) – our sample cannot be considered a fully representative picture of corruption networks in Indonesia. Nevertheless, this sample offers opportunities to explore variability in the social-structural foundations of these particular corruption cases in the two phases of decentralization as a first step to test our hypotheses. We will return to the implications of using this sample for the results of our analysis in the discussion and conclusions.

It is argued that the media is inclined to highlight certain aspects of newsworthy cases more extensively than others because of many factors, such as economic and marketing considerations, journalists’ limitations in terms of time and space to report, or the cultural and social environment of the media organization (Beale, 2006; Entman, 2010). Therefore we undertook additional checks on the consistency of the reported information for each case. First, the cases reported in The Jakarta Post were crosschecked with information from other reliable national and local newspapers that belong to the same and different media groups as The Jakarta Post (e.g., Kompas, Tempo, Republika, Media Indonesia, Pikiran Rakyat, Jawa Pos, and Lampung Pos). More importantly, the newspaper data were also crosschecked with reports and court documents from the General Attorney Office, Supreme Court, and the Corruption Eradication Commission. Compared to the court reports, newspaper reports sometimes provided more extensive information related to the actors’ network and the transaction processes. In addition, cross checking each case reported in The Jakarta Post with other newspaper and court case reports led us to conclude that the quality of reporting in the two phases of decentralization was quite the same.

In conclusion, we acknowledge the selection bias in our sample of reported cases and we have crosschecked possible information biases in the reported cases. This did not identify any fundamental differences between newspaper articles and court case documentation.

3.4.2. Case Sampling and Coding
Based on the case identification strategy mentioned above, we identified 190 corruption cases in articles that appeared in The Jakarta Post in the period 2001–2013. The Jakarta Post is a leading English-language newspaper that appears online daily. As one of the national newspapers in Indonesia, The Jakarta Post covers recent corruption phenomena at the regional level. Using The Jakarta Post as the starting point to identify corruption cases allowed us to cross check with other newspapers, because a case reported in The Jakarta Post has some importance, and there is a high likelihood it will be covered by other newspapers. Starting to sample from local newspapers would have created two problems: first, their quality is not always assured. Second, there may be less opportunity to cross check with other newspapers since not all cases may make it into the media outside the local setting (because they might be considered ‘minor’).
The newspaper data collection was completed in three stages (see Figure 3.1). We first identified and collected articles related to corruption cases at local levels as reported in The Jakarta Post. The units of analysis are individuals (e.g., a mayor) or groups of individuals (e.g., local council) who were involved in corrupt transactions. The key terms included in the search were ‘corruption’, ‘bribery’, ‘embezzlement’, ‘bid rigging’, ‘fraud’, ‘kickback’, ‘graft’, ‘favoritism’, ‘nepotism’, and ‘money laundering’. The search produced 540 articles. In a second step, we reviewed the content of the articles, removed articles that merely repeated news and listed articles per corruption case, so we could calculate the total number of corruption cases covered in The Jakarta Post in the selected years. This check identified 34 articles with repetitive information, which were removed from the data, resulting in 506 articles, covering 190 corruption cases. In a third step, we crosschecked reported information from The Jakarta Post with other papers and official government documentation. This resulted in the inclusion of 398 related articles. In total, the search yielded 904 articles.

3.4.3. Coding and Measures

For all articles on the 190 cases, we systematically coded information regarding the type of actors involved in corruption and the type of relations they had with each other. For the purpose of this study, we distinguished five types of actors: local council, local executive (e.g., mayor, regent), civil servants, public officials from central government (e.g., judge, parliament member, minister), and private actors (e.g., company director). Actors could be coded as individuals or as groups (e.g., a business).

We coded rich information in terms of case networks consisting of three basic types of exchange relationships: a profit relation defined by illicit profit transfer, organizational relations, and informal relations.\textsuperscript{26} The main relation is profit, because the

\textsuperscript{26}We acknowledge that informal relations can also be asymmetric. However, in our data we coded these as mutual ties.
basis of corruption is the illicit transfer of some or other goods or resources (i.e., material payments, information, rights, protection, or support). The profit transferred in a corruption case can be asymmetric (flowing from one person to another, but not reciprocally) or mutual, meaning that some profit is given and some other is returned.

Within the category of organizational relations, we coded two types of tie: formal authority relations and work relations. A formal authority relation is situated in an organizational setting (i.e., government bureaucracy), and is represented by a directed, asymmetrical tie from a superior to their subordinate, indicating that the latter is dependent on the former. A work relation is also situated in an organizational setting, but it is reciprocal, representing work relations between colleagues at the same hierarchical level.\(^{27}\) We also coded the hierarchical level, given that the relationship between local council and local executive changed from a formal authority relation in phase 1 to a more equal work relation in phase 2, and we need the sum of both to test Hypothesis 1. The category of informal relationships consists of friendship and kinship relations. An informal relation is always a mutual, non-directed tie between two related actors.

Based on the classification of actors’ relations, we represent each network of corruption in three matrices, one for each relation. Each matrix is square with ‘0’ or ‘1’ entries and both rows and columns correspond to the actors or individuals in the case. For each case and each type of relationship, the value ‘1’ in a cell in a particular row and column indicates that there is a tie from the actor in the row to the actor in the column. Thus, rows correspond to the actors as senders and columns to actors as receivers. The value ‘0’ indicates that there is no such tie. For informal mutual relations, the matrices are symmetric. For each corruption case and each type of relationship in each case, a binary sociomatrix was constructed containing information about the type of tie between each individual, with a value ‘1’ indicating a tie originating from the sender (row) to the receiver (column), and ‘0’ indicating the absence of a tie.

The multiplexity in relations is defined as the combination of the three types of tie between a given sender and receiver (for example, the combination of a profit transfer and an informal tie). Operations were carried out with R software,\(^{28}\) with scripts especially written for the purpose of this study.

### 3.4.4. Analytical Strategy

To test the hypotheses, we chose two time periods for comparison in our Indonesian newspaper data: corruption cases in the first phase (2001–2004) and in the second phase of decentralization (2005–2013). Given that some corruption cases involve many more actors than others, and that the aim is to give a fair representation to corruption cases large and small, we take the 190 corruption cases as the unit of analysis.

\(^{27}\) The coding for informal relations is based on the intense informal friendship and kinship ties developed between actors within the government organizations or between public officials and private actors within the network. Relatively weak working relationships between colleagues were coded as horizontal working relations.

\(^{28}\) [www.cran.r-project.org](http://www.cran.r-project.org)
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Each network (case) is represented by the list of multiplex ties, listing the combined relation for each ordered pair of actors, and the list of multiplex dyads, listing the combined relation for each unordered pair of actors.\(^{29}\) Figure 3.2 illustrates this point.

![Diagram](image)

**Figure 3.2.** The list of multiplex dyads

We use the list of multiplex dyads to test the hypotheses. The *dyad census* (Robins, 2015) provides information on three classes of multiplex dyads related to the type of relations (profit, organizational, informal): mutual dyad (M), if there are ties from \(i\) to \(j\) and from \(j\) to \(i\) (\(i \leftrightarrow j\)); asymmetric dyad (A), if there is a tie either from \(i\) to \(j\) or from \(j\) to \(i\), but not the other way (\(i \rightarrow j\) or \(i \leftarrow j\)); and null dyad (N), if there is no tie either way between \(i\) and \(j\). A mutual dyad in our data reflects two-sided profit exchange, friendship and kinship ties, or work relations between peers. Asymmetric dyads relate to one-sided profit transfer or to power relations. For a given dyad, the profit and organizational relations can have three values (M, A, N), while the informal relation has two possible values (M, N). This yields 20 possible combinations.\(^{30}\) Of 20 possible combinations, 13 are present in our dataset,\(^{31}\) of which there are nine dyad types of corrupt exchange.\(^{32}\)

We illustrate the above described exercise with an example. Figure 3.3 depicts a case of misprocurement and embezzlement of the regency budget between 2005 and 2006. The head of region (R) abused his power with regard to the procurement of a tanker ship to use for transporting fuel in the region. With the help of a friend (B), the head of region purchased the ship directly from shipbuilder (PA) without appointing a

\[^{29}\text{The distinction between multiplex ties and multiplex dyads is that the former represents only one direction (from a given actor } i \text{ to a given actor } j, \text{ while the latter represents both directions (from } i \text{ to } j \text{ as well as from } j \text{ to } i).\]

\[^{30}\text{The combination } AA \text{ for profit and work counts as double because the one-sided ties can be combined either in parallel or in opposite directions.}\]

\[^{31}\text{The } 13 \text{ combinations present in our data are } NNN, NMN, NMN, MNM, NMM, NNM, MNN, MMA, ANA, ANM, ANM, NMA, NMA, and MMA.}\]

\[^{32}\text{These nine dyads are } NNM, NMM, MNN, ANA, ANM, ANM, NMA, NMA, \text{ and MMA.}\]
procurement team and marked up the price of the ship, thus causing financial loss to the
state. By appointing a sole provider of the tanker ship, the head of region violated the
formal tender procedure (as stipulated by a presidential decree). The funding was then
spent on private matters. He also gradually ordered his subordinates (CS) to disburse the
regional administration’s funds for various purposes and did not take responsibility for
this (miss)use of the funds. This illicit network represents several types of dyadic ties
among the four actors, followed by the corrupt exchange between them.

Based on the dyad sets, for specific types of actors we can test whether the proportion of
corrupt transfers based on organizational relations decreased in phase 2 (Hypothesis 1a),
whether the proportion based on formal authority increased in phase 2 (Hypothesis 1b),
and whether the proportion of corrupt transfers based on informal relationships
increased in phase 2 (Hypotheses 2a and 2b). For example, for Hypothesis 2a, in a case
involving the local executive and civil servants, the proportion of corrupt exchanges based
on formal authority was calculated as the number of pairs for whom profit went from civil
servant to head of region, and where the head of region had authority over the civil
servant, divided by the total number of pairs with profit transfer.

To determine whether our data support the hypotheses, we performed a series of
statistical-significance tests using the non-parametric Mann-Whitney U test. We used this
test because the variables were not normally distributed. The Mann-Whitney U test ranks
all observations from both phases, sums the ranks from one of the phases, and then
compares that total with the expected rank sum (Huizingh, 2007).
3.5. Results

3.5.1. Descriptive Statistics
Table 3.1 shows the general structure of corruption during the two phases of decentralization. On average, the number of corruption cases observed in phase 1 (32 cases per year) is higher than in phase 2 (10 cases per year). In total, 1,391 actors were involved during the first phase, compared to 569 actors in the second phase.

Network size ranges from 2 to 100. The combined frequency of ties count is based on the three categories of relations examined in this study, namely corrupt exchanges, informal ties, and organizational ties (i.e., formal authority and work relation). There were eight types of combined relations, adding up to 57,450 combined relations, of which 49,498 ties occurred in phase one, and 7,952 in phase two.

Based on the analysis of the dyad census of corrupt exchanges, the total number of dyads is 28,725 (24,749 dyads in the first phase, and 3,976 dyads in the second). There were nine dyad types of corrupt exchanges, adding up to 11,830 corrupt exchanges in which both players were directly connected through a profit transaction (11,175 dyads in phase one, and 655 in phase two; see Table 3.1).

Within the whole set of corrupt exchanges, the majority (98% and 59%, respectively) were corrupt exchanges embedded in organizational relations (through work relation and formal authority relation), followed by non-embedded corrupt exchanges (2% and 33%, respectively), and corrupt exchanges embedded in an informal relation (0.3% and 7%, respectively). Those consisting of the combination of formal authority, personal relation, and asymmetric profit (denoted as AMA and MMA) were the least frequent.

Table 3.1 shows a remarkable shift in the pattern of ties. During the first phase, the large majority of the corrupt exchanges (93%) were mutual profit transfers embedded in work relations between peers (denoted as MNM in dyad census). This percentage dropped to 23% in the second decentralization phase: a decline of 70%. Corrupt exchanges involving an asymmetric profit transaction in favor of the superior increased from 3% in the first phase to 32% in the second phase (denoted as ANA in dyad census). At the same time, the proportion of non-embedded corrupt exchanges (denoted as NNM in dyad census) rose from 2% during the first phase to 33%. With regard to corrupt exchanges embedded in informal relations, corrupt exchanges embedded in a personal relations increased slightly during the second phase from less than 1% to 7%.
### Table 3.1. Descriptive corruption networks: network size and dyad census (N=190)

<table>
<thead>
<tr>
<th></th>
<th>Decentralization</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Phase 1</td>
<td>Phase 2</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>Number of cases</td>
<td>96</td>
<td>94</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Network size (number of actors)</td>
<td>1,391</td>
<td>569</td>
<td>1,960</td>
<td></td>
</tr>
<tr>
<td>Number of actors per case</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Min</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Max</td>
<td>100</td>
<td>46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of dyad</td>
<td>24,749</td>
<td>3,976</td>
<td>28,725</td>
<td></td>
</tr>
</tbody>
</table>

Frequency of dyad corrupt exchanges:

<table>
<thead>
<tr>
<th></th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organizational (formal authority &amp; work relation)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N N M</td>
<td>203</td>
<td>217</td>
<td>420</td>
</tr>
<tr>
<td></td>
<td>(1.82%)</td>
<td>(33.13%)</td>
<td></td>
</tr>
<tr>
<td>A N A</td>
<td>324</td>
<td>206</td>
<td>530</td>
</tr>
<tr>
<td></td>
<td>(2.90%)</td>
<td>(31.45%)</td>
<td></td>
</tr>
<tr>
<td>A N M</td>
<td>273</td>
<td>24</td>
<td>297</td>
</tr>
<tr>
<td></td>
<td>(2.44%)</td>
<td>(3.66%)</td>
<td></td>
</tr>
<tr>
<td>M N A</td>
<td>7</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>(0.06%)</td>
<td>(1.22%)</td>
<td></td>
</tr>
<tr>
<td>M N M</td>
<td>10,339</td>
<td>151</td>
<td>10,490</td>
</tr>
<tr>
<td></td>
<td>(92.52%)</td>
<td>(23.05%)</td>
<td></td>
</tr>
<tr>
<td>N M A</td>
<td>11</td>
<td>17</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>(0.10%)</td>
<td>(2.60%)</td>
<td></td>
</tr>
<tr>
<td>N M M</td>
<td>17</td>
<td>31</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>(0.15%)</td>
<td>(4.73%)</td>
<td></td>
</tr>
<tr>
<td>A M A</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>(0%)</td>
<td>(0.15%)</td>
<td></td>
</tr>
<tr>
<td>M M A</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>(0.01%)</td>
<td>(0%)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>11,175</td>
<td>655</td>
<td>11,830</td>
</tr>
</tbody>
</table>

Legend:
M = Mutual; A = Asymmetric; N = Null
3.5.2. Results of Significance Tests

Non-parametric Mann-Whitney U tests were used to test the hypotheses and are summarized in Table 3.2.

Table 3.2. Mean, standard deviations, and Mann-Whitney U test results

<table>
<thead>
<tr>
<th></th>
<th>Decentralization</th>
<th>N</th>
<th>Average of proportion</th>
<th>SD</th>
<th>Mann-Whitney U test</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of corrupt exchanges between local council and local executive, embedded in organizational relations (H1a)</td>
<td>Phase 1</td>
<td>84</td>
<td>.20</td>
<td>.31</td>
<td>2490.50</td>
<td>-3.26</td>
<td>.001</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Phase 2</td>
<td>77</td>
<td>.05</td>
<td>.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The proportion of corrupt exchanges between local executive and local civil servants, embedded in formal authority relations (H1b)</td>
<td>Phase 1</td>
<td>84</td>
<td>.31</td>
<td>.39</td>
<td>2515</td>
<td>-2.52</td>
<td>.012</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Phase 2</td>
<td>77</td>
<td>.47</td>
<td>.41</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The proportion of corrupt exchanges from private actors to the local executive, embedded in informal relations (H2a)</td>
<td>Phase 1</td>
<td>13</td>
<td>.04</td>
<td>.14</td>
<td>114</td>
<td>-2.26</td>
<td>.024</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Phase 2</td>
<td>28</td>
<td>.21</td>
<td>.26</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The proportion of corrupt exchanges from private actors to the local civil servants embedded in informal relations (H2b)</td>
<td>Phase 1</td>
<td>13</td>
<td>.26</td>
<td>.15</td>
<td>96</td>
<td>-2.77</td>
<td>.006</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Phase 2</td>
<td>28</td>
<td>.09</td>
<td>.19</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Two-tailed test at the .05 significance level

Findings are in line with Hypothesis 1a, which predicted a decrease in the proportion of corrupt exchanges embedded in organizational relations between the local council and local executive. The average proportion from the first phase to the second phase significantly decreased from 0.20 to 0.05 (Mann-Whitney Z= -3.26, p= 0.001, 2-tailed).

Results are also in line with Hypothesis 1b. In the second phase, the proportion of corrupt exchanges embedded in a formal authority relation between the local executive
and local civil servants was significantly higher than in the first phase, with the average of proportion increasing from 0.31 to 0.47 (Mann-Whitney Z= -2.52, p= 0.012, 2-tailed).

The analysis also supports Hypothesis 2a. The proportion of corrupt exchanges embedded in informal relations between the local executive and private actors significantly increased over time from 0.04 and 0.21 (Mann-Whitney Z= -2.26, p= 0.024, 2-tailed).

Our findings contradict Hypothesis 2b. Although there is a significant difference in proportion between the first and second phases, the proportion of corrupt exchanges embedded in an informal relation between private actors and local civil servants decreased rather than increased, falling from 0.26 and 0.09 (Mann-Whitney Z = -2.77, p = 0.006, 2-tailed).

3.6. Discussion and Conclusion

Despite Indonesia’s concerted efforts to get a grip on its endemic corruption problem, related government reforms, consisting of far-reaching decentralization and democratization, have not yet succeeded. The present study suggests that one of the reasons for the limited effectiveness of these reforms is that the personal social networks that are the carriers of corruptive exchanges adapted to the changes in the formal power structure. With the introduction of a local representative election system in the first phase of decentralization, members of the local councils exploited their formal power positions to co-opt local executives in their attempt to generate illicit benefits. During the second phase, after the introduction of local direct elections, local councils lost this power base. Our data show that their involvement in corrupt exchanges did decrease, indicating that the reform had indeed the intended consequence of controlling legislative corruption. But now the local executives took advantage of their increased discretion by engaging in corrupt exchanges with the private sector. An unintended consequence of their extended discretion in the government decision-making process is that they became an attractive partner for private actors who needed services from them. These findings echo previous studies on power abuse by officials in decentralized systems (Lambsdorff & Teksoz, 2005; Valsecchi, 2013) leading to a higher incidence of corrupt transactions between local elites and private actors (Peters, 2010).

Our data do not allow us to assess to what degree the involved players actively built new personal relations as a result of the institutional changes, or simply used their pre-existing ties to safeguard potentially risky illicit exchanges. What the data do show is a significant increase in the proportion of corrupt exchanges embedded in informal personal ties (kinship and friendship) between organizations in the private sector on the one hand, and local executives and civil servants on the other.

Our analyses also yielded three unexpected results. First, the fairly low frequency of corrupt exchanges embedded in kinship or friendship relations in our sample seems at odds with earlier research suggesting that illicit transactions, which require secrecy and a strong degree of mutual trust, tend to be embedded in friendship or kinship ties
(Morselli, 2009). One possible explanation might be that trust can also be established in
the context of hierarchical relations between leaders and subordinates. Hence,
organizational relationships may act as a substitute for informal ties. Since they depend
on their bosses, subordinates may feel pressured to be loyal and committed to their
leaders, and thus act cooperatively. By implication, the leaders perceive their subordinates
as trustworthy exchange partners (Schilke, Riemann, & Cook, 2015). Another explanation
might be related to our sample, which consists of cases of detected corruption. It could be
that in the first place corruption mainly involving kin runs a far lower risk of detection
because of the strong solidarity norms governing kinship ties. This would result in an
underrepresentation of kinship-based corruption cases in our sample.

Second, the new, strengthened measures might affect the power structures of
actors in government – in terms of access to resources, levels of autonomy and discretion,
as well as the authority to force civil servants to comply – and this might affect their
resourcefulness as a potential exchange partner in corruption. Possible policy planning
discussions may thus include considerations about the desired degrees of discretion –
related to local budgetary policies, public procurement, and public services – as well as
the authority of public officials that does not promote or enhance the personal interests
of the public officials.

In the second phase, the share of profit relations that were embedded in informal
ties between civil servants and private actors actually decreased in the set of all
personally embedded profit relations. This unexpected finding might be related to the
introduction, in 2003, of e-government policies, consisting of e-procurement process, e-
budgeting, and one-stop service programs. These tools limit the direct contact frequency
of local civil servants, who used to give face-to-face services to individuals or businesses.
It could thus be that current e-government policy affects the network embeddedness of
local civil servants and private actors. However, confirming whether this assumption is
correct is a question for future research. An alternative explanation could be that private
actors might utilize their informal relationships with civil servants to gain access to their
higher officials, with whom the corrupt exchange is then carried out.

Third, the transition from the first to second phase of decentralization came with
a substantial (30%) increase in the proportion of non-embedded mutual profit sharing
between peers in the bureaucracy. This might imply that some types of corrupt exchanges
have become less risky (e.g., in terms of detection), or less costly (e.g., in terms of initiating
and completing them), although we do not have information that substantiates this idea.
An alternative explanation could be that the increase in non-embedded dyadic exchanges
might be due to the involvement of trusted third-party 'brokers' whose role was not
uncovered when the corruption case drew the attention of journalists and investigators.
Third-party brokers might also be the reason for the low overall frequency of corrupt
exchanges that are embedded in informal (kinship or friendship) relations. The role of
brokers might be a fruitful avenue for future research investigating the social networks
of corruption.
Before concluding, two limitations of our study deserve closer attention. They relate to the sample being limited to revealed or detected corruption cases that were covered in the print media. First, the networks of corruption were extracted from reconstructions as documented by journalists and law-enforcement officials, i.e., we rely on second-hand information that simply may have missed or misinterpreted specific relations. This may have resulted in under- or over-reporting of some types of relations. Given the tremendous practical and ethical challenges of collecting first-hand information on corrupt exchanges, future research might try to triangulate the data not only by cross checking with information from other newspapers and court case reports, as we did, but by conducting in-depth interviews with experts on corruption in Indonesia. Second, another question for future research is whether our findings can be replicated for different types of samples of corruption cases, such as cases that only appear in court, but not in the newspapers.

Despite these limitations, this study is a first step to a deeper understanding of how patterns of corruption in Indonesian local government changed after decentralization. These insights could be of use when considering or adjusting anti-corruption strategy policies as part of good governance reforms. For example, before deciding on the implementation of a specific anti-corruption strategy, it may be worthwhile to analyze the intervention’s repercussion on the power structure of the relevant stakeholders, and analyze possible unintended consequences of this change. In the Indonesian case, the reform effectively curbed the power of one category of players (i.e., members of the local council). But it did not sufficiently account for the increased attractiveness of another category of players as a partner in corruption: due to their enlarged responsibilities and discretion related to local budgetary policies, public procurement, and public services, local executives and civil servants suddenly became a far more attractive partner in corruption.
Chapter 4
Social Embeddedness of Corruption in Indonesia: A Role Structure Analysis

ABSTRACT
The study investigates to what degree Indonesia's large-scale decentralization and democratization changed corruption networks. A role structure approach is developed to move current analysis of dyad-level structures to the network level. This approach is empirically tested by comparing the relational content and third-party structures of 96 corruption networks operating in the first phase of decentralization (2001–2004), characterized by indirect democracy, with 94 corruption networks detected in the second phase (2005–2013), when direct local elections were introduced. It is argued and found that ties in the first phase are characterized by deep dependence power relations, with third-party intermediaries of limited importance. The reshuffle of power structures caused by institutional changes triggered a shift toward (1) shallow (inter)dependence relations as they are characteristic for work and market relations; and (2) deep interdependence relations (kinship and friendship). They also resulted in third-party role structures becoming more important. Implications for the study of networks of corruption are discussed.

This chapter was co-authored with Rafael Wittek, Tom A. B. Snijders, and Liesbet Heyse.